AMERUS GROUP CO/IA
Form 10-K
March 14, 2006

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

Form 10-K

þ Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended December 31, 2005

or

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to_____

Commission File Number: 001-15166

AmerUs Group Co.
(Exact name of Registrant as specified in its charter)

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

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock (no par value)	New York Stock Exchange
Series A Non-cumulative Perpetual Preferred Stock (no par value)	New York Stock Exchange
Income PRIDES[sm]	New York Stock Exchange

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

Indicate by check mark whether the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No þ

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 þ No o

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act (Check one):
Large accelerated filer þ Accelerated filer Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No þ

Aggregate market value of voting stock held by non-affiliates of the Registrant as of June 30, 2005: $1,877,389,803

Number of shares outstanding of each of the Registrant s classes of common stock on March 13, 2006 was as follows:

Common Stock	38,772,132 shares

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the Registrant s definitive proxy statement for the annual meeting of shareholders to be held May 4, 2006 are incorporated by reference into Part III of this Annual Report on Form 10-K.

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SAFE HARBOR STATEMENT

This Annual Report on Form 10-K, including the Management s Discussion and Analysis of Financial Condition and Results of Operations, contains statements which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements relating to trends in operations and financial results and the business and the products of the Registrant and its subsidiaries, which include words such as anticipate, believe, plan, estimate, expect, intend, and other similar expressions. Forward-looking statements are made base upon management s current expectations and beliefs concerning future developments and their potential effects on the Company. Such forward-looking statements are not guarantees of future performance. Factors that may cause our actual results to differ materially from those contemplated by these forward-looking statements include, among others, the following possibilities: (a) general economic conditions and other factors, including prevailing interest rate levels and stock and bond market performance, which may affect (1) our ability to sell our products, (2) the market value of our investments and consequently protection product and accumulation product margins and (3) the lapse rate and profitability of policies; (b) the performance of our investment portfolios which may be affected by general economic conditions, the continued credit quality of the companies whose securities we invest in and the impact of other investment transactions; (c) customer response to new products, distribution channels and marketing initiatives and increasing competition in the sale of insurance and annuities and the recruitment of sales representatives from companies that may have greater financial resources, broader arrays of products, higher ratings and stronger financial performance may impair our ability to retain existing customers, attract new customers and maintain our profitability; (d) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (e) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (f) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (g) litigation or regulatory investigations or examinations; (h) regulatory changes, interpretations, initiatives or pronouncements, including those relating to the regulation of insurance companies and the regulation and sales of their products and the programs in which they are used; (i) changes in the federal income tax and other federal laws, regulations, and interpretations, including federal regulatory measures that may significantly affect the insurance business including limitations on antitrust immunity, the applicability of securities laws to insurance products, minimum solvency requirements, and changes to the tax advantages offered by life insurance and annuity products or programs with which they are used; (j) the impact of changes in standards of accounting; (k) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (l) our ability to integrate the business and operations of acquired entities; and (m) various other factors discussed below in Item 1A. Risk Factors.

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

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PART I

ITEM 1. *Business*

Web Access to Reports

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

Definitions

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

General

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

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

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

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

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

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

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

Subsidiaries

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

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

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

Organization as of December 31, 2005

Reorganization

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

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

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

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Closed Block

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

Dispositions

In November 2003, we entered into an agreement to sell our residential financing operations. The assets, liabilities and results of operations of the residential financing operations have been classified as discontinued operations. The sale was completed in January 2004, resulting in an after-tax gain of $3.9 million. See further discussion in note 18 to the consolidated financial statements.

Financial Information

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

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

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Protection Products Segment

Products

Our protection products segment consists of individual fixed life insurance premiums from traditional life insurance products, universal life insurance products and indexed life insurance products. Sales are presented as annualized premium which is in accordance with industry practice, and represent the amount of new business sold during the period. Sales are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. The following table summarizes annualized premium by life insurance product (single premium sales represent 10% of the single premium received):

	Sales Activity by Product For the Years Ended December 31,		
	2005	2004	2003
	($ in thousands)		
Traditional life insurance:			
Interest-sensitive whole life	$ 532	$ 6,230	$ 19,691
Term and other life	11,046	13,878	14,824
Universal life			
Flexible premium without no lapse guarantee	12,145	29,326	32,476
Single premium	15		
Indexed life:			
Flexible premium without no lapse guarantee	70,570	53,261	47,287
Flexible premium with no lapse guarantee	14,554	7,054	
Fixed premium excess interest whole life	8,895	14,314	4,357
Single premium	91		
Direct	117,848	124,063	118,635
Private label term life premiums			4,206
Total	$ 117,848	$ 124,063	$ 122,841

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

Interest-sensitive whole life insurance provides benefits for the life of the insured. However, this product has cash value accumulation that is interest sensitive and responds to current interest and mortality rates. These products are used in several markets, the largest of which is the pension plan market. Lower interest-sensitive whole life sales were experienced in 2005 and 2004, as compared to each prior year, due to increasing consumer demand for indexed products and our withdrawal from certain tax-advantaged markets.

Term and other life insurance includes term life and whole life insurance products. Term life provides life insurance protection for a specific time period (which generally can be renewed at an increased premium). Such policies are mortality-based and offer no cash accumulation feature. Term life insurance is a highly competitive and quickly changing market. Total traditional life insurance sales have declined to approximately 10% of our direct sales in 2005. We continue to de-emphasize our term products in response to market pricing conditions.

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

Universal Life Insurance Products. We offer universal life insurance products, which provide flexible benefits for the insured. Within product limits and state regulations, policyowners may vary the amount and timing

of premiums and the amount of the death benefit of their policies and keep the policies in force, as long as there are sufficient policy funds available to cover all policy charges for the next coverage period. Premiums, net of specified expenses, are credited to the policy, as is interest, generally at a rate determined from time to time by us. Specific charges are made against the policy for the cost of insurance and for expenses. We invest the premiums we receive from the sale of universal life insurance products in our investment portfolio. Our gross margin from these products is the yield we earn on our investment portfolio plus the internal product charges less interest credited to policies and less mortality and other expenses.

Sales of universal life decreased in 2005 compared to 2004 due to pricing changes associated with products launched in January 2005. Pricing for the new universal life products reflect higher reinsurance costs and increased mortality expectations in the senior age markets. Sales of universal life decreased in 2004 compared to 2003 due to increased consumer demand for indexed life products. The weighted average crediting rate for universal life insurance liabilities was 4.47% for the year 2005, 4.62% for the year 2004 and 4.96% for the year 2003. The crediting rate has been lowered as a result of reduced investment yields associated with the persistently low interest rate environment. For the year ended December 31, 2005, sales of universal life insurance products represented 10% of direct sales for individual life insurance products sold. We also launched a new single premium universal life product in the fourth quarter of 2005 to address the growing wealth transfer needs of the senior market and we anticipate selling the products through traditional protection products and accumulation products distribution channels.

Indexed Life Products. We also offer indexed life insurance products which are a type of universal life or interest-sensitive whole life product that allows the policyowner to elect one or more interest crediting strategies for a portion of the account value, including strategies linked to equity indices. For amounts allocated to indexed crediting strategies, interest is credited based in part on increases in the appropriate indices, primarily the Standard & Poor s 500 Composite Stock Index® (collectively, S&P 500 Index), excluding dividends. The interest credited is subject to a participation rate and an annual cap. Our gross margin on our indexed life products is similar to that of our traditional universal life and interest- sensitive whole life insurance products. However, due to the indexed crediting strategies, we invest a portion of the premiums we receive from the sale of these products in call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the interest we are contractually bound to credit on the indexed strategies. The remainder of the premium is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the index declines. The structure of our product, together with the allocation of our indexed life product premiums between call options and our investment portfolio, are intended to provide for a positive gross margin in both increasing and decreasing equity markets. At December 31, 2005, the account value of indexed life products totaled $595.1 million of which approximately 85% is invested in indexed strategies.

Indexed life insurance sales increased in 2005 and 2004 due to continued growing customer demand for these products. We are a leading writer of indexed life products in the United States. Sales of the indexed life product, as a percentage of direct sales, were approximately 80% in 2005. We also launched a new single premium indexed life product in the fourth quarter of 2005 to address the growing wealth transfer needs of the senior market and we anticipate selling the products through traditional protection products and accumulation products distribution channels.

Collected premiums are measured in accordance with industry practice, and represent the amount of premiums received during the period. Collected premiums are a performance measure which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents.

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The following table sets forth our collected life insurance premiums, including collected premiums associated with the closed block, for the periods indicated:

	Collected Premiums by Product For The Years Ended December 31,		
	2005	2004	2003
	($ in thousands)		
Individual life premiums collected:			
Traditional life:			
First year and single	$ 68,480	$ 92,354	$ 116,252
Renewal	311,637	333,255	343,067
Total	380,117	425,609	459,319
Universal life:			
First year and single	41,454	93,848	94,158
Renewal	146,238	138,579	132,833
Total	187,692	232,427	226,991
Indexed life:			
First year and single	204,584	118,535	84,478
Renewal	106,023	62,061	35,344
Total	310,607	180,596	119,822
Total individual life	878,416	838,632	806,132
Reinsurance assumed	38,572	45,266	49,706
Reinsurance ceded	(217,928)	(227,862)	(187,860)
Total individual life, net of reinsurance	$ 699,060	$ 656,036	$ 667,978

Individual life insurance premiums collected before reinsurance increased in 2005 and 2004 as a result of increased indexed sales, which were partially offset by lower traditional and universal life collected premiums. ALIC has reinsurance arrangements that have reduced its retention to 10% of the net amount at risk on any one policy not to exceed company retention limits for the majority of policies issued from July 1, 1996 through July 31, 2004. Beginning August 1, 2004, ALIC began a program of gradually transitioning its retention on newly issued permanent policies to retain 100% of the first $0.5 million of risk and 50% of the next $1.0 million. ALIC s retention limits on any one life vary by age and rating table and are generally between $0.15 million and $1.0 million. ALIC also has a reinsurance agreement covering approximately 90% of the closed block net amount at risk not previously reinsured. In addition, ALIC entered into an indemnity reinsurance agreement effective December 31, 2001 covering universal life policies of the open block issued prior to July 1, 1996, that was subsequently replaced by another indemnity reinsurance agreement effective October 1, 2002, covering 90% of the net amount at risk not previously reinsured of any one policy. As a result of these agreements, ceded reinsurance premium for ALIC was $94.0 million in 2005, $96.9 million in 2004 and $77.9 million in 2003.

ILIC has an indemnity reinsurance agreement covering 90% quota share of retained net amounts at risk for certain open block and closed block policies in force at June 30, 2002. Ceded premium from ILIC amounted to $123.9 million in 2005, $131.0 million in 2004 and $109.8 million in 2003. ILIC s reinsurance agreements effectively reduce ILIC s retention limit to between $0.15 million and $1.0 million.

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

	Individual Life Insurance in Force As of December 31,		
	2005	2004	2003
	($ in thousands)		
Traditional life			
Number of policies	410,994	433,011	446,961
GAAP life reserves	$ 3,636,832	$ 3,551,648	$ 3,465,853
Face amounts	$ 68,386,000	$ 67,769,000	$ 70,904,000
Universal life			
Number of policies	135,904	142,370	145,525
GAAP life reserves	$ 1,618,755	$ 1,587,787	$ 1,517,227
Face amounts	$ 19,271,000	$ 19,848,000	$ 20,780,000
Indexed life			
Number of policies	63,156	46,350	35,133
GAAP life reserves	$ 595,087	$ 364,282	$ 224,874
Face amounts	$ 14,797,000	$ 9,918,000	$ 6,878,000
Total life insurance			
Number of policies	610,054	621,731	627,619
GAAP life reserves	$ 5,850,674	$ 5,503,717	$ 5,207,954
Face amounts	$ 102,454,000	$ 97,535,000	$ 98,562,000

Distribution Systems

Our subsidiaries sell life insurance in 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums in 2005, are California, Florida, Illinois, Iowa, Minnesota, New York, Texas and Wisconsin. These states account for approximately 55% of our statutory premiums.

Our target customers are individuals in the middle and upper income brackets and small businesses. We market our life insurance products on a national basis primarily through four distribution channels. The four distribution channels and their sales percentage for 2005 amounted to: Independent Marketing Organizations (IMOs) 38%, a Career Marketing Organization (CMO) system 27%, a Personal Producing General Agent (PPGA) 20% distribution system and a New York distribution system 15%. We currently employ 19 regional vice presidents who are responsible for supervising these distribution systems within their assigned geographic regions.

Under the IMO system, a contractual arrangement is entered into with an IMO to promote our insurance products to their network of agents and brokers. The IMO receives a commission and override commission on the business produced. We currently have approximately 110 IMOs under contract.

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

generally responsible for the expenses of their operations, including office and overhead expenses and the recruiting, selection, contracting, training and development of agents in their agencies. As of December 31, 2005, we had approximately 70 CMO general agents in 27 states, through which approximately 1,100 agents sell our products. While agents in the CMO system are non-exclusive, most use our products for a majority of their new business.

Under the PPGA system, we contract primarily with individuals who are experienced individual agents or who head a small group of experienced individual agents. These individuals are independent contractors and are responsible for all of their own expenses. These individuals often sell products for other insurance companies, and may offer selected products we offer rather than our full line of insurance products. The PPGA system is comprised of approximately 1,000 PPGA general agents, with approximately 4,100 agents. PPGAs are compensated by commissions on first year and renewal premiums collected on business written by themselves and the agents in their units.

The New York distribution system is comprised of a combination of IMOs and PPGAs in the tri-state area, which primarily focus on the state of New York. There were approximately 6,500 agents in the New York distribution system.

During 2005, 2004, and 2003, no single distribution organization accounted for more than 5%, 7% or 6%, respectively, of total direct sales.

Accumulation Products Segment

Products

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

Deposits are presented as collected premiums, which are measured in accordance with industry practice, and represent the amount of new business sold during the period. Deposits are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. Our annuity deposits consisted of approximately 9% from traditional annuity products and approximately 91% from indexed annuity products in 2005. Funding agreement deposits totaled $26.2 million in 2005 and $85 million in 2004. The following table sets forth deposits for the periods indicated:

	Deposits by Product For The Years Ended December 31,		
	2005	**2004**	**2003**
	($ in thousands)		
Annuities			
Deferred fixed annuities:			
Traditional fixed annuities	$ 238,366	$ 312,652	$ 443,220
Indexed annuities	2,393,716	1,527,587	1,311,409
Variable annuities	2,514	2,805	3,254
Total annuities	2,634,596	1,843,044	1,757,883
Funding agreements	26,200	85,000	
Total	2,660,796	1,928,044	1,757,883
Reinsurance ceded	(7,648)	(10,054)	(25,080)

Total deposits, net of reinsurance	$ 2,653,148	$ 1,917,990	$ 1,732,803

Traditional Annuity Products. We offer a variety of interest rate crediting strategies on our traditional annuity products. At December 31, 2005, the account value of traditional annuities totaled $5.8 billion of which approximately 92% have minimum guarantee rates ranging from 3% to 4%. For traditional annuities with an account value of $4.6 billion, the credited rate was equal to the minimum guarantee rate, and as a result, the credited rate cannot be lowered. Traditional annuities with an account value of $0.7 billion had a multi-year guarantee for which the credited rate cannot be decreased until the end of the multi-year period. At the end of the multi-year

period, we will have the ability to lower the crediting rate to the minimum guaranteed rate by an average of approximately 250 basis points. The remaining multi-year period is generally within one year. Due to these limitations on the ability to lower interest crediting rates and the potential for additional credit defaults and lower reinvestment rates on investments, we could experience spread compression in future periods.

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

Traditional annuity deposits decreased $74.3 million and $130.6 million in 2005 and 2004, respectively, as compared to the prior year periods as we have positioned the company to meet the increasing consumer demand for indexed products.

Indexed Annuities. We offer indexed annuity products that provide various interest crediting strategies, including strategies linked to equity and investment grade bond indices. For deposits allocated to indexed crediting strategies, interest is credited to these products based in part on the increases in the applicable indices, less any applicable fees and subject to any applicable caps. Similar to our traditional annuity products, we invest the deposits we receive from indexed annuity product sales in our investment portfolio. At December 31, 2005, the GAAP reserves of indexed annuities totaled $7.5 billion which provide guaranteed rates based on a cumulative floor over the term of the product. In addition, for deposits allocated to indexed crediting strategies, we use a portion of the deposits to purchase call options. We may affect the cost of the call options by adjusting interest crediting parameters that are provided for in the policy. Our return on the call options is generally expected, in a growing equity market, to correspond to the interest we are contractually bound to credit on the indexed strategies. The remainder of the deposit is invested in our investment portfolio to support the contractual minimum guarantees that may come into effect if the index declines. At December 31, 2005, approximately 55% of the indexed annuities are allocated to indexed strategies with the remainder allocated to bonds or other fixed type investments. The product spread on deposits allocated to our indexed strategy is computed as:

The yield we earn on our investment portfolio,
Less the cost of the call options,
Plus expected credits from indexed return strategies,
Less other interest credited to policyowners,
Equals product spread.

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

Indexed annuity sales increased in 2005 and 2004 as compared to the prior year periods due to continued high customer demand. We cede annuity business primarily through a modified coinsurance reinsurance agreement which cedes 25% of certain indexed annuity products amounting to $6.8 million, $10.1 million, and $25.1 million ceded premium in 2005, 2004, and 2003, respectively.

Variable Annuities. Through our acquisition of ILICO, we obtained a variable annuity product line. In the first quarter of 2002, we ceased new sales of these products, except for new policies issued as part of existing employer-sponsored qualified plan contracts. Deposit amounts are from existing business as all new sales were discontinued in 2002. The assets and liabilities related to the direct variable annuities are shown on the consolidated balance sheets as separate account assets and separate account liabilities.

Funding Agreements. We placed primarily fixed rate funding agreements totaling $26.2 million and $85 million in 2005 and 2004, respectively. Funding agreements are insurance contracts for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. In December 2003, a $250 million funding agreement was terminated. Total funding agreements outstanding as of December 31, 2005, amounted to $986.2 million compared to $960.0 million outstanding at December 31, 2004.

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

	Annuities in Force As of December 31,		
	2005	2004	2003
	($ in thousands)		
Deferred fixed annuities			
Number of policies	144,505	162,489	176,280
GAAP annuity reserves	$ 6,019,545	$ 6,780,234	$ 7,257,387
Indexed annuities			
Number of policies	140,608	110,488	91,550
GAAP annuity reserves	$ 7,526,798	$ 5,551,184	$ 4,439,836
Total fixed annuities			
Number of policies	285,113	272,977	267,830
GAAP annuity reserves	$ 13,546,343	$ 12,331,418	$ 11,697,223

Distribution Systems

We sell annuities in 50 states, the District of Columbia and the U.S. Virgin Islands. The states with the highest geographic concentration of sales, based on statutory premiums in 2005, are Arizona, California, Florida, Michigan, North Carolina, Ohio, Pennsylvania and Texas. These states account for approximately 55% of our statutory premiums.

We direct our marketing efforts towards the asset accumulation, conservative savings and retirement markets. We market our annuity products on a national basis primarily through networks of independent agents contracted with us through IMOs. The independent agents are supervised by regional vice presidents and regional directors or IMOs. At December 31, 2005, we had approximately 17,700 independent agents licensed to sell our annuity products. In addition, the CMO and PPGA systems discussed previously are utilized to market certain annuity products.

Our IMOs consist principally of fifteen contracted organizations, including four wholly-owned organizations and one organization which principally sell our proprietary products. The IMOs are responsible for recruiting, servicing and educating agents in an effort to promote our products. The IMOs receive an override commission based on the business produced by their agents. Our wholly-owned and proprietary organizations accounted for approximately 83%, 79% and 77% of our annuity sales in 2005, 2004 and 2003, respectively. We do not have exclusive agency agreements with our agents and we believe most of these agents sell products similar to ours for other insurance companies.

During 2005, 2004 and 2003, no single independent agent accounted for more than 2% of total annuity sales.

Ameritas Joint Venture

We participated in a joint venture, the Ameritas Joint Venture, with Ameritas Life Insurance Corp. (or Ameritas) through ALIC s 34% ownership in AMAL Corporation (or AMAL). In September 2005, we restructured the joint venture and sold our joint venture interest in Ameritas Variable Life Insurance Company, (or AVLIC), to Ameritas. As part of the restructuring, we received ownership of a non-controlling interest in Ameritas Investment Corp. which is a registered broker-dealer and subsidiary of AMAL.

Competition

We operate in a highly competitive industry. We compete with numerous life insurance companies and other entities including banks and other financial institutions, many of which have greater financial and other resources and stronger insurer financial strength ratings. We believe that the principal competitive factors in the sale of insurance products are product features, price, commission structure, perceived stability of the insurer, financial strength ratings, value-added service and name recognition. Many other companies are capable of competing for

sales in our target markets (including companies that do not presently compete in such markets). Our ability to compete for sales is dependent upon our ability to successfully address the competitive factors.

We are the national leader in market share of indexed life production and are the twenty-first largest fixed life company, based on new premiums written, in the United States. We also rank fourth nationally in indexed annuity sales and eleventh nationally in fixed annuity sales through independent agents. The rankings are as of September 30, 2005, and are based on industry information from Advantage Compendium and LIMRA International.

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

Ratings

Ratings with respect to financial strength are an increasingly important factor in establishing the competitive position of insurance companies. The following are the ratings as of February 24, 2006 for our major insurance subsidiaries currently writing new business:

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

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

Standard & Poor s ratings for insurance companies range from AAA to R . Standard & Poor s indicates that A+ ratin are assigned to companies that have demonstrated strong financial security. A.M. Best s ratings for insurance companies range from A++ to S . A.M. Best indicates that an A rating is assigned to those companies that in A.M. Best s opinion have achieved superior performance when compared to the norms of the life insurance industry and have demonstrated a strong ability to meet their policyowner and other contractual obligations. Moody s ratings for insurance companies range from Aaa to C . Moody s indicates that A3 ratings are assigned to companies that have

factors related to security of principal and interest which are considered adequate; however, elements are present which may suggest a susceptibility to impairment in the future. Fitch s ratings for insurance companies range from AAA to D . Fitch indicates that A ratings are assigned to companies that possess strong capacity to meet policyowner and contract obligations. In evaluating a company s financial and operating performance, these rating agencies review a company s profitability, leverage and liquidity, book of business, adequacy and soundness of reinsurance, quality and estimated market value of assets, adequacy of policy reserves, experience and competency of management and other factors. Such ratings are neither a rating of

securities nor a recommendation to buy, hold or sell any security, including our common stock and they may be subject to revision or withdrawal at any time by the relevant rating agency. You should evaluate each rating independently of any other rating.

On September 20, 2005, A.M. Best Company re-affirmed our ratings and our stable outlook. On September 16, 2005, Standard & Poor s re-affirmed our ratings and our stable outlook. On September 19, 2005, Moody s Investor Services re-affirmed our ratings and the negative outlook for the Company and our insurance and other subsidiaries as a result of uncertainties in connection with a lawsuit filed by the California Attorney General. A negative outlook indicates that if certain trends continue or worsen, the rating agencies believe the insurance subsidiaries ratings may have to be adjusted downward. On October 28, 2005, Fitch re-affirmed our ratings and stable outlook.

Insurance Underwriting

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

Reinsurance

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

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

We reinsure mortality risk on individual life insurance policies. Our retention is generally between $0.15 million and $1.0 million on any single life depending on the respective age and rating table. We also reinsure certain annuity business primarily on a modified coinsurance basis. Beginning in the third quarter of 2004, we entered into new reinsurance agreements that for certain new universal life products, we retain the first $0.5 million, we reinsure 50% of the coverage between $0.5 million and $1.5 million, and then fully reinsure the coverage in excess of $1.5 million. We increased our retention levels as a result of our favorable mortality experience and the overall increase in prices in the reinsurance market.

At December 31, 2005 and 2004, we ceded life insurance with a face amount of $81.0 billion with 26 unaffiliated reinsurers and life insurance with a face amount of $77.4 billion with 31 unaffiliated reinsurers, respectively. Ceded life insurance was approximately 79% of direct and assumed life insurance in force at December 31, 2005 and 2004. The following is a summary of our principal life reinsurers (which includes the reinsurer and their affiliated subsidiaries) as of December 31, 2005:

	Face	A.M. Best	% of total face amount

Reinsurer		amount ceded (in billions)	rating	reinsured
RGA Reinsurance Company	$	24.9	A+	31%
Swiss Re Life & Health America, Inc.		23.1	A+	28
Transamerica Occidental Life Insurance Company		16.8	A+	21
Employers Reassurance Corporation		4.3	A	5
Generali USA Life Reinsurance Company		4.0	A	5
Security Life of Denver Insurance Company		3.4	A+	4

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At December 31, 2005 and 2004, we ceded traditional and indexed annuities having reserves of $0.9 billion and $1.0 billion, respectively. The following is a summary of our principal annuity reinsurers as of December 31, 2005:

Reinsurer	Reserves ceded (in billions)	A.M. Best rating	% of total face amount reinsured
Transamerica Occidental Life Insurance Company	$ 0.5	A+	61%
RGA Reinsurance Company	0.3	A+	34

Employees

As of December 31, 2005, we had 1,190 full-time employees. None of these employees are covered by a collective bargaining agreement and we believe that our relations with our employees are satisfactory.

Government Regulation

We are subject to a variety of state and federal laws and regulations as well as oversight by regulatory bodies. We are regulated by the states in which our insurance subsidiaries are domiciled and/or transact business. State insurance and other laws generally establish supervisory agencies with broad administrative and supervisory powers related to granting and revoking licenses, transacting business, regulating the payment of dividends to stockholders, establishing guaranty fund associations, licensing agents, approving policy forms, regulating sales practices, establishing reserve requirements, prescribing the form and content of required financial statements and reports, determining the reasonableness and adequacy of statutory capital and surplus, and regulating the type and amount of investments permitted. Every state in which our insurance companies are licensed administers a guaranty fund, which provides for assessments of licensed insurers for the protection of policyowners of insolvent insurance companies. Assessments can be partially recovered through a reduction in future premium taxes in some states. Risk-based capital, or RBC, standards for life insurance companies were adopted by the National Association of Insurance Commissioners, known as the NAIC, and require insurance companies to calculate and report for statutory basis financial statements information under a risk-based capital formula. The RBC requirements are intended to allow insurance regulators to identify at an early stage inadequately capitalized insurance companies based upon the types and mixtures of risks inherent in such companies operations. The formula includes components for asset risk, liability risk, interest rate exposure and other factors. As of December 31, 2005, each of our life insurance companies RBC levels was in excess of authorized control level RBC thresholds established by insurance regulators.

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

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

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Executive Officers of the Company

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

Name of Individual	Age	Title
Thomas C. Godlasky	50	Chairman of the Board of Directors, President and Chief Executive Officer of AmerUs Group Co.
Gregory D. Boal	47	Executive Vice President and Chief Investment Officer of AmerUs Group Co.
Michael D. Boltz	47	Executive Vice President and Chief Information Officer of AmerUs Group Co.
Brian J. Clark	40	Executive Vice President and Chief Product Officer of AmerUs Group Co.
Mark V. Heitz	53	President and Chief Executive Officer of AmerUs Annuity Group, American Investors Life Insurance Company, Inc., and Financial Benefit Life Insurance Company
Christopher J. Littlefield	39	Executive Vice President and General Counsel of AmerUs Group Co.
Gary R. McPhail	57	President and Chief Executive Officer of AmerUs Life Insurance Company and Indianapolis Life Insurance Company
Melinda S. Urion	52	Executive Vice President, Chief Financial Officer and Treasurer of AmerUs Group Co.

Roger K. Brooks retired as chairman of the board of directors and chief executive officer in December 2005.

THOMAS C. GODLASKY   Des Moines, Iowa.

Chairman, president and chief executive officer of AmerUs Group Co. since December 2005, president and chief operating officer of AmerUs Group Co. from November 2003 to December 2005, and executive vice president and chief investment officer of AmerUs Group Co. and predecessor or affiliated companies from January 1995 to November 2003. Mr. Godlasky had also been president of AmerUs Capital Management from January 1998 to November 2003. From February 1988 to January 1995, he was manager of the Fixed Income and Derivatives Department of Providian Corporation, Louisville, Kentucky. Mr. Godlasky has been a director of AmerUs Group Co. since November 2003. His current term expires in May 2007.

GREGORY D. BOAL   Des Moines, Iowa.

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

MICHAEL D. BOLTZ Des Moines, Iowa.

Executive vice president and chief information officer of AmerUs Group Co. since September 2005. Prior to joining AmerUs Group Co. in September 2005, he was an executive with Charles Schwab Corporation in San Francisco starting in September 1991, most recently as vice president of capital markets, asset management products, and service technology.

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BRIAN J. CLARK Des Moines, Iowa.

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

MARK V. HEITZ Topeka, Kansas.

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

CHRISTOPHER J. LITTLEFIELD Des Moines, Iowa.

Executive vice president and general counsel of AmerUs Group Co. since January 2006. Prior to joining AmerUs Group Co. in January 2006, he was senior vice president, general counsel and secretary of The Dial Corporation since 2000. Mr. Littlefield held various management positions at The Dial Corporation from 1998 to 2000.

GARY R. McPHAIL Des Moines, Iowa.

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

MELINDA S. URION Des Moines, Iowa.

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

Code of Ethics

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

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ITEM 1A. RISK FACTORS

Risks Relating to Our Business

Severe interest rate fluctuations could (i) have a negative impact on policyowner behavior, (ii) adversely affect our ability to pay policyowner benefits and other business expenses and (iii) negatively impact our financial condition and operations.

Severe interest rate fluctuations could adversely affect the ability of our life insurance subsidiaries to pay policyowner benefits from operating and investment cash flows, cash on hand and other cash sources. We seek to limit the impact of changes in interest rates on the profitability and surplus of our life insurance operations by managing the duration of our assets relative to the duration of our liabilities. During a period of rising interest rates, policy surrenders, withdrawals and requests for policy loans may increase as customers seek to achieve higher returns. Despite our efforts to reduce the impact of rising interest rates, we may be required to sell assets to raise the cash necessary to respond to such surrenders, withdrawals and loans, thereby realizing capital losses on the assets sold. An increase in policy surrenders and withdrawals may also require us to accelerate amortization of policy acquisition costs relating to these contracts, which would further reduce our net income.

During periods of declining interest rates, borrowers may prepay or redeem mortgage loans and fixed maturity securities that we own, which would force us to reinvest the proceeds at lower interest rates. Most of our insurance and annuity products provide for guaranteed minimum yields and we are unable to lower our payouts to customers below these minimums in response to the lower return we will earn on our investments. In addition, it may be more difficult for us to maintain our desired spread between the investment income that we earn and our payouts to customers during periods of declining interest rates thereby reducing our profitability. A reduction in interest rates could also depress the market for our fixed annuity products. While policyowners may pay surrender charges to terminate policies, such terminations would reduce our future income.

The sensitivity of our investments to interest rates and other market risks are discussed in Part II, Item 7A of this Annual Report on Form 10-K (Report).

Our investment portfolio is subject to risks, including market fluctuations and general economic, market and political conditions which may diminish the value of our invested assets and affect our sales and profitability.

The market value of our investments and our investment performance, including yields and realization of gains and losses may vary depending on economic and market conditions. Such conditions include the shape of the yield curve, the level of interest rates and recognized equity and bond indices. Investment spreads are a critical part of our net income. When spreads narrow, our operating results may be adversely affected. Rates increased in 2005 after declining in previous years. If we again experience an overall lower interest rate environment, such as that prevailing during 2003 and 2004, our net investment income could decrease. Our investment returns, and thus our profitability, may also be adversely affected from time to time by conditions affecting our specific investments and, more generally, by stock, real estate and other market fluctuations and general economic, market and political conditions. Our ability to make a profit on insurance products and annuities depends in part on the returns on investments supporting our obligations under these products and the value of specific investments may fluctuate substantially depending on the foregoing conditions.

We are subject to the risk that the issuers of the fixed maturity and other debt securities we own will default on principal and interest payments, particularly if a major downturn in economic activity occurs. The occurrence of a

major economic downturn, acts of corporate malfeasance or other events that adversely affect the issuers of these securities could cause the value of our fixed maturities portfolio and our net earnings to decline and the default rate of the fixed maturity securities in our investment portfolio to increase. A ratings downgrade affecting particular issuers or securities could also have a similar effect.

We may also have difficulty selling our privately placed fixed maturity securities and mortgage loan investments because they are less liquid than our publicly traded securities. If we require significant amounts of cash on short notice, we may have difficulty selling these investments at attractive prices, in a timely manner, or both.

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We use derivative instruments to hedge various risks we face in our businesses. We enter into a variety of derivative instruments, including interest rate swaps, swap options, financial futures and call options, with a number of counterparties. If, however, our counterparties fail to honor their obligations under the derivative instruments, we will have failed to hedge the related risk effectively.

Any of the above-described factors could diminish the value of our invested assets and adversely affect our sales, profitability. or the investment return credited to our customers.

The composition of the Company s investment portfolio, including the credit quality and other characteristics of the issuers of our investments, impairments and investment strategies are discussed in the section entitled Investment Portfolio in Part II, Item 7 of the Report.

We face competition from other insurance companies, banks and non-insurance financial service companies for customers and sales agents.

We compete for customers and agents and other distributors of life insurance and annuity products with a large number of other insurers and non-insurance financial service companies, such as banks, broker-dealers and mutual funds. We believe that this competition is based on a number of factors, including service, product features, scale, price, commission structure, financial strength, claims-paying ratings, credit ratings, business capabilities and name recognition. Many of our competitors have greater financial resources than we do, offer a broader array of products, are regulated differently and have more competitive pricing. Many other insurers have higher claims-paying ability and financial strength ratings than we do. National banks, with their large existing customer bases, may increasingly compete with insurers as a result of court rulings allowing national banks to sell annuity or other insurance products in some circumstances, and as a result of recently enacted legislation removing restrictions on bank affiliations with insurers. Specifically, the Gramm-Leach-Bliley Act of 1999 permits mergers that combine commercial banks, insurers and securities firms under one holding company. These developments may continue to increase our competition by substantially increasing the number, size and financial strength of our potential competitors who may be able to offer more competitive pricing than we can, due to economies of scale.

As described in the section entitled, Competition, in Part I, Item 1 of the Report, we have been a market leader in equity indexed products. As more companies, including companies with higher ratings and greater resources, enter this market, our sales could decrease.

If we are unable to attract and retain sales representatives and develop new distribution channels, sales of our products and services may be reduced.

We distribute our life insurance and annuity products and services through a variety of distribution channels, including our own sales organizations, independent brokers, banks, broker-dealers and other third-party marketing organizations. We must attract and retain sales representatives to sell our life insurance and annuity products. Our distributors are generally free to sell products from whichever provider they choose. Strong competition exists among financial services companies for effective sales representatives. We compete with other financial services companies for sales representatives primarily on the basis of our financial position, support services, compensation and product features. If our products or services do not meet our distributors needs, we may not be able to establish and maintain satisfactory relationships with distributors of our annuity and life insurance products. We have been competitive because we have developed innovative new products and rapidly brought them to market. Our future competitiveness may depend on our ability to develop new products and bring them to market quickly. Our competitiveness for such agents also depends upon the relationships we develop with these agents. If we are unable to attract and retain sufficient sales representatives to sell our products, our ability to compete, our sales of insurance and annuity products and our revenues would suffer.

Our accumulation segment products are, for example, distributed primarily through wholly-owned and proprietary marketing organizations. If customers become more receptive to other forms of distribution or if the performance of these organizations declines, our sales could decrease.

Our current distribution systems are described under the heading Distribution Systems in each of the descriptions of our protection and accumulation segments in Part I, Item 1 of the Report.

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Future downgrades in the ratings of our life insurance subsidiaries or in our credit ratings could adversely affect sales of our life insurance and annuity products and our financial condition and results of operations.

Ratings with respect to claims-paying ability and financial strength are increasingly important factors in establishing the competitive position of insurance companies. Each rating agency reviews its ratings periodically and there can be no assurance that our current ratings will be maintained in the future. Maintaining our ratings depends on our results of operations and financial strength. If we fail to preserve the strength of our balance sheet and to maintain a capital structure that rating agencies deem suitable, it could result in a downgrading of our ratings. Our claims-paying and financial strength ratings are based upon factors relevant to policyowners and are not directed toward protection of investors in our securities.

A ratings downgrade, or the potential for a downgrade, of any of our life insurance subsidiaries could, among other things:

- materially increase the number of policy or contract surrenders for all or a portion of their net cash values and withdrawals by policyholders of cash values from their policies;
- result in the termination of our relationships with broker-dealers, banks, agents, wholesalers and other distributors of our products and services;
- adversely affect our ability to obtain reinsurance at reasonable prices or at all;
- reduce new sales, particularly with respect to general account guarantees and funding agreements purchased by financial institutions; and
- result in higher interest rates becoming payable on outstanding loans under our existing revolving credit facility.

In addition to the financial strength ratings of our insurance subsidiaries, various rating agencies also publish credit ratings for our company. Rating agencies assign ratings based upon several factors, some of which relate to general economic conditions and circumstances outside of our control. In addition, rating agencies may employ different models and formulas to assess our financial strength, and may alter these models from time to time at their discretion. These models and formulas may include factors beyond our control such as general economic conditions. We cannot predict what actions rating agencies may take, or what actions we may be required to take in response to the actions of rating agencies, which could adversely affect our business. A downgrade in our credit ratings could increase our cost of borrowing, which could have a material adverse effect on our financial condition and results of operations.

For a listing of our current insurer financial strength ratings, see the section entitled, Ratings in Part I, Item 1 of the Report.

Litigation and regulatory investigations may harm our financial strength and reduce our profitability.

In recent years, the life insurance industry, including AmerUs Group Co. and our subsidiaries, has been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. In connection with our insurance operations, plaintiffs lawyers bring class actions and individual suits alleging, among other things, issues relating to sales or underwriting practices, claims payments and procedures, product design, disclosure, administration, additional premium charges for premiums paid on a periodic basis, denial or delay of benefits and breaches of fiduciary or other duties to customers. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive and exemplary damages, and the damages claimed and the amount of any probable and estimable liability, if

any, may remain unknown for substantial periods of time. In addition, state and federal regulatory bodies, such as state insurance departments and attorneys general, periodically make inquiries and conduct examinations concerning our compliance with insurance and other laws. We respond to such inquiries and cooperate with regulatory examinations in the ordinary course of business. Regulatory changes, interpretations, initiatives and pronouncements related to the use of insurance products in certain tax advantaged programs and

plans could lead to additional litigation against us involving alleged misrepresentations by the selling insurance agents related to the tax benefits available pursuant to such programs or plans.

AmerUs Group Co. and certain of its subsidiaries are currently parties to purported class actions and other litigation described in Part I, Item 3 of the Report under the heading Legal Proceedings.

It is possible that some of the matters could require us to pay damages or make other expenditures or establish accruals in amounts that cannot be estimated as of a balance sheet date. Moreover, even if we ultimately prevail in the litigation, regulatory action or investigation, we could suffer significant reputational harm, which could have a material adverse effect on our business, financial condition and results of operations, including our ability to attract new customers, retain our current customers and recruit and retain employees as well as agents to sell our products. Additionally, regulatory inquiries may cause increased volatility in the price of stocks of companies in our industry.

Our sales and profitability could be adversely affected by regulatory changes applicable to our indexed products.

The insurance industry has treated certain indexed products as not being securities under the Securities Act of 1933. Last year, the NASD issued Notice to Members 05-50 addressing the responsibility of NASD members to supervise the sale by their associated persons of indexed annuities that are not registered under the federal securities laws and expressing concerns about the status of indexed annuities under the federal securities laws. Actions taken by the NASD members in response to the NASD s notice could adversely impact the sale of our indexed products.

Treatment of our indexed products as securities would require additional registration and licensing of these products and the agents selling them, and would likely cause us to seek additional marketing relationships for these products. Registration and associated compliance could significantly increase our costs associated with selling indexed products. Since many of our producers are not currently licensed to sell securities, our sales could be adversely affected until our producers are appropriately licensed or we make other distribution arrangements for the sale of our indexed products.

In 2005, 80% of our direct protection product sales were indexed products and 91% of our accumulation product deposits were indexed products.

We may be exposed to unidentifiable or unanticipated liabilities if we cannot effectively manage our operational, legal, regulatory and other risks, which could negatively affect the amounts that our subsidiaries may distribute to us as dividends.

We have devoted significant resources to developing our risk management policies and procedures and we expect to continue to do so in the future. Nonetheless, these policies and procedures that identify, monitor and manage operational, legal, regulatory and other risks may not be fully effective. Many of the methods of managing risk and exposures are based upon the use of observed historical market behavior or statistics based on historical models. As a result, these methods may not accurately predict future exposures, which could be significantly greater than historical measures indicate. Other risk management methods depend upon the evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible to us and that may not always be accurate, complete, up-to-date or properly evaluated. Management of operational, legal, regulatory and other risks requires, among other things, policies and procedures to record properly and verify a large number of transactions and events, and these policies and procedures may not be fully effective. If any of our subsidiaries are exposed to unexpected liabilities or losses due to a failure of our risk management policies or procedures, its business, financial condition and results of operations may be negatively affected, which may also reduce the amount that it can distribute to us as dividends.

Examples of some of our risk management policies are described in the section entitled Critical Accounting Policies in Part II, Item 7 and in Part II, Item 7A of the Report.

Our insurance subsidiaries are heavily regulated, and changes in insurance, securities and other regulation in the United States may reduce our profitability.

Our life insurance subsidiaries are subject to regulation by state regulators under the insurance laws of states in which they conduct business. ALIC s domiciliary regulator is the Iowa Insurance Division. In addition, American s domiciliary regulator is the Kansas Insurance Department; ILIC s domiciliary regulator is the Indiana Insurance Department; and Bankers Life s domiciliary regulator is the New York Insurance Department. In addition to their domiciliary regulators, these insurance subsidiaries are subject to regulation in their non-domiciliary states in which they do business by the insurance regulators of such states. State insurance regulators and the National Association of Insurance Commissioners continually reexamine existing laws and regulations, and may impose changes in the future. The purpose of such regulation is primarily to provide safeguards for policyowners rather than to protect the interests of shareholders. The insurance laws of the various states establish regulatory agencies with broad administrative powers including the authority to grant or revoke operating licenses and to regulate sales practices, investments, privacy protection, dividend-paying capacity, advertising, affiliate transactions, deposits of securities, the form and content of financial statements and insurance policies, contract forms, rates and pricing for our products, accounting practices, admittance of assets and the maintenance of specified reserves and capital.

Although the federal government does not directly regulate the insurance business, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation and securities regulation can significantly affect the insurance business. Certain of our protection products and accumulation products are innovative and relatively new. The regulatory framework at the state and federal level applicable to such products is evolving. The changing regulatory framework could affect the design of such products and our ability to sell certain products.

Our reserves established for future policy benefits and claims may prove inadequate, requiring us to increase liabilities.

Our earnings depend significantly upon the extent to which our actual claims experience is consistent with the assumptions used in setting prices for our products and establishing liabilities for future insurance and annuity policy benefits and claims. The liability that we have established for future policy benefits is based on assumptions concerning a number of factors, including the amount of premiums that we will receive in the future, rate of return on assets we purchase with premiums received, expected claims, expenses and persistency, which is the measurement of the percentage of insurance policies remaining in force from year to year as measured by premiums. However, due to the nature of the underlying risks and the high degree of uncertainty associated with the determination of the liabilities for unpaid policy benefits and claims, we cannot determine precisely the amounts which we will ultimately pay to settle these liabilities. As a result, we may experience volatility in the level of our reserves from period to period. To the extent that actual claims experience is less favorable than our underlying assumptions, we could be required to increase our liabilities, which may harm our financial strength and reduce our profitability.

If reinsurance becomes unavailable or more costly, our profitability could suffer.

As part of our risk management and capacity strategy, our insurance subsidiaries cede insurance to other insurance companies through reinsurance. However, we remain liable with respect to ceded insurance should any reinsurer fail to meet the obligations assumed by it. Additionally, we assume policies of other insurers. The cost of reinsurance is, in some cases, reflected in the premium rates charged by us. Under certain reinsurance agreements, the reinsurer may increase the rate it charges us for the reinsurance. Therefore, if the cost of reinsurance were to increase or if reinsurance were to become unavailable, we could be adversely affected.

Any regulatory or other adverse development affecting the ceding insurer could also have an adverse effect on us. Market conditions beyond our control influence the availability and cost of the reinsurance protection we purchase. Any decrease in the amount of our reinsurance will increase our risk of loss and any increase in the cost of our reinsurance will, absent a decrease in the amount of reinsurance, reduce our earnings. Accordingly, we may be forced to incur additional expenses for reinsurance or may not be able to obtain sufficient reinsurance on acceptable

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terms, which could adversely affect our ability to write future business or result in our assuming more risk with respect to those policies we issue.

As a result of consolidation of the life reinsurance market and other market factors, capacity in the life reinsurance market has decreased. Further, life reinsurance is currently available at higher prices and on less favorable terms than those prevailing between 1997 and 2003. It is likely that this trend will continue, although we cannot predict to what extent. Further consolidation, regulatory developments, catastrophic events or other significant developments affecting the pricing and availability of reinsurance could materially harm the reinsurance market and our ability to enter into reinsurance contracts.

The Company s current reinsurance practices and reinsurers (including their A.M. Best ratings) are described in the section entitled, Reinsurance, in Part I, Item 1 of the Report.

Payment of dividends by our life insurance subsidiaries to us is regulated by state insurance laws.

Payment of dividends by our life insurance subsidiaries to us is regulated by the state insurance laws of their respective jurisdictions of incorporation. Our significant life insurance subsidiaries are domiciled in Iowa, Kansas and Indiana. State insurance laws of each of these jurisdictions generally impose limitations on the ability of each of these subsidiaries to pay dividends to us. If any proposed dividend payment exceeds stated statutory limitations, our subsidiary must obtain the prior approval of the insurance commissioner of that state to pay that dividend amount. In addition, the amount of dividends that we actually receive from our subsidiaries depends upon their respective business and financial performance and may be less than the maximum amounts permitted under statutory limitations. If any of our life insurance subsidiaries cannot pay dividends or interest to us in the future, our ability to pay interest and dividends would be significantly reduced, which may adversely affect the trading prices of our common stock and our ability to service interest payments on our indebtedness.

For descriptions of applicable state law restrictions and our dividend capacity, see the section entitled, Liquidity and Capital Resources, in Part II, Item 7 of the Report.

We may experience volatility in net income due to accounting for derivatives.

We hold derivative financial instruments to hedge growth in policyowner liabilities for certain protection and accumulation products and to hedge market risk for fixed income investments. These derivatives qualify for hedge accounting or are considered economic hedges. Hedge accounting results when we designate and document the hedging relationships involving derivative instruments. Economic hedging instruments are those instruments whose change in fair value acts as a natural hedge against the change in fair value of hedged assets or liabilities with both changes wholly or partially being offset in earnings.

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

The change in fair value for derivative financial instruments may not equal changes in values of underlying hedged assets or liabilities resulting in potential volatility in net income.

The Company s derivatives portfolio is described under the section entitled Investment Portfolio in Part II, Item 7 and in notes 1 and 4 of our consolidated financial statements.

Changes in tax laws or their interpretation could make some of our products less attractive to consumers.

Changes in tax laws or their interpretation could make some of our products less attractive to consumers. For example, reductions in the federal income tax that investors are required to pay on long-term capital gains or dividends may provide an incentive for some of our customers and potential customers to shift assets into mutual funds and away from products, including life insurance and annuities, designed to defer taxes payable on investment returns. Because the income taxes payable on long-term capital gains and some dividends paid on stock have been reduced, investors may decide that the tax-deferral benefits of annuity contracts are less advantageous than the

potential after-tax income benefits of mutual funds or other investment products that provide dividends and long-term capital gains. A shift away from life insurance and annuity contracts and other tax-deferred products would reduce our income from sales of these products, as well as the assets upon which we earn investment income.

Additionally, the President s Advisory Panel on Federal Tax Reform is currently considering wholesale changes to our tax system. Some alternatives under debate include the use of a consumption-based tax system, which might negatively impact the attractiveness of annuities and life insurance products. Estate tax reform continues to remain on Congress s agenda. Elimination or significant reduction of the estate tax could also negatively affect sales of life insurance products.

We cannot predict whether any legislation will be enacted, what the specific terms of any such legislation would be or whether any such legislation would have a material adverse effect on our sales, financial condition, and results of operations.

We may need to fund deficiencies in our closed blocks; assets allocated to the closed blocks benefit only the holders of closed block policies.

We have established two closed blocks of policies: (a) the first on June 30, 1996 in connection with the reorganization of ALIC from a mutual company to a stock company, and (b) the second on March 31, 2000 in connection with the reorganization of ILIC from a mutual company to a stock company (collectively, the closed block). Insurance policies which had a dividend scale in effect as of each closed block establishment date were included in the closed block. The closed block was designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganizations of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and credits continued. The assets, including revenue therefrom, allocated to the closed block will accrue solely to the benefit of the owners of policies included in the closed block until the closed block no longer exists. Any excess of cumulative favorable experience for closed block policies over unfavorable experience will be available for distribution over time to the closed block policyowners and will not be available to us.

AmerUs will continue to pay guaranteed benefits under the policies included in the closed block in accordance with their terms. Assets included in our closed block, cash flows generated by these assets and anticipated revenues from policies included in the closed block may not be sufficient to provide for the benefits guaranteed under these policies. If they are not sufficient, AmerUs must fund the shortfall from its general funds. Even if they are sufficient, we may choose for business reasons to support dividend payments on policies in either of the closed block with our general account funds.

Assets included in each closed block, cash flows generated by such assets and anticipated revenues from policies in each closed block will benefit only the holders of those policies. Unless the relevant state Insurance Commissioner consents to an earlier termination, each closed block will continue to be in effect until the date on which none of the policies in that closed block remain in force. We bear the costs of operating and managing the closed block and, accordingly, such costs were not funded as part of the assets allocated to the closed block. Any increase in such costs in the future would be borne by us.

The continued threat of terrorism and military actions may adversely affect our investment portfolio.

The continued threat of terrorism within the United States and abroad, and the military action and heightened security measures in response to that threat, may cause additional disruptions to commerce, reduced economic activity and continued volatility in markets throughout the world, which may decrease our net income, revenue and assets under management. Some of the assets in our investment portfolio, such as airline and leisure industry securities, have been

adversely affected by the declines in the securities markets and economic activity caused by the terrorist attacks and the military action and heightened security measures. The effect of these events on the valuation of these investments is uncertain and there may be additional impairments.

Moreover, the cost and possibly the availability, in the future, of reinsurance covering terrorist attacks for our individual life, accidental death and dismemberment and disability insurance operations are uncertain. Although our ratings have not been affected by the terrorist attacks on the United States and remain stable, over time the rating

agencies could re-examine the ratings affecting the insurance industry generally, including the ratings of our life insurance subsidiaries. In addition, declines in the securities markets and reduced commercial and economic activity may impact our assumptions in assessing the value of intangibles from prior acquisitions and the amortization patterns for deferred policy acquisition costs. In the event there is a need to change our assumptions, this may lead to a material impairment of these assets.

The occurrence of events unanticipated in our disaster recovery systems and management continuity planning could impair our ability to conduct business effectively.

In the event of a disaster such as a natural catastrophe, an industrial accident, a blackout, a computer virus, a terrorist attack or war, unanticipated problems with our disaster recovery systems could have a material adverse impact on our ability to conduct business and on our results of operations and financial condition, particularly if those problems affect our computer-based data processing, transmission, storage and retrieval systems and destroy valuable data. Despite our implementation of network security measures, our servers could be subject to physical and electronic break-ins, and similar disruptions from unauthorized tampering with our computer systems. In addition, in the event that a significant number of our managers were unavailable in the event of a disaster, our ability to effectively conduct our business could be severely compromised.

We may experience volatility in net income due to recent changes in accounting for share-based payments.

In December 2004, the Financial Accounting Standards Board issued a revision to Statements of Financial Accounting Standards No. 123, Share-Based Payment, (SFAS 123R) which is a revision of Statements of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (SFAS 123). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on fair values. Pro forma disclosure of fair value information is no longer an alternative. The implementation date of the statement has been delayed and will be effective for the fiscal year beginning after June 15, 2005. Net income will be reduced as a result of expensing such share-based payments upon adoption of SFAS 123R. The pro forma impacts of recognizing fair value, as permitted by SFAS 123, are disclosed in note 1 to the consolidated financial statements. That disclosure reflects our estimate of 2005 additional expense for share-based payments of approximately $2.6 million (after-tax). The implementation of more sophisticated modeling techniques may affect this expense amount.

We are exposed to potential risks from legislation requiring companies to evaluate their internal controls over financial reporting.

Under Section 404 of the Sarbanes-Oxley Act of 2002, effective as of year-end 2004, our auditors are required to attest to certain matters relating to our control environment. We believe that our control environment is effective; however, it is possible that adverse attestations with respect to either us or other companies in the industry, or in business in general could result in a loss of investor confidence and/or impact us or the environment in which we operate.

Future acquisitions that we make may result in certain risks for our business and operations.

We have made a number of significant acquisitions in the past and we may make additional acquisitions in the future. Acquisitions involve a number of risks, including the diversion of our management s attention and other resources, the incurrence of unexpected liabilities and the loss of key personnel and clients of acquired companies. Any intangible assets that we acquire may have a negative impact on our financial statements. In addition, the success of our future acquisitions will depend in part on our ability to combine operations, integrate departments, systems and procedures and obtain cost savings and other efficiencies from the acquisitions. We may incur significant additional indebtedness,

including assuming an acquired company s debt, in connection with a future acquisition, which may have an adverse effect on our financial ratings and results. If we finance an acquisition through the issuance of our common stock, there may be a dilution of the ownership interests represented by our common stock. Failure to effectively consummate or manage our future acquisitions may adversely affect our existing businesses and harm our operational results.

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Applicable laws and our Amended and Restated Articles of Incorporation and Amended and Restated By-laws may discourage takeovers and business combinations that our stockholders and other security holders might consider in their best interests.

State laws and our Amended and Restated Articles of Incorporation and Amended and Restated By-laws may delay, defer, prevent, or render more difficult a takeover attempt that our stockholders and other security holders might consider to be in their best interests. For instance, they may prevent our stockholders from receiving the benefit from any premium to the market price of our common stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our common stock if they are viewed as discouraging takeover attempts in the future. State laws and our Amended and Restated Articles of Incorporation and Amended and Restated By-laws may also make it difficult for our stockholders to replace or remove our management, which may also delay, defer or prevent a change in our control, which may not be in the best interests of our stockholders.

Laws of the various states where each of our significant life insurance subsidiaries is located require the prior approval of the relevant state insurance commissioner for any change of control in AmerUs and/or that subsidiary as specified under such state laws.

Provisions in our Amended and Restated Articles of Incorporation and Amended and Restated By-laws may delay, defer or prevent a takeover attempt, including provisions:

- permitting our board of directors to issue one or more series of preferred stock;
- dividing our board of directors into three classes;
- permitting our board of directors to fill vacancies on our board of directors; and
- imposing advance notice requirements for stockholder proposals and nominations of directors to be considered at stockholder meetings.

ITEM 1B. UNRESOLVED STAFF COMMENTS

We file various reports under the Securities Exchange Act of 1934 (the Exchange Act) which provide required business, market, financial and other information on a quarterly and annual basis. These reports are subject to review and comment by the SEC s staff. We respond to and resolve any such comments in a timely manner. There currently are no unresolved comments on our Exchange Act filings which have been outstanding for more than 180 days at December 31, 2005.

ITEM 2. PROPERTIES

We own or lease approximately 360,000 square feet of office space. We lease approximately 260,000 square fee of space for our executive offices, corporate operations and protection products segment operations in Des Moines, Iowa; Woodbury, New York; and Indianapolis, Indiana. We own approximately 100,000 square feet of office space in Topeka, Kansas where our accumulation products operations are conducted. Approximately 45,000 square feet of our owned office space is leased to third parties.

ITEM 3. LEGAL PROCEEDINGS

AmerUs is routinely involved in litigation and other proceedings, including class actions, reinsurance claims and regulatory proceedings arising in the ordinary course of its business. In recent years, the life insurance industry, including AmerUs Group Co. and its subsidiaries, has been subject to an increase in litigation pursued on behalf of both individual and purported classes of insurance purchasers, questioning the conduct of insurers and their agents in the marketing of their products. AmerUs pending lawsuits raise difficult and complicated factual and legal issues and are subject to many uncertainties and complexities, including, but not limited to, the underlying facts of each matter, novel legal issues, variations between jurisdictions in which matters are being litigated, differences in applicable laws and judicial interpretations, the length of time before many of these matters might be resolved by settlement or through litigation and, in some cases, the fact that many of these matters are putative class actions in which a class has not been certified and in which the purported class may not be clearly defined, the fact that many

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of these matters involve multi-state class actions in which the applicable law(s) for the claims at issue is in dispute and therefore unclear, and the current challenging legal environment faced by large corporations and insurance companies. In addition, state and federal regulatory bodies, such as state insurance departments and attorneys general, periodically make inquiries and conduct examinations concerning compliance by AmerUs and others with applicable insurance and other laws. AmerUs responds to such inquiries and cooperates with regulatory examinations in the ordinary course of business.

During 2005 nationwide class actions were filed on April 7, 2005 (United States District Court for the Central District of California), April 25, 2005 (United States District Court for the District of Kansas), May 19, 2005 (United States District Court for Eastern District of Pennsylvania), August 29, 2005 (United States District Court for the Middle District of Florida), November 8, 2005 (United States District Court for the Eastern District of Pennsylvania) and December 8, 2005 (United States District Court for the Eastern District of Pennsylvania) on behalf of certain purchasers of our products against AmerUs Group Co. and/or certain of its subsidiaries (including American and ALIC). On July 7, 2005 a statewide class action was also filed on behalf of certain purchasers of our products in the United States District Court for the Middle District of Florida against many of these same AmerUs entities. The aforementioned lawsuits relate to the use of purportedly inappropriate sales practices and products in the senior citizen market. The complaints allege, among other things, the unauthorized practice of law involving the marketing of estate or financial planning services, the lack of suitability of the products, the improper manner in which they were sold, including pretext sales and non-disclosure of surrender charges, as well as other violations of the state consumer and insurance laws. The plaintiffs in the lawsuits seek compensatory damages, rescission, injunctive relief, treble and/or punitive damages, attorneys fees and other relief and damages. In November 2005, each of the aforementioned lawsuits as well as certain other statewide class actions and individual lawsuits were assigned to the United States District Court for the Eastern District of Pennsylvania for coordinated and consolidated pretrial proceedings.

On February 10, 2005, the California Attorney General and the Insurance Commissioner of the State of California filed suit in the California Superior Court for the County of Los Angeles against American and certain other subsidiaries of AmerUs Group Co. alleging the unauthorized practice of law, claims related to the suitability of the products for, and the manner in which they were sold to, the senior citizen market, including violations of California s insurance code and unfair competition laws. The plaintiffs seek civil penalties, restitution, injunctive relief and other relief and damages.

AmerUs Group Co. and certain of its subsidiaries are among the defendants in a lawsuit by the Attorney General of Pennsylvania on behalf of certain Pennsylvania residents, some of whom were purchasers of our products alleging, in part, claims related to the marketing of our products to senior citizens and violations of consumer protection laws. The plaintiffs seek fines, restitution, injunctive and other relief.

In November 2005, the Superior Court of the State of California for the County of San Luis Obispo approved a settlement of a statewide class of annuity holders and purchasers of estate planning services, Cheves v American Investors Life Insurance Company, Family First Estate Planning and Family First Insurance Services, et al. The allegations in this case involved claims of breach of contract, misrepresentation, unfair competition and deceptive trade practices. Given the charges previously taken regarding this matter, AmerUs does not anticipate that any additional charges will be required as a result of this settlement.

In these matters, plaintiffs seek a variety of remedies including equitable relief in the form of injunctive and other remedies and monetary relief in the form of contractual and extra-contractual damages. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive and exemplary damages. Often more specific information beyond the type of relief sought is not available because plaintiffs have not requested more specific relief in their court pleadings. In our experience, monetary demands in plaintiffs court pleadings bear little relation to the ultimate loss, if any, to AmerUs. Estimates of possible losses or

ranges of losses for particular matters cannot in the ordinary course be made with a reasonable degree of certainty. It is possible that AmerUs results of operations or cash flow in a particular quarterly or annual period could be materially affected by an ultimate unfavorable resolution of pending litigation and regulatory matters depending, in part, upon the results of operations or cash flow for such period.

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

None.

PART II

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

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

	AmerUs Common Stock		
	High	Low	Dividends
2004			
First Quarter	$ 41.00	$ 34.73	$ 0.00
Second Quarter	$ 41.70	$ 36.73	$ 0.00
Third Quarter	$ 41.51	$ 37.31	$ 0.00
Fourth Quarter	$ 45.68	$ 38.60	$ 0.40
2005			
First Quarter	$ 49.08	$ 43.36	$ 0.00
Second Quarter	$ 48.50	$ 45.06	$ 0.00
Third Quarter	$ 57.57	$ 48.91	$ 0.00
Fourth Quarter	$ 60.14	$ 54.83	$ 0.40

Holders

As of March 13, 2006, the number of holders of record of each class of common equity was as follows:

	Number of Holders
Common stock	95,468

Issuer Purchases of Equity Securities

The following table sets forth information regarding purchases of equity securities for the fourth quarter of 2005:

	(c) Total number of shares (or	(d) Maximum number (or approximate dollar

Period	(a) Total number of shares (or units) purchased(1)	(b) Average price paid per share (or units)	units) purchased as part of publicly announced plans or programs	value) of shares (or units) that may yet be purchased under the plans or programs(2)
10/01/2005-10/31/2005		$		3,530,500
11/01/2005-11/30/2005	65,000	58.52		3,465,500
12/01/2005-12/31/2005				3,465,500
Total	65,000	58.52		

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

(2) On June 24, 2005, our board of directors authorized a repurchase program of up to 6 million shares of our outstanding common stock. The program replaced and terminated a previous program which authorized repurchase of up to 3 million shares. There is no expiration date for this program.

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Equity Compensation Plan Information

The following table sets forth information regarding our equity compensation plans as of December 31, 2005:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available For future issuance under equity compensation plans (excluding securities reflected in column (a))
Equity compensation plans approved by security holders (1)	3,318,035	$ 32.67	572,116
Equity compensation plans not approved by security holders (2)	51,755	34.77	9,600
Total (3)	3,369,790	$ 33.13	581,716

(1) Securities to be issued upon exercise of outstanding items include 2,754,287 stock options; 57,296 non-vested stock units; 210,600 long-term incentive awards (assuming maximum pay-out) and 295,852 management incentive payment deferral awards.

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

(3) The options and SARS have a weighted average exercise price of $32.05 and a weighted average life of 5.8 years.

Equity Compensation Plans not Approved by Security Holders

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

Dividends

We have declared and paid an annual dividend of $0.40 per share of common stock in 2003 through 2005. The declaration and payment of dividends in the future is subject to the discretion of the Board of Directors and will be dependent upon the financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by the life insurance subsidiaries and other factors deemed relevant by the Board of Directors.

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

In connection with the 8.85% Capital Securities, Series A (the Capital Securities), issued in 1997 by AmerUs Capital I, a subsidiary trust, we have agreed not to declare or pay any dividends on the Company s capital stock (including the common stock) during any period for which we elect to extend interest payments on our junior subordinated debentures, except for stock dividends where the dividend stock is the same stock as that on which the dividend is being paid. Dividends on our capital stock cannot be paid until all accrued interest on the Capital Securities has been paid. The Capital Securities have an outstanding principal balance of $50.8 million at December 31, 2005.

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

We have declared and paid a quarterly dividend of $0.40278 per share of Series A Non-Cumulative Perpetual Preferred Stock (the Preferred Stock) in December 2005. The declaration and payment of quarterly dividends in

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the future is subject to the discretion of the Board of Directors and will be dependent upon the financial condition, results of operations, cash requirements, future prospects, regulatory restrictions on the payment of dividends by the life insurance subsidiaries and other factors deemed relevant by the Board of Directors. During any dividend period, if we have not declared and paid full dividends for the latest completed dividend period on the Preferred Stock, we may not declare or pay dividends on our common stock.

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

Based on statutory insurance regulations and 2004 results, our insurance subsidiaries could have paid approximately $186 million in dividends in 2005 without obtaining regulatory approval. Our insurance subsidiaries paid to us approximately $62 million in dividends in 2005. Based on 2005 results, our insurance subsidiaries can pay an estimated $143 million in dividends in 2006 without obtaining regulatory approval. See further discussion about the limitation of our insurance subsidiaries ability to pay dividends in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

ITEM 6. SELECTED FINANCIAL DATA

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

	As of or for the Year Ended December 31, ($ in millions, except share data)				
	2005	2004	2003	2002	2001(A)
Consolidated Income Statement Data:					
Revenues:					
Insurance premiums	$ 237.0	$ 267.7	$ 297.2	$ 351.3	$ 305.9
Product charges	238.4	220.5	181.4	144.5	146.1
Net investment income	1,109.5	1,037.4	1,001.9	1,001.3	873.2
Realized/unrealized capital gains (losses)	(14.9)	18.1	131.3	(149.9)	(90.6)
Other income	45.2	46.4	41.7	39.3	30.2
Total revenues	1,615.2	1,590.1	1,653.5	1,386.5	1,264.8
Benefits and expenses:					
Policyowner benefits	858.5	888.7	953.9	879.8	757.5
Total insurance and other expenses	358.5	360.0	331.8	287.2	263.1
Dividends to policyowners	86.5	81.1	98.4	104.9	98.9
Total benefits and expenses	1,303.5	1,329.8	1,384.1	1,271.9	1,119.5
Income from continuing operations	311.7	260.3	269.4	114.6	145.3
Interest expense	32.2	32.1	30.2	25.5	26.0
Early extinguishment of debt	19.1				
	260.4	228.2	239.2	89.1	119.3

Income before tax expense and minority interest					
Income tax expense	69.2	39.0	78.6	28.3	39.5
Minority interest					
Net income from continuing operations	191.2	189.2	160.6	60.8	79.8

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	As of or for the Year Ended December 31,				
	2005	2004	2003	2002	2001(A)
	($ in millions, except share data)				
Discontinued operations (net of tax):					
Income (loss) from discontinued operations			1.8	2.1	1.3
Gain on sale of discontinued operations		3.9			
Net income before cumulative effect of change in accounting	191.2	193.1	162.4	62.9	81.1
Cumulative effect of change in accounting, net of tax		(0.5)	(1.3)		(8.2)
Net income	191.2	192.6	161.1	62.9	72.9
Dividends on preferred stock	2.4				
Net income available to common stockholders	$ 188.8	$ 192.6	$ 161.1	$ 62.9	$ 72.9
Net income from continuing operations available to common stockholders per common share:					
Basic	$ 4.84	$ 4.81	$ 4.10	$ 1.52	$ 2.16
Diluted	$ 4.43	$ 4.60	$ 4.05	$ 1.50	$ 2.13
Weighted average number of shares outstanding (in millions):					
Basic	39.0	39.3	39.2	40.0	36.9
Diluted	42.6	41.1	39.6	40.4	37.5
Dividends declared per common share	$ 0.40	$ 0.40	$ 0.40	$ 0.40	$ 0.40
Dividends declared per preferred share	$ 0.40	$	$	$	$
Consolidated Balance Sheet Data:					
Total invested assets	$ 20,037.3	$ 19,186.3	$ 17,984.3	$ 16,932.5	$ 15,052.4
Total assets	$ 24,830.0	$ 23,170.9	$ 21,583.7	$ 20,293.7	$ 18,299.2
Notes payable	$ 556.1	$ 571.2	$ 621.9	$ 511.4	$ 384.6
Total liabilities	$ 23,127.7	$ 21,547.4	$ 20,173.9	$ 19,030.7	$ 17,060.6
Total stockholders equity	$ 1,702.3	$ 1,623.5	$ 1,409.8	$ 1,262.9	$ 1,238.5
Other Operating Data:					
Ratio of earnings to combined fixed charges and preferred stock dividends(B)	1.44	1.40	1.40	1.19	1.33

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

(B) For purposes of computing the ratio of earnings to combined fixed charges and preferred stock dividends, earnings consist of income from operations before income taxes and combined fixed charges and preferred stock

dividends. Fixed charges consist of interest credited on annuity and universal life contracts, interest expense on debt, amortization of debt expense, early extinguishment of debt and preferred stock dividends, including the gross-up for income taxes.

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

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

Nature of Operations

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

Financial Highlights

Our financial highlights are as follows:

	For The Years Ended December 31, 2005	2004	2003
Segment pre-tax operating income:			
Protection Products	$ 165,561	$ 140,212	$ 128,290
Accumulation Products	183,830	163,883	130,890
Other operations	(22,637)	(19,309)	(7,725)
Total segment pre-tax operating income	326,754	284,786	251,455
Non-segment expense, net(A)	135,575	92,144	90,308
Net income	191,179	192,642	161,147
Dividends on preferred stock	2,417		
Net income available to common stockholders	$ 188,762	$ 192,642	$ 161,147
Diluted net income available to common stockholders per common share	$ 4.43	$ 4.68	$ 4.07
Total assets	$ 24,830,000	$ 23,170,869	$ 21,583,688
Stockholders equity	$ 1,702,315	$ 1,623,469	$ 1,409,811

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

Operating segment income increased for the protection products segment in 2005 compared to 2004 primarily due to the growth in the indexed life business and higher open block margins. Operating segment income increased for the

protection products segment in 2004 compared to 2003 primarily as a result of increased open block margins and lower operating expenses. The growth in assets under management and a continued improvement in product margins from our indexed annuities increased accumulation products segment earnings in 2005 and 2004 compared to the respective prior years. The increased operating segment income in 2005 and 2004 for the protection products and accumulation products segments was partially reduced by higher other operations losses resulting primarily from lower net investment income and additional holding company expenses.

Net income decreased in 2005 compared to 2004. Although operating segment results increased between years, net litigation costs following class certification, early extinguishment of debt costs and a higher effective income tax rate offset the growth. Net income increased in 2004 compared to 2003 primarily as a result of higher operating segment income, reductions in income tax accruals and deferred income tax asset valuation allowances, and the gain on the sale of our residential financing subsidiary. The increase was partially offset by realized and unrealized losses on assets.

Total assets increased $1.7 billion in 2005 primarily as a result of net cash received from collected premiums and deposits and positive cash flows from operating activities. Liabilities increased $1.6 billion primarily due to policy reserves and policyowner funds which rose due to the higher volume of insurance policies in force and increased annuity sales. Stockholders equity increased $78.8 million during 2005 primarily as a result of 2005 net income of $191.2 million, the issuance of preferred stock which resulted in net proceeds of $144.8 million, stock issued under incentive plans amounting to $23.3 million, and the conversion of OCEANs amounting to $10.7 million. The additions to equity were reduced by treasury stock purchases which decreased equity $154.6 million, unrealized gains on available-for-sale investments which declined $118.2 million, and dividends declared on common and preferred stock in the fourth quarter of 2005 which decreased equity $18.3 million. The unrealized gains included in accumulated other comprehensive income are presented after related adjustments to DAC, VOBA, capitalized bonus interest, closed block policyowner dividend obligation, unearned revenue reserves and deferred income taxes.

Segment Income

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

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

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

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

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

   Cash flow hedge amortization.

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

4) Restructuring costs.

5) Certain reinsurance adjustments.

6) Other income from non-insurance operations.

7) Litigation accruals following class certification, net of insurance recoveries.

8) Interest expense.

9) Early extinguishment of debt.

10) Income tax expense.

11) Income from discontinued operations.

12) Cumulative effect of changes in accounting.

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

Protection Products

Our protection products segment reflects the operating results primarily from our interest-sensitive whole life, term life, universal life and indexed life insurance policies. These products are marketed on a national basis

primarily through IMOs, CMOs, a PPGA distribution system and a New York distribution system. When protection products are sold, we invest the premiums we receive in our investment portfolio and establish a liability representing our commitment to the policyowner. We manage investment spread by seeking to maximize the return on these invested assets, consistent with our asset/liability and credit quality policies. We enter into reinsurance arrangements in order to reduce the effects of mortality risk and the statutory capital strain from writing new business. All income statement line items are presented net of reinsurance amounts. In addition, the protection products segment includes the results of the closed block. Protection products in force totaled $102.5 billion at December 31, 2005, $97.5 billion at December 31, 2004 and $98.6 billion at December 31, 2003. Protection products in force is a performance measure utilized by investors, analysts and the Company to assess the Company s position in the industry. A summary of our protection products segment operations follows:

	For The Years Ended December 31,		
	2005	2004	2003
	($ in thousands)		
Revenues:			
Insurance premiums	$ 231,841	$ 263,050	$ 290,707
Product charges	183,997	167,585	138,215
Net investment income	358,133	333,477	321,532
Realized gains (losses) on closed block investments	(1,249)	(1,693)	9,326
Other income	3,463	3,573	4,224
Total revenues	776,185	765,992	764,004
Benefits and expenses:			
Policyowner benefits	353,988	379,749	387,068
Underwriting, acquisition and other expenses	75,597	73,750	76,042
Amortization of DAC and VOBA, net of open block gain/loss adjustment	94,577	91,193	74,211
Dividends to policyowners	86,462	81,088	98,393
Total benefits and expenses	610,624	625,780	635,714
Pre-tax operating income Protection Products segment	$ 165,561	$ 140,212	$ 128,290

Pre-tax operating income from our protection products increased 18% in 2005 and 9% in 2004 compared to the respective prior years. The increase in 2005 was primarily due to the growth in the indexed life business and higher open block product margins. The increase in 2004 was primarily due to higher open block product margins and lower operating expenses. The key drivers of our protection products business include sales, persistency, net investment income, mortality and expenses.

Sales, Premiums and Product Charges. Sales are a key driver of our business as they are a leading indicator of future revenue trends to emerge in segment operating income. As shown in the Sales Activity by Product table presented in Item 1. Business Protection Products Segment, direct first year annualized premiums decreased 5% in 2005 compared to 2004 and increased 5% in 2004 compared to 2003. The decrease in 2005 sales resulted from lower interest-sensitive whole life product sales due to our withdrawal from certain tax-advantaged markets and lower universal life product sales due to pricing changes associated with products launched in January 2005. These lower sales were partially

offset by higher indexed life product sales as consumer demand for such indexed products continued to increase. The indexed life product allows the policyowner to elect an interest crediting strategy for a portion of the account value whereby interest is credited based in part on increases in the applicable indices, primarily the S&P 500 Index, excluding dividends. The interest credited is subject to a participation rate and an annual cap. Sales of indexed life products were $94.1 million in 2005 as compared to $74.6 million in 2004 and $51.6 million in 2003. We are the leading writer of indexed life products in the United States. The increase in 2004 sales resulted from higher indexed life product sales partially offset by decreased traditional and universal life insurance product sales. This change in sales mix reflects continued customer demand for indexed products and the uncertainty in government tax policy and regulation.

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

Insurance premium revenue in 2005 and 2004 was lower than the respective prior years primarily due to lower sales of traditional products and a decline in closed block in force business. Product charge revenue in 2005 and 2004 was higher than the respective prior years primarily due to the growth in the indexed life block of business.

Persistency. Persistency, which we measure in terms of a lapse rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low lapse rate means higher persistency indicating more business is remaining in force to generate future revenues. Annualized lapse rates were 6.2% in 2005 compared to 6.7% in 2004 and 6.5% in 2003. Our persistency experience remained within our pricing assumptions.

Net Investment Income. Net investment income is a key driver of our business as it reflects earnings on our invested assets. Net investment income increased in 2005 and 2004 compared to the respective prior years. The increase in 2005 and 2004 was primarily due to growth in average protection products assets which were approximately $278 and $318 million higher than the respective prior years. The earned rate of the investment portfolio was 6.57% in 2005 compared to 6.44% in 2004 and 6.63% in 2003. Rates increased in 2005 following the prior years declining rates associated with the overall lower interest rate environment in 2004 and 2003.

Mortality and Benefit Expense. Mortality is a key driver of our business as it impacts the amount of our benefit expense. We utilize reinsurance to reduce the effects of mortality risk. Benefit expense was lower in 2005 as compared to 2004 due to favorable mortality in the open block and due to the decline in the in force closed block business. Although we experienced unfavorable mortality in 2004 as compared to 2003, our experience remained within our pricing assumptions. In addition, we had increased reinsurance recoveries in 2004 and 2003, which reduce benefit expense, as a result of additional reinsurance arrangements.

Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they are costs of our operations. Expenses increased in 2005 compared to 2004 primarily due to increased state taxes, higher employee benefit costs and additional expenses of moving ILIC post issue policy service and data center activities from Woodbury, New York to Des Moines, Iowa. Expenses decreased in 2004 compared to 2003 primarily due to lower operating expenses resulting from the restructuring activities to integrate the ILICO life operations and also due to increased reimbursement from reinsurers of non-deferrable commission and expense allowances, as more policies were subject to reinsurance.

Amortization of DAC and VOBA. The amortization of DAC and VOBA are expense items which increased in 2005 and 2004 as compared to the respective prior years. DAC and VOBA are generally amortized in proportion to policy gross margins which increased in both years, resulting in higher amortization expense.

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

earnings from the closed block only include the predetermined closed block glide path.

Dividend expense increased for 2005 compared to 2004 due to increased closed block earnings, resulting from favorable closed block surrender activity and lower closed block basic policyowner dividends. Dividend expense decreased for 2004 compared to 2003 primarily due to reduced closed block earnings, resulting from lower closed block revenues and net investment income as the closed block in force business continues to decline.

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Outlook. We expect to continue to develop and sell indexed life products to meet the increasing consumer demand which we expect will favorably impact our product margins. We also expect to realize operating efficiencies as we continue to centralize our administrative functions.

Accumulation Products

Our accumulation products segment reflects the operating results primarily from our individual fixed annuities and funding agreements. The fixed annuities are marketed on a national basis primarily through IMOs and independent brokers. Similar to our protection products segment, we invest the premiums we receive from accumulation product deposits in our investment portfolio and establish a liability representing our commitment to the policyowner. We manage product spread by seeking to maximize the return on our invested assets consistent with our asset/liability management and credit quality policies. When appropriate, we periodically reset the interest rates credited to our policyowner liability. Accumulation products reserves totaled $13.5 billion at December 31, 2005, $12.3 billion at December 31, 2004 and $11.7 billion at December 31, 2003. A summary of our accumulation products segment operations follows:

	For the Years Ended December 31,		
	2005	2004	2003
	($ in thousands)		
Revenues:			
Immediate annuity and supplementary contract premiums	$ 3,028	$ 2,602	4,114
Product charges	54,361	52,969	43,139
Net investment income	748,887	697,363	672,141
Other income	10,343	10,730	11,635
Total revenues	816,619	763,664	731,029
Benefits and expenses:			
Policyowner benefits	515,290	472,208	491,932
Underwriting, acquisition and other expenses	28,639	27,225	29,423
Amortization of DAC and VOBA	94,221	104,602	89,196
Dividends to policyowners	5	4	
Total benefits and expenses	638,155	604,039	610,551
IMO Operations:			
Other income	29,077	28,495	23,657
Other expenses	23,711	24,237	13,245
Net IMO operating income	5,366	4,258	10,412
Pre-tax operating income Accumulation Products segment	$ 183,830	$ 163,883	$ 130,890

Pre-tax operating income from our accumulation products operations increased 12% in 2005 and 25% in 2004 compared to the respective prior years. The 2005 increase was primarily due to higher assets under management. A decline in product spreads partially offset the increase in earnings from asset growth. The 2004 increase was primarily

due to higher assets under management and improved product spreads. The 2004 increase was partially offset by lower contributions from IMO operations. The drivers of profitability in our accumulation products business are deposits, persistency, product spread, expenses and IMO operations.

Deposits. Deposits are a key driver of our business as this is a measure which represents collected premiums to be deposited to policyowner accounts for which we will earn a future product spread. Deposits are presented as collected premiums, which are measured in accordance with industry practice, and represent the amount of new business sold during the period. Deposits are a performance metric which we use to measure the productivity of our distribution network and for compensation of sales and marketing employees and agents. As shown in the Deposits by Product table presented in Item 1. Business Accumulation Products Segment, total annuity deposits

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increased 43% in 2005 and 5% in 2004 as compared to the respective prior years. The increases in 2005 and 2004 were driven by continued consumer demand for indexed products.

We placed fixed rate funding agreements totaling $26.2 million in 2005 and $85.0 million in 2004. Funding agreements are insurance contracts for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. Total funding agreements outstanding as of December 31, 2005 amounted to $986.2 million compared to $960.0 million outstanding at December 31, 2004.

The deposits we receive on accumulation products are not recorded as revenue but instead as a policyowner liability. Surrender charges collected on accumulation products are recorded as revenue and shown as a product charge. Product charges increased in 2005 and 2004 as compared to the respective prior years due to the growth in the business.

Persistency. Persistency, which we measure in terms of a withdrawal rate, is a key driver of our business as it refers to the policies which remain in our block of business. A low withdrawal rate reflects higher persistency indicating more business is remaining in force to generate future revenues. Withdrawals represent funds taken out of accumulation products by policyowners not including those due to the death of policyowners. Annuity withdrawal rates without internal replacements continued to improve in 2005 as compared to 2004 and 2003 and amounted to 8.3%, 8.5% and 9.5%, respectively. Annuity withdrawals without internal replacements totaled $1,200.4 million in 2005, $1,118.1 million in 2004 and $1,196.9 million in 2003. Our withdrawal experience remained within our pricing assumptions.

Product Spread. Product spread is a key driver of our business as it measures the difference between the income earned on our invested assets and the rate which we credit to policyowners, with the difference reflected as segment operating income. We actively manage product spreads in response to changes in our investment portfolio yields by adjusting liability crediting rates while considering our competitive strategies. Asset earned rates and liability crediting rates were as follows for our annuity products:

	For The Years Ended December 31,		
	2005	**2004**	**2003**
Asset earned rate	5.72%	5.78%	5.91%
Liability credited rate	3.61%	3.55%	3.93%
Product spread	2.11%	2.23%	1.98%

The product spread decreased twelve basis points to 211 basis points in 2005 compared to 2004 and increased 25 basis points to 223 basis points in 2004 compared to 2003. Liability crediting rates on traditional annuities were increased in 2005 following the decreases in 2003 and 2004 which were necessary to correspond with the decline in investment yields caused by lower rates on new and reinvested funds. As described in the Traditional Annuity Products and Indexed Annuities sections presented in Item 1. Business Accumulation Products Segment, the annuity products have various differentials between the credited rate and minimum guarantee rate, including some which have no differential, and as such cannot be lowered. Additionally, some traditional annuities have multi-year interest rate guarantees for which the credited rate cannot be decreased until the end of the multi-year period. Due to these limitations on the ability to lower interest crediting rates and the potential for credit defaults and lower reinvestment rates on investments, we could experience spread compression in future periods.

We also earn a spread on our funding agreements. Funding agreement income less associated interest expense totaled $6.2 million in 2005, $6.8 million in 2004, and $11.1 million in 2003. The 2004 decrease was due to the termination of a $250 million funding agreement during the fourth quarter of 2003.

Underwriting, Acquisition and Other Expenses. Underwriting, acquisition and other expenses are a key driver of our business as they represent costs of our operations. Expenses in 2005 increased compared to 2004 due primarily to increased costs associated with administering the larger volume of business in force and higher legal and regulatory costs. Expenses in 2004 decreased compared to 2003 due primarily to continued process improvements to enhance operating efficiencies and lower fees associated with a declining block of annuity business processed by a third party administrator.

Amortization of DAC and VOBA. The amortization of DAC and VOBA are expense items which decreased in 2005 and increased in 2004 as compared to the respective prior years. DAC and VOBA are generally amortized in proportion to policy gross margins which have increased each year. In addition, during the third quarter of 2004, projected persistency and future margin items for DAC and VOBA amortization were updated with current estimates which resulted in additional amortization expense on our traditional fixed annuity products in 2004. This 2004 increase was partially offset by decreased amortization resulting from updated current estimates of margins for indexed annuity products. As a result, DAC and VOBA amortization was lower in 2005 compared to 2004. Amortization expense increased in 2004 compared to 2003 as a result of higher product margins and the updated projected margins in 2004.

IMO Operations. IMO operations are a key driver of our business as the earnings from the IMOs can be a significant component of the accumulation products segment operating income. IMOs have contractual arrangements to promote our insurance products in their networks of agents and brokers. Additionally, they also contract with third party insurance companies. We own four such IMOs. The income from IMO operations primarily represents annuity commissions received by our IMOs from those third party insurance companies. Net IMO operations increased $1.1 million in 2005 compared to 2004 primarily due to lower operating expenses in 2005 as 2004 included higher litigation costs. Net IMO operating income decreased $6.2 million in 2004 compared to 2003 due to changes in distribution strategies and higher operating expenses, including litigation costs in 2004.

Outlook. We anticipate increased product sales from our owned and proprietary distribution organizations but decreased product sales from other distribution channels as we manage our sales in this current low interest rate environment. We also expect to continue to position the company to meet increasing consumer demand for indexed annuity products and to actively manage surrenders. We will continue to manage our spreads as we strive for our desired profitability in this economic environment.

Other

The other operations consist of our non-core lines of business outside of protection and accumulation products. These lines of business include holding company revenues and expenses, operations of our real estate management subsidiary, and accident and health insurance. The pre-tax operating loss of our other operations increased in 2005 compared to 2004 primarily due to lower net investment income as a result of lower yielding investments and higher investment expenses. The pre-tax operating loss of our other operations increased in 2004 compared to 2003 primarily due to increased holding company expenses, such as Sarbanes-Oxley internal control regulations, the OCEANs exchange and succession activities in 2004, and lower investment income from our real estate management subsidiary.

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Income Statement Reconciliation

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

	For the Years Ended December 31,		
	2005	2004	2003
	($ in thousands)		
Segment pre-tax operating income:			
Protection Products	$ 165,561	$ 140,212	$ 128,290
Accumulation Products	183,830	163,883	130,890
Other operations	(22,637)	(19,309)	(7,725)
Total segment pre-tax operating income	326,754	284,786	251,455
Non-segment items increases (decreases) to income:			
Realized and unrealized gains (losses) on assets and liabilities:			
Realized/unrealized gains (losses) on open block assets	(4,762)	(36,786)	32,196
Unrealized gains (losses) on open block options and trading investments	(8,897)	56,547	89,769
Change in option value of indexed products and market value adjustments on total return strategy annuities	10,475	(35,652)	(65,741)
Cash flow hedge amortization	143	(908)	(3,827)
Amortization of DAC and VOBA due to open block gains and losses	(2,783)	(9,068)	(16,257)
Reinsurance adjustments			3,854
Litigation following class certification, net	(9,380)		
Restructuring costs			(23,294)
Other income from non-insurance operations	52	1,495	1,237
Income from continuing operations	311,602	260,414	269,392
Interest expense	(32,173)	(32,120)	(30,154)
Early extinguishment of debt	(19,082)		
Income tax expense	(69,168)	(39,041)	(78,610)
Net income from continuing operations	191,179	189,253	160,628
Income from discontinued operations, net of tax		3,899	1,815
Cumulative effect of change in accounting, net of tax		(510)	(1,296)
Net income	191,179	192,642	161,147
Dividends on preferred stock	(2,417)		
Net income available to common stockholders	$ 188,762	$ 192,642	$ 161,147

Realized and Unrealized Gains (Losses) on Assets and Liabilities. Realized gains (losses) on open block investments will fluctuate from period to period depending on the prevailing interest rates, the economic environment and the timing of investment sales and credit events. As part of managing our invested assets, we routinely sell securities and realize gains and losses. During 2004, we sold our Indianapolis, Indiana office building. We had previously listed this

building with a real estate broker in 2003 as part of our restructuring plan and recorded a pre-tax impairment loss of $7.7 million at that time (see further discussion in Restructuring Costs). The sale of the building in 2004 resulted in an additional pre-tax loss of $11.8 million. Realized gains on open block investments in 2003 included $12.1 million of gains on sales of investments previously impaired and written-down in 2002 or 2003, primarily American Airlines, Dynegy Holdings, Intermedia Communications and NRG Northeast Generating.

Unrealized gains (losses) on open block options and trading investments will also fluctuate from period to period depending on prevailing interest rates, the economic environment and credit events. We also have trading securities that back our total return strategy traditional annuity products. The market value adjustment on the trading securities resulted in an unrealized loss of $16.0 million in 2005, an unrealized gain of $8.5 million in 2004 and an unrealized gain of $26.8 million in 2003. In addition, we use options to hedge our indexed products. In accounting for derivatives, we adjust our options to market value, which, due to the economic environment and stock market conditions, resulted in an unrealized gain of $7.1 million in 2005, an unrealized gain of $48.0 million in 2004 and an unrealized gain of $62.9 million in 2003.

Most of the unrealized gains and losses on the options and trading securities are offset by similar adjustments to the option portion of the indexed product reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in policyowner benefits expense in the consolidated statements of income as the change in option value of indexed products and market value adjustments on total return strategy annuities. The total adjustment to policyowner benefits amounted to reduced expense of $10.5 million in 2005 and additional expense of $35.7 million in 2004 and $65.7 million in 2003.

DAC and VOBA amortization is adjusted for realized and unrealized gains and losses and derivative related market value adjustments. As a result of the fluctuating gains and losses and derivative adjustments between periods, amortization expense decreased $6.3 million in 2005 and $7.2 million in 2004 as compared to the respective prior years.

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

Litigation Following Class Certification, Net. A charge was taken in 2005 amounting to $9.4 million, net of insurance recoveries, in connection with pending litigation and results primarily from the estimated cost of a proposed California settlement in Cheves v. American Investors Life Insurance Company, Family First Advanced Planning et al.

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

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

Interest Expense. Interest expense in 2005 was comparable to 2004. Interest expense increased in 2004 as compared to 2003 primarily due to interest associated with the PRIDES securities of $143.8 million issued in the second quarter of 2003.

Early Extinguishment of Debt. In September, 2005, holders of our $185.0 million aggregate original principal amount of OCEANs exercised their conversion rights which resulted in our issuance of 1.7 million shares of common stock and a cash payment of $203 million, including a $12.7 million prepayment premium. The prepayment premium and a write-off of $6.4 million of remaining unamortized debt issuance costs have been reported as early extinguishment of debt expense in the consolidated statement of income.

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Income Tax Expense. The effective income tax rate for 2005 and 2004 varied from the prevailing corporate rate primarily as a result of tax exempt income, reductions in the income tax accrual and reductions in the deferred tax valuation allowance.

The accrual reductions were for the release of provisions originally established for potential tax adjustments related to open Internal Revenue Service exam years ranging from 1997 through 2003 which were settled or eliminated during 2005 and 2004. The accrual was reduced $19.9 million in 2005 primarily related to the settlement of the tax treatment of a leveraged lease investment and the determination of taxable income of some partnership investments. The accrual was reduced $16.7 million in 2004 primarily related to the settlement of the deductibility of interest expense and the tax treatment of partial redemptions of adjustable conversion rate equity securities, the tax treatment of corporate owned life insurance, the deductibility of demutualization costs and acquisition costs, and the tax treatment of derivative costs and gains and losses. The accrual estimate was also revised downward in 2004 as negotiations progressed on the leveraged lease investment. Additionally, there was an approximate $3.7 million accrual reduction in 2004 for the overpayment of tax in prior years for which a refund is expected.

The deferred tax asset valuation allowance was reduced $4.7 million in 2005 and $16.4 million in 2004 as a result of the realization of capital loss carryforwards.

The effective income tax rate for 2005 also varied from the prevailing corporate rate due to additional income tax expense of $6.6 million incurred in the restructuring of our joint venture interest with Ameritas in which our interest in AVLIC was sold to Ameritas. The additional tax expense related to the reversal of taxable temporary differences during 2005 without the benefit of previously anticipated dividends received deductions.

The effective income tax rate excluding the accrual reductions, the valuation allowance reduction, and the additional tax on the joint venture sale was 33.5% and 33.2% for 2005 and 2004, respectively. The effective income tax rate for 2003 varied from the prevailing corporate rate primarily due to tax exempt income.

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

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

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

Liquidity and Capital Resources

AmerUs Group Co.

As a holding company, AmerUs Group Co. s cash flows from operations consist of dividends from subsidiaries, if declared and paid, interest from income on loans and advances to subsidiaries (including a surplus note

issued to us by ALIC), investment income on our assets and fees which we charge our subsidiaries, offset by the expenses incurred for debt service, salaries and other expenses.

The payment of dividends by our insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, our insurance subsidiaries dividends may be paid only from the earned surplus arising from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company s policyowners statutory surplus as of the preceding year end or (ii) the statutory net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators discretion to approve or disapprove requests for dividends in excess of these limits. Based on these limitations and 2004 results, our life insurance subsidiaries could have paid us an estimated $186 million in dividends in 2005 without obtaining regulatory approval. Our insurance subsidiaries paid us approximately $62 million in 2005. Based on 2005 results, our insurance subsidiaries can pay an estimated $143 million in dividends without obtaining regulatory approval during 2006. We also consider risk-based capital levels, capital and liquidity operating needs, and other factors prior to paying dividends from the insurance subsidiaries.

We generated cash flows from operating activities of $402.0 million, $930.4 million and $394.9 million for the years ended December 31, 2005, 2004, and 2003, respectively. Operating cash flows were primarily used to increase our investment portfolio.

We have a $200 million revolving credit facility (which we refer to as the Revolving Credit Agreement) with a syndicate of lenders. In June 2005, we used our Revolving Credit Agreement to retire a portion of the $125 million senior notes payable. The borrowings were repaid from proceeds of our $300 million debt offering in August 2005. As of December 31, 2005, there was no outstanding loan balance under the facility and we were in compliance with all covenants. The Revolving Credit Agreement provides for typical events of default and covenants with respect to the conduct of business and requires the maintenance of various financial levels and ratios. Among other covenants, we (a) cannot have a leverage ratio greater than 0.35:1.0, (b) cannot have an interest coverage ratio less than 2.50:1.0, (c) are prohibited from paying cash dividends on common stock in excess of an amount equal to 3% of consolidated net worth as of the last day of the preceding fiscal year, (d) must cause our insurance subsidiaries to maintain certain levels of risk-based capital, and (e) are prohibited from incurring additional indebtedness for borrowed money in excess of certain limits typical for such lines of credit. We closely monitor all of these covenants to ensure continued compliance.

On July 12, 2005, we filed a $1.5 billion shelf registration statement on Form S-3 with the Securities and Exchange Commission (the Shelf Registration), which was declared effective on July 15. The Shelf Registration will allow us to issue a variety of debt and/or equity securities when market opportunities and the need for financing arise. We utilized the shelf to issue senior notes and preferred stock in the third quarter of 2005. We have $1.05 billion of shelf capacity remaining.

On August 5, 2005, we issued $300.0 million of senior notes under the Shelf Registration. The senior notes bear interest at 5.95% per year payable semi-annually on February 15 and August 15 of each year, commencing on February 15, 2006. The senior notes mature on August 15, 2015 and may be redeemed at our option at any time, in whole or in part, subject to payment of a redemption premium. The net proceeds from the offering were primarily utilized to repay revolving credit borrowings, repurchase common stock and convert the $185.0 million aggregate principal OCEANs described below.

In September 2005, holders of our $185.0 million aggregate original principal amount of OCEANs exercised their conversion rights which resulted in our issuance of 1.7 million shares of common stock and a cash payment of

$203 million, including a $12.7 million prepayment premium. The prepayment premium and a write-off of $6.4 million of remaining unamortized debt issuance costs have been reported as early extinguishment of debt expense in the consolidated statement of income.

On September 26, 2005, we issued 6.0 million shares of Series A Non-Cumulative Perpetual Preferred Stock (Shares) with no par value under the Shelf Registration. Net proceeds amounted to $144.8 million after the related underwriting discount and other costs. Dividends on the preferred stock are non-cumulative and are payable

quarterly, when, as and if declared by the board of directors, in whole or in part out of legally available funds. Dividends on the preferred stock accrued from September 26, 2005 with the first dividend payable on December 15, 2005 at a fixed rate of 7.25% per annum of the liquidation preference of $25 per share. Subject to certain restrictions, the Company may redeem the preferred stock at any time in whole, prior to September 15, 2010, at a cash redemption price equal to the greater of $25 per share or the sum of the present values of $25 per share plus any declared and unpaid dividends to the redemption date, without accumulation of any undeclared dividends, and any undeclared dividends for the dividend periods from the redemption date to and including the dividend payment date on September 15, 2010. On or after the dividend payment date in September 2010, the shares may be redeemed at a price of $25 per share or $150.0 million in the aggregate plus declared and unpaid dividends to the redemption date without accumulation of any undeclared dividends.

In connection with our issuance of the Shares, we entered into a declaration of covenant (Declaration) in which we agreed to redeem or repurchase the Shares only if and to the extent that the total redemption or repurchase price is equal to or less than the proceeds we or our subsidiaries have received during the six months prior to the date of such redemption or repurchase from the sale of certain qualifying securities that, among other things, are (i) with limited exceptions, pari passu with or junior to the Shares upon our liquidation or dissolution, or our winding up, (ii) perpetual, or have a mandatory redemption or maturity date that is not less than sixty years after the date of initial issuance of such securities and (iii) provide for dividends or other distributions that are either non-cumulative or, if cumulative, are subject to certain optional or mandatory deferral provisions.

Our covenants in the Declaration run in favor of persons that buy, hold or sell our indebtedness during the period that such indebtedness is Covered Debt, which is currently comprised of covered subordinated debt and covered senior debt. Our 5.95% Senior Notes due 2015 and our 8.85% Junior Subordinated Debentures, Series A, owned of record by AmerUs Capital I are the initial covered senior debt and the initial covered junior debt, respectively, and together comprise the initial Covered Debt. Other debt will replace each of our covered senior debt and our covered subordinated debt that then comprises the Covered Debt under the Declaration on the earlier to occur of (i) the date two years and thirty days prior to the maturity of such existing covered senior debt or covered subordinated debt or (ii) the date we give notice of a redemption of such existing covered senior debt or covered subordinated debt such that the date such existing covered senior debt or covered subordinated debt is repurchased in such an amount that the outstanding principal amount of such existing covered senior debt or covered subordinated debt is or will become less than $100 million or $50 million, respectively. If the covered subordinated debt outstanding at any time is greater than $100 million, only the covered subordinated debt will be deemed to be Covered Debt.

The preferred stock has no stated maturity and is not convertible into any other security. The proceeds from the Series A Perpetual Preferred Stock were used to repay borrowings under the Revolving Credit Agreement and for general corporate purposes.

We have $143.8 million of PRIDES outstanding at December 31, 2005. The PRIDES initially consist of a $25 senior note and a contract requiring the holder to purchase our common stock. The note has a minimum term of 4.75 years, which we may extend in certain circumstances. In addition, we entered into a remarketing agreement which requires us to remarket the notes in 2006. Under the purchase contract, holders of each contract are required to purchase our common stock on the settlement date of August 16, 2006, based on a specified settlement rate, which will vary according to the applicable market value of the common stock at the settlement date. The value of the common stock to be issued upon settlement of each purchase contract will not exceed $25, the stated value of the PRIDES, unless the applicable market value of the common stock (which is measured by the common stock price over a 20-day trading day period) increases to more than $33.80 per share. If the market price of our common stock was assumed to be $60 per share at the settlement date, we would issue approximately 4.8 million shares.

The Company has several options for deploying excess capital, including supporting higher sales growth, reducing debt levels, pursuing acquisitions and purchasing common stock. Our Board of Directors approved a stock purchase program effective June 24, 2005, under which we may purchase up to six million shares of our common stock at such times and under such conditions, as we deem advisable. The purchases may be made in the open market or by such other means as we determine to be appropriate, including privately negotiated purchases. The purchase program supercedes all prior purchase programs. We plan to fund the purchase program from a

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combination of our internal sources and dividends from insurance subsidiaries. We purchased 2.5 million shares in the third quarter of 2005 under the current purchase plan and we purchased 0.5 million shares in the first six months of 2005 under prior purchase plans. The program included purchases of shares under two accelerated share repurchase programs. The accelerated share repurchase programs allowed the Company to purchase the shares immediately, with the counterparty purchasing the shares in the open market. Except with the approval of the counterparty, the terms of the accelerated share repurchase agreement do not allow us to purchase additional shares until February 2006. As of December 31, 2005, 3.5 million shares remain available for repurchase under the purchase program.

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

Insurance Subsidiaries

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

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

Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of protection product and accumulation product. We continuously monitor benefits and surrenders to provide projections of future cash requirements. As part of this monitoring process, we perform cash flow testing of assets and liabilities under various scenarios to evaluate the adequacy of reserves. In developing our investment strategy, we establish a level of cash and securities which, combined with expected net cash inflows from operations and maturities and principal payments on fixed maturity investment securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and general economic conditions and the claims-paying and financial strength ratings of the insurance subsidiaries.

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

In addition to the interest-sensitive products, our insurance subsidiaries have issued funding agreements totaling $986.2 million outstanding as of December 31, 2005, consisting of one to ten year maturity fixed rate insurance contracts. The assets backing the funding agreements are legally segregated and are not subject to claims that arise out of any other business of the insurance subsidiaries. The funding agreements are further backed by the general account assets of the insurance subsidiaries. The segregated assets and liabilities are included with general

account assets in the financial statements. The funding agreements may not be cancelled by the holders unless there is a default under the agreement, but the insurance subsidiaries may terminate the agreement at any time.

We also have variable separate account assets and liabilities representing funds that are separately administered, principally for variable annuity contracts, and for which the contractholder bears the investment risk. Separate account assets and liabilities are reported at fair value and amounted to $221.7 million at December 31, 2005. Separate account contractholders generally have no claim against the assets of the general account, except with respect to certain insurance benefits. The operations of the separate accounts are not included in the accompanying consolidated financial statements.

Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines, Topeka, and Indianapolis; ALIC, American and ILIC are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable based on current rates at the time of each advance. There were no borrowings outstanding under these arrangements at December 31, 2005. In addition, ALIC has long-term fixed rate advances from the FHLB outstanding of $12.0 million at December 31, 2005.

The insurance subsidiaries may also obtain liquidity through sales of investments. The investment portfolio as of December 31, 2005, had a carrying value of $20.0 billion, including closed block investments.

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

We participate in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time. We receive a fee in exchange for the loan of securities and require initial collateral equal to 102 percent, with an on-going level of 100 percent, of the market value of the loaned securities to be separately maintained. Securities with a market value of approximately $458.8 million and $342.6 million were on loan under the program and we were liable for cash collateral under our control of approximately $474.6 million and $351.7 million at December 31, 2005 and 2004, respectively. The collateral held under the securities lending program has been included in cash and cash equivalents in the consolidated balance sheet and the obligation to return the collateral upon the return of the loaned securities has been included in accrued expenses and other liabilities.

We may also enter into securities borrowing arrangements from time to time whereby we borrow securities from other institutions and pay a fee. Securities borrowed amounted to $138.2 million at both December 31, 2005, and 2004, and are included in accrued expenses and other liabilities in the consolidated balance sheet.

At December 31, 2005, the statutory capital and surplus of the insurance subsidiaries was approximately $1,157 million. Management believes that each insurance company has statutory capital which provides adequate risk based capital that exceeds required levels.

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

Off-Balance Sheet Arrangements

Guarantee Obligations

Certain partnership investments provide for commitments of future capital, loans or guarantees. We have obligations to make future capital contributions to various partnerships of up to $20.1 million at December 31, 2005. We also have commitments to extend credit for mortgages totaling $57.4 million at December 31, 2005. In addition, at December 31, 2005, we had loan guarantees which totaled $1.3 million.

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

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Summary of Contractual Obligations and Commitments

Our contractual obligations primarily consist of amounts owed for policy reserves and policyowner funds, notes payable, operating lease commitments, interest payable and securities lending and borrowing obligations. A summary of obligations are as follows for each of the five years ending December 31, 2005:

	Payments due by period						
Obligation	Total	2006	2007	2008	2009	2010	Thereafter
				($ in thousands)			
Notes payable	$ 556,051	$ 1,952	$ 1,063	$ 144,891	$ 987	$ 1,252	$ 405,906
Operating leases	13,792	5,188	4,912	2,907	785		
Interest payable (1)	315,547	35,333	35,247	27,735	26,289	26,615	164,328
Derivatives in payable position (2)	708	15			595	4	94
Securities lending and borrowing obligations (3)	612,803	612,803					
Future life and annuity policy benefits(4)	19,486,854	1,958,715	1,691,179	1,607,199	1,551,195	1,485,000	11,193,566
Policyowner funds(4)	1,483,873	207,125	315,979	239,004	158,858	117,616	445,291
Purchase obligations							
Total	$ 22,469,628	$ 2,821,131	$ 2,048,380	$ 2,021,736	$ 1,738,709	$ 1,630,487	$ 12,209,185

(1) Future interest payments on notes payable at December 31, 2005.

(2) The obligation is included in other investments on the consolidated balance sheet.

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

(4) Payments for future life and annuity policy benefits and policyowner funds represent management s estimate of surrenders, mortality and morbidity activity associated with the policies.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities. The valuation of financial instruments, accounting for derivatives and amortization of DAC, VOBA and deferred sales inducements are considered our critical accounting policies due to their subjective nature and significance to the financial statements.

Valuation of Financial Instruments

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

available.

Securities in our portfolio with a carrying value of approximately $1,940 million and $1,820 million at December 31, 2005 and 2004, respectively, do not have readily determinable market prices. Valuation techniques vary by security type and availability of market data. Fair values for securities which do not have a readily available market price are determined by: 1) a matrix process that uses a current market spread added to an applicable treasury rate to discount expected future cash flows applicable to the coupon rate, credit quality, industry sector and term of the investment; 2) independent third party sources or recent transactions in similar securities, or 3) internally prepared valuations incorporating standard valuation techniques. Certain market conditions that could impact the valuation of securities include credit ratings, business climate, economic environment, industry trends, and regulatory and legal risks/events, among others. All such investments are classified as available-for-sale. Our ability to liquidate our positions in these securities will be impacted to a significant degree by the lack of an actively traded market, and we may not be able to dispose of these investments in a timely manner. Although we believe our estimates reasonably reflect the fair value of those securities, our key assumptions about the risk-free interest rates,

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risk premiums, performance of underlying collateral (if any), and other factors may not be realized in the event of an actual sale.

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

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

Accounting for Derivatives

We hold derivative financial instruments to hedge growth in policyowner liabilities for certain protection and accumulation products and to hedge market risk for fixed income investments. These derivatives qualify for hedge accounting, are economic hedges but not designated as hedging instruments, or are derivatives used to replicate a security and are utilized as discussed in detail in notes 1 and 4 to our consolidated financial statements.

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

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

The use of derivative instruments exposes the Company to credit and market risk. If the counterparty fails to perform, the credit risk is equal to the extent of the fair value gain in the derivative. The Company minimizes the credit or payment risk in derivative instruments by entering into transactions with high quality counterparties that are regularly monitored. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement. Market risk is the adverse effect that a change in interest rates, implied volatility rates, or a change in certain equity indexes or instruments has on the value of a financial instrument. The Company manages the market risk by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Derivative instruments are monitored by the Company s Investment and Risk Management Committee of the Board of Directors as part of its oversight of derivative activities. The committee is responsible for implementing various hedging strategies that are developed through its analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Company s overall risk management strategies.

We do not believe we are exposed to more than a nominal amount of credit risk in our interest rate or equity hedges as the counterparties are established, well-capitalized financial institutions. Information about the fair values and notional amounts of these instruments can be found in note 4 to our consolidated financial statements and the section titled

Quantitative and Qualitative Disclosures About Market Risk.

Amortization of DAC, VOBA and Deferred Sales Inducements

DAC for non-participating traditional life insurance is amortized over the premium-paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues using assumptions consistent with those used in computing policy benefit reserves. We generally amortize DAC and deferred sales inducements for participating traditional life, universal life and annuity products based on a

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

Because the EGMs are only an estimate of the profits we expect to recognize from these policies, the EGMs are adjusted annually for any changes in the remaining expected future gross margins. When EGMs are adjusted, we also adjust the amortization of the DAC and deferred sales inducements to maintain a constant percentage of amortization over the entire life of the policies.

For the protection products segment, there were no significant changes in our estimated EGMs in 2003, 2004 or 2005. For the accumulation products segment, there were no significant changes in our estimated EGMs in 2003 or 2005; however, we updated our EGM assumptions in 2004 which resulted in increased DAC, VOBA and deferred sales inducements amortization expense of $8.2 million.

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

The total DAC, VOBA and deferred sales inducements asset balances at December 31, 2005 amounted to $2.4 billion. Based upon these balances, the impact of changes in significant EGM assumptions would result in the following one-time adjustments in DAC, VOBA, deferred sales inducements and unearned revenue reserves amortization expense:

Change in Significant Assumption		**Increased Amortization Expense for DAC, VOBA, and Deferred Sales Inducments, Net of Unearned Revenue Reserves ($ in thousands)**
Protection products segment:		
10% increase in assumed mortality	$	7,100
5% increase in assumed lapses	$	2,000
10% increase in assumed expenses	$	1,900
Accumulation products segment:		
5% increase in assumed lapses	$	8,100
10% increase in assumed expenses	$	2,200

Investment Portfolio

General

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

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Investment Strategy

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

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

Invested Assets

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

The following table summarizes invested assets by asset category as of December 31, 2005 and 2004:

	Invested Assets December 31,			
	2005		2004	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ in millions)			
Fixed maturity securities				
Public	$ 15,559.2	77.7%	$ 15,147.6	79.0%
Private	2,583.0	12.8%	2,217.2	11.5%
Subtotal	18,142.2	90.5%	17,364.8	90.5%
Equity securities	78.0	0.4%	92.5	0.5%
Mortgage loans	976.1	4.9%	865.7	4.5%
Policy loans	483.4	2.4%	486.1	2.5%
Other investments	347.6	1.8%	374.2	2.0%
Short-term investments	10.0		3.0	
Total invested assets	$ 20,037.3	100.0%	$ 19,186.3	100.0%

Fixed Maturity Securities

The fixed maturity securities portfolio consists primarily of investment grade corporate fixed maturity securities, high-quality mortgage-backed securities (MBS) and United States government and agency obligations. As of December 31, 2005, fixed maturity securities were $18,142.2 million, or 90.5% of the carrying value of invested assets with public and private fixed maturity securities constituting $15,559.2 million, or 77.7%, and $2,583.0 million, or 12.8%, respectively, of total fixed maturity securities, respectively.

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The following table summarizes the composition of the fixed maturity securities by category as of December 31, 2005 and 2004:

	Composition of Fixed Maturity Securities December 31,			
	2005		2004	
	Carrying Value	% of Total	Carrying Value	% of Total
	($ in millions)			
U.S. government/agencies	$ 487.2	2.7%	$ 548.4	3.2%
State and political subdivisions	78.4	0.4%	66.0	0.4%
Foreign government bonds	190.9	1.1%	118.6	0.7%
Corporate bonds	13,142.9	72.5%	12,359.0	71.2%
Redeemable preferred stocks	20.3	0.1%	40.2	0.2%
Indexed debt instruments	568.9	3.1%	564.7	3.3%
Asset-backed bonds	327.4	1.8%	528.1	3.0%
Collateralized mortgage-backed securities	1,204.9	6.6%	1,119.2	6.4%
Mortgage-backed securities:				
U.S. government/agencies	1,805.2	10.0%	1,772.1	10.2%
Non-agency	316.1	1.7%	248.5	1.4%
Subtotal-MBS	2,121.3	11.7%	2,020.6	11.6%
Total	$ 18,142.2	100.0%	$ 17,364.8	100.0%

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The following table summarizes fixed maturity securities by remaining maturity as of December 31, 2005:

Remaining Maturity of Fixed Maturity Securities

	Carrying Value	% of Total	Unrealized Loss	% of Total
	($ in millions)			
Available-for-Sale				
Due:				
In one year or less (2006)	$ 354.0	2.1%	$ 0.2	0.1%
One to five years (2007-2011)	3,528.4	21.1%	28.3	12.5%
Five to 10 years (2012-2016)	5,170.8	30.9%	77.8	34.3%
10 to 20 years (2017-2026)	2,176.2	13.0%	30.8	13.6%
Over 20 years (2027 and after)	3,453.0	20.7%	55.0	24.2%
Subtotal	14,682.4	87.8%	192.1	84.7%
Mortgage-backed securities	2,045.5	12.2%	34.7	15.3%
Total	$ 16,727.9	100.0%	$ 226.8	100.0%
Held-for-Trading				
Due:				
In one year or less (2006)	$ 34.5	2.4%		
One to five years (2007-2011)	611.5	43.2%		
Five to 10 years (2012-2016)	252.5	17.9%		
10 to 20 years (2017-2026)	216.2	15.3%		
Over 20 years (2027 and after)	224.0	15.9%		
Subtotal	1,338.7	94.7%		
Mortgage-backed securities	75.6	5.3%		
Total	$ 1,414.3	100.0%		

The portfolio of investment grade fixed maturity securities is diversified by number and type of issuers. As of December 31, 2005, investment grade fixed maturity securities included the securities of 919 issuers, with 2,654 different issues of securities. No non-government/agency issuer represents more than 0.5% of investment grade fixed maturity securities.

Below-investment grade fixed maturity securities as of December 31, 2005, included the securities of 337 issuers representing 6.9% of total invested assets, with the largest being a $24.8 million investment.

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As of December 31, 2005, 83.6% of total invested assets were investment grade fixed maturity securities. The following table sets forth the credit quality, by NAIC designation and Standard & Poor s rating equivalents, of fixed maturity securities as of December 31, 2005:

Fixed Maturity Securities Public and Private

NAIC esignation	Standard & Poor s Equivalent Designation	Public Carrying Value	Public % of Total	Private Carrying Value	Private % of Total	Total Carrying Value	Total % of Total
				($ in millions)			
1	A- or higher	$ 9,928.3	63.7%	$ 1,409.1	54.6%	$ 11,337.4	62.5
2	BBB- to BBB+	4,339.7	27.9%	1,073.8	41.6%	5,413.5	29.9
	Total investment grade	14,268.0	91.6%	2,482.9	96.2%	16,750.9	92.4
3	BB- to BB+	744.2	4.8%	73.4	2.8%	817.6	4.5
4	B- to B+	508.0	3.3%	26.5	1.0%	534.5	2.9
5 & 6	CCC+ or lower	39.0	0.3%	0.2	0.0%	39.2	0.2
	Total below investment grade	1,291.2	8.4%	100.1	3.8%	1,391.3	7.6
	Total	$ 15,559.2	100.0%	$ 2,583.0	100.0%	$ 18,142.2	100.0

The following table summarizes fixed maturity securities by Standard & Poor s or equivalent rating, including unrealized losses, at December 31, 2005:

Fixed Maturity Securities Unrealized Losses

NAIC Designation	Standard & Poor s Equivalent Designation	Carrying Value	% of Total	Unrealized Loss	% of Total
			($ in millions)		
1	A- or higher	$ 11,337.4	62.5%	$ 140.6	62.0%
2	BBB- to BBB+	5,413.5	29.9%	64.3	28.4%
	Total investment grade	16,750.9	92.4%	204.9	90.4%
3	BB- to BB+	817.6	4.5%	13.2	5.8%
4	B- to B+	534.5	2.9%	8.2	3.6%
5 & 6	CCC+ or lower	39.2	0.2%	0.5	0.2%
	Total below investment grade	1,391.3	7.6%	21.9	9.6%
	Total	$ 18,142.2	100.0%	$ 226.8	100.0%

MBS investments are mortgage-related securities including collateralized mortgage obligations (CMOs) and pass-through mortgage securities. Asset-backed securities are both residential and non-residential including exposure to home equity loans, home improvement loans, manufactured housing loans as well as securities backed by loans on automobiles, credit cards, and other collateral or collateralized bond obligations. As of December 31, 2005, asset-backed residential mortgages totaled $161.6 million or 0.8% of total invested assets. As of December 31, 2005, residential mortgage pass-through and CMOs totaled $2,121.3 million or 10.6% of total invested assets. As of December 31, 2005, $1,805.2 million or 85.1% of MBS were from government sponsored enterprises. Other MBS were $316.1 million or 14.9% of MBS as of December 31, 2005. Management believes that the quality of assets in the MBS portfolio is generally high, with 98.3% of such assets representing agency backed or AAA rated securities. Collateralized mortgage backed securities (or CMBS) totaled $1,204.9 million or 6.0% of total invested assets as of December 31, 2005.

Derivatives

Interest rate, equity and credit derivatives are primarily used to reduce exposure to changes in interest rates or credit to manage duration mismatches. Call options are primarily used to hedge indexed products. Credit default swaps and swaptions are coupled with a bond to synthetically create an investment cheaper than the equivalent instrument traded in the cash market. Although we are subject to the risk that counterparties will fail to perform, credit standings of counterparties are monitored regularly. We only enter into transactions with counterparties rated at least AA or for which a collateral agreement is in place. We are also subject to the risk associated with changes in the value of contracts. However, such adverse changes in value generally are offset by changes in the value of the items being hedged.

The notional principal amounts of derivatives, which represent the extent of our involvement in such contracts but not the risk of loss, at December 31, 2005, amounted to $5,807.0 million. The interest rate swaps had a carrying value of a net payable position of $0.7 million at December 31, 2005. The credit default swaps had a carrying value of a net receivable position of $0.1 million at December 31, 2005. The carrying value of options amounted to $185.7 million at December 31, 2005. The total carrying value of other derivatives amounted to $3.4 million at December 31, 2005. For each of these derivatives, the carrying value is equal to fair value as of December 31, 2005. The derivatives are reflected as other investments on the consolidated financial statements. The net amount payable or receivable from interest rate and credit default swaps is accrued as an adjustment to interest income.

Mortgage Loans

As of December 31, 2005, mortgage loans in the investment portfolio were $976.1 million, or 4.9% of the aggregate carrying value of invested assets. As of December 31, 2005, the mortgage loans were comprised of commercial mortgage loans which are primarily fixed-rate loans. As of December 31, 2005, we held 818 individual commercial mortgage loans with an average balance of $1.2 million.

As of December 31, 2005, there were no loans in the loan portfolio classified as delinquent or in foreclosure. As of the same date, there were three loans classified as restructured totaling $2.6 million. During 2005, we had no foreclosures.

Other

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

We held $483.4 million of policy loans on individual insurance products as of December 31, 2005. Policy loans are permitted to the extent of a policy s contractual limits and are fully collateralized by policy cash values. As of December 31, 2005, we held equity securities of $78.0 million of which the largest holding was Federal Home Loan Bank common stock totaling $64.8 million.

We held $357.6 million of other invested assets (including short-term investments) on December 31, 2005. Other invested assets consist of various joint ventures and limited partnership investments and derivatives.

Structured Securities Arrangements

We hold investments in indexed debt instruments (IDIs) in which the principal is initially partially defeased by an obligation of a third party financial institution (institution) collateralized by U.S. Treasuries which will accrete to 50% of the original principal amount of the IDIs at maturity. The balance of the principal amount due at maturity is subject to a dynamic defeasance mechanism, which should provide a return of the initial investment. The instruments issued

by the institutions are linked to the performance of a hedge fund or fund of funds. The annual income on these investments will be equal to the quarterly distribution of the hedge fund or fund of funds plus the change in the present value of anticipated distributions to be received at maturity and will be included in net investment income. Over the life of the IDIs, the income will be a function of the cumulative performance of the linked hedge fund or fund of funds and the return on any defeased portion of the investment. The quarterly distribution paid, if any, reduces the amount of future participation in the performance of the linked hedge fund or fund of funds. At maturity, the Company will take delivery of the referenced hedge fund interests and cash or

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U.S. Treasuries equal to the portion of the instruments that have been defeased, the total of which should equal or exceed the instruments principal amount. The investment purpose of these instruments is to enable the Company to obtain the return as if they had invested in hedge funds or fund of funds with dynamic principal protection. The instruments as of December 31, 2005 carried an A rating or better by Fitch. The carrying value of IDIs was $568.9 million and $564.7 million at December 31, 2005 and 2004, respectively.

Impairments

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

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

- Company description, industry characteristics and trends, company-to-industry profile, quality of management, etc.
- Ability and intent to hold the security.
- Severity and duration of the impairment, if any.
- Industry factors.
- Financial factors such as earnings trends, asset quality, liquidity, subsequent events, enterprise valuation, fair value and volatility (among others).

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

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

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

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The following table lists material investment OTTIs exceeding $3 million in 2004 and 2003. There were no material OTTIs in 2005. The write-downs occurred due to creditor and/or issue specific circumstances.

Material OTTIs

General Description	Impairment Loss ($ in millions)	Circumstances	Impact on Other Material Investments
2004			
Major US Airline	$ 3.0	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
2003			
Major US Airline	$ 11.6	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down
Merchant Energy Generator	3.6	High probability of restructuring and threat of bankruptcy	Negative industry trends with analysis done on an issue-by-issue basis concluding no impact on other material investments other than those written down

The following tables present unrealized losses for fixed maturity securities at December 31, 2005 and 2004 by investment category and industry sector:

Composition of Fixed Maturity Securities

	December 31, 2005			
	Carrying Value	% Total	Unrealized Losses	% Total
	($ in millions)			
U.S. government/agencies	$ 487.2	2.7%	$ 4.6	2.0%
State and political subdivisions	78.4	0.4%	0.5	0.2%
Foreign government bonds	190.9	1.1%	2.2	1.0%
Corporate bonds	13,142.9	72.5%	144.2	63.7%
Redeemable preferred stocks	20.3	0.1%		
Indexed debt instruments	568.9	3.1%	13.2	5.8%
Asset-backed bonds	327.4	1.8%	3.5	1.5%

Collateralized mortgage-backed securities	1,204.9	6.6%	23.9	10.5%
Mortgage-backed securities:				
U.S. government/agencies	1,805.2	10.0%	27.9	12.3%
Non-agency	316.1	1.7%	6.8	3.0%
Subtotal-MBS	2,121.3	11.7%	34.7	15.3%
Total	$ 18,142.2	100.0%	$ 226.8	100.0%

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	December 31, 2004			
	Carrying Value	% Total	Unrealized Losses	% Total
	($ in millions)			
U.S. government/agencies	$ 548.4	3.2%	$ 1.2	2.4%
State and political subdivisions	66.0	0.4%	0.7	1.4%
Foreign governments	118.6	0.7%	0.1	0.2%
Corporate bonds	12,359.0	71.2%	29.1	59.0%
Redeemable preferred stocks	40.2	0.2%		
Indexed debt instruments	564.7	3.3%	9.0	18.2%
Asset-backed bonds	528.1	3.0%	1.2	2.4%
Collateralized mortgage-backed securities	1,119.2	6.4%	4.3	8.5%
Mortgage-backed securities:				
U.S. government/agencies	1,772.1	10.2%	3.6	7.3%
Non-agency	248.5	1.4%	0.3	0.6%
Subtotal-MBS	2,020.6	11.6%	3.9	7.9%
Total	$ 17,364.8	100.0%	$ 49.5	100.0%

	December 31, 2005			
	Carrying Value	% Total	Unrealized Loss	% Total
	($ in millions)			
Basic industry	$ 905.3	5.0%	$ 14.8	6.5%
Capital goods	974.4	5.3%	9.4	4.2%
Communications	1,372.7	7.6%	23.0	10.2%
Consumer cyclical	1,106.3	6.1%	18.2	8.0%
Consumer non-cyclical	1,577.2	8.7%	15.9	7.0%
Energy	1,139.2	6.3%	5.9	2.6%
Technology	261.7	1.4%	3.9	1.7%
Transportation	599.0	3.3%	4.5	2.0%
Industrial other	221.5	1.2%	2.5	1.1%
Utilities	2,193.6	12.1%	24.7	10.9%
Financial institutions	3,045.5	16.8%	33.4	14.7%
Subtotal	13,396.4	73.8%	156.2	68.9%
Other	4,745.8	26.2%	70.6	31.1%
Total	$ 18,142.2	100.0%	$ 226.8	100.0%

	December 31, 2004			
	Carrying		Unrealized	
	Value	% Total	Loss	% Total
	($ in millions)			
Basic industry	$ 916.9	5.3%	$ 2.9	5.9%
Capital goods	902.3	5.2%	1.4	2.8%
Communications	1,304.2	7.5%	2.9	5.9%
Consumer cyclical	1,247.6	7.2%	2.1	4.3%
Consumer non-cyclical	1,691.2	9.7%	4.5	9.1%
Energy	1,059.9	6.1%	1.3	2.6%
Technology	229.0	1.3%	0.7	1.4%
Transportation	539.7	3.1%	2.3	4.7%
Industrial other	146.9	0.9%	0.4	0.8%
Utilities	1,795.0	10.3%	4.5	9.1%
Financial institutions	2,704.5	15.6%	14.4	29.0%
Subtotal	12,537.2	72.2%	37.4	75.6%
Other	4,827.6	27.8%	12.1	24.4%
Total	$ 17,364.8	100.0%	$ 49.5	100.0%

The following table provides a summary of unrealized losses for fixed maturity securities which identifies the length of time the securities have continually been in an unrealized loss position as of December 31, 2005 and 2004:

AFS Unrealized Loss

	December 31, 2005 ($ in millions)							
	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Total Temporarily Impaired Securities:								
Corporate bonds	$ 5,188.2	$ 107.2	$ 441.3	$ 21.7	$ 325.0	$ 15.3	$ 5,954.5	$ 144.2
U.S. government bonds	121.3	2.2	12.8	0.3	54.9	2.1	189.0	4.6
State and political subdivisions	32.0	0.5					32.0	0.5
Foreign government bonds	79.4	1.5	5.1	0.1	14.2	0.6	98.7	2.2
Asset-backed bonds	161.2	2.8	18.6	0.3	9.1	0.4	188.9	3.5
Collateralized mortgage-backed securities	935.4	18.5	60.2	2.1	62.8	3.3	1,058.4	23.9

Mortgage-backed securities	1,326.5	25.2	170.0	4.1	152.6	5.4	1,649.1	34.7
Indexed debt instruments	80.3	1.8			319.8	11.4	400.1	13.2
Total	$ 7,924.3	$ 159.7	$ 708.0	$ 28.6	$ 938.4	$ 38.5	$ 9,570.7	$ 226.8

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	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Less Than 20% Loss Position:								
Corporate bonds	$ 5,188.2	$ 107.2	$ 440.0	$ 21.3	$ 325.0	$ 15.3	$ 5,953.2	$ 143.8
U.S. government bonds	121.3	2.2	12.8	0.3	54.9	2.1	189.0	4.6
State and political subdivisions	32.0	0.5					32.0	0.5
Foreign government bonds	79.4	1.5	5.1	0.1	14.2	0.6	98.7	2.2
Asset-backed bonds	161.2	2.8	18.6	0.3	9.1	0.4	188.9	3.5
Collateralized mortgage-backed securities	935.4	18.5	60.2	2.1	62.8	3.3	1,058.4	23.9
Mortgage-backed securities	1,326.5	25.2	170.0	4.1	152.6	5.4	1,649.1	34.7
Indexed debt instruments	80.3	1.8			319.8	11.4	400.1	13.2
Total	$ 7,924.3	$ 159.7	$ 706.7	$ 28.2	$ 938.4	$ 38.5	$ 9,569.4	$ 226.4

	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
20%-50% Loss Position:								
Corporate bonds	$	$	$ 1.3	$ 0.4	$	$	$ 1.3	$ 0.4
Total	$	$	$ 1.3	$ 0.4	$	$	$ 1.3	$ 0.4

There are no securities that were in more than a 50% loss position at December 31, 2005.

AFS Unrealized Loss

	December 31, 2004 ($ in millions)							
	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss

Total Temporarily Impaired Securities:								
Corporate bonds	$ 1,094.3	$ 8.5	$ 396.1	$ 7.7	$ 379.8	$ 12.9	$ 1,870.2	$ 29.1
U.S. government bonds	37.0	0.2	47.4	1.0	0.4		84.8	1.2
State and political subdivisions			1.5		18.0	0.7	19.5	0.7
Foreign government bonds	12.4		1.9		0.2		14.5	
Asset-backed bonds	75.8	0.2	49.5	0.9	5.5	0.1	130.8	1.2
Collateralized mortgage-backed securities	257.6	2.4	76.6	1.6	8.5	0.3	342.7	4.3
Mortgage-backed securities	287.3	1.0	115.4	1.5	104.6	1.5	507.3	4.0
Indexed debt instruments			242.5	2.5	239.5	6.5	482.0	9.0
Equity securities	0.3	0.2					0.3	0.2
Short-term investments	12.9						12.9	
Total	$ 1,777.6	$ 12.5	$ 930.9	$ 15.2	$ 756.5	$ 22.0	$ 3,465.0	$ 49.7

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	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
Less Than 20% Loss Position:								
Corporate bonds	$ 1,094.3	$ 8.5	$ 396.1	$ 7.7	$ 375.7	$ 11.8	$ 1,866.1	$ 28.0
U.S. government bonds	37.0	0.2	47.4	1.0	0.4		84.8	1.2
State and political subdivisions			1.5		18.0	0.7	19.5	0.7
Foreign government bonds	12.4		1.9		0.2		14.5	
Asset-backed bonds	75.8	0.2	49.5	0.9	5.5	0.1	130.8	1.2
Collateralized mortgage-backed securities	257.6	2.4	76.6	1.6	8.5	0.3	342.7	4.3
Mortgage-backed securities	287.3	1.0	115.4	1.5	104.6	1.5	507.3	4.0
Indexed debt instruments			242.5	2.5	239.5	6.5	482.0	9.0
Short-term investments	12.9						12.9	
Total	$ 1,777.3	$ 12.3	$ 930.9	$ 15.2	$ 752.4	$ 20.9	$ 3,460.6	$ 48.4

	Less than 7 months		7-12 months		More than 12 months		Total	
	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss	Fair value	Gross unrealized loss
20%-50% Loss Position:								
Corporate bonds	$	$	$	$	$ 4.1	$ 1.1	$ 4.1	$ 1.1
Equity securities	0.3	0.2					0.3	0.2
Total	$ 0.3	$ 0.2	$	$	$ 4.1	$ 1.1	$ 4.4	$ 1.3

There are no securities that were in more than a 50% loss position at December 31, 2004.

The following table lists material securities with unrealized losses exceeding $3 million. There were no individual material securities with unrealized losses exceeding $3 million at December 31, 2004.

Material Unrealized Losses

Year Ended December 31, 2005	
Market	Unrealized

General Description	Value	Loss
	($ in millions)	
Major European Telephone Company	$ 30.3	$ 3.0

General Description	Year Ended December 31, 2003 Market Value	Unrealized Loss
	($ in millions)	
Government Sponsored Entity	$ 313.0	$ 3.5
Government Sponsored Entity	355.0	3.5

In addition to the above listing, at December 31, 2005 and 2004, securities with a market value of $400.1 million and $482.0 million and unrealized loss position of $13.2 million and $9.0 million, respectively, were principal protected. These securities included underlying holdings that provided for a return of principal through maturity of zero coupon bonds from a highly rated issuer or a principal guarantee from a highly rated

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company. These securities along with the securities in the above listing of unrealized losses did not meet the criteria as described in our other-than-temporary process for impairment determination. As a result, there was no realized loss for these securities.

Unrealized gains or losses may not represent future gains or losses that will be realized. These unrealized gains or losses are subject to fluctuation, reflective of such things as volatile financial markets, interest rate movements, credit spread changes and sale decisions.

The following table presents, for securities sold during 2004 and 2003, the amount of material losses exceeding $3 million recorded and the fair value at the sales date. There were no individual material losses exceeding $3 million for securities sold during 2005.

	Year Ended December 31, 2004			
General Description	Proceeds/ Market Value	Realized Loss on Sale	Time in Months Below Book	Time in Months < 80% of Book
	($ in millions)			
Equity Indexed Notes	$ 108.1	$ 35.6	Over 12 months	Over 12 months
Global Communications Service Provider	29.5	5.1	7 to 12 months	6 months or less

	Year Ended December 31, 2003			
General Description	Proceeds/ Market Value	Realized Loss on Sale	Time in Months Below Book	Time in Months < 80% of Book
			($ in millions)	
U.S. Treasury	$ 1,082.6	$ 9.9	6 months or less	6 months or less
Securitized manufactured housing loans	31.8	6.3	Over 12 months	7 to 12 months
Collateralized debt obligation	136.3	5.7	Over 12 months	6 months or less
Government sponsored entity	860.7	5.5	6 months or less	6 months or less
Foreign oil revenue financing entity	49.4	4.4	7 to 12 months	6 months or less
Major United States airline	49.4	4.2	Over 12 months	6 months or less
Collateralized debt obligation	31.7	4.1	6 months or less	6 months or less
Aircraft securitization	25.7	4.0	Over 12 months	7 to 12 months
Electric generator	20.3	4.0	7 to 12 months	6 months or less
Natural gas supplier	42.3	3.9	7 to 12 months	6 months or less
Healthcare service provider	20.3	3.8	7 to 12 months	6 months or less
Major United States airline	21.5	3.7	Over 12 months	6 months or less
Major United States airline	17.0	3.4	Over 12 months	7 to 12 months
Government sponsored entity	493.3	3.3	6 months or less	6 months or less

The decision to sell certain securities within the overall context of our portfolio management strategies can result in losses as previously shown. This may include required exposure reductions due to internal credit limits, capital reserve

objectives, asset allocation decisions and hedging activities. However, no decisions have been made as of December 31, 2005, which result in material losses.

Effects of Inflation and Interest Rate Changes

Management does not believe that inflation has had a material effect on the consolidated results of operations.

Interest rate changes may have temporary effects on the sale and profitability of the protection products and accumulation products offered. For example, if interest rates rise, competing investments (such as annuities or life insurance products offered by competitors, certificates of deposit, mutual funds, and similar instruments) may become more attractive to potential purchasers of our products until we increase the interest rate credited to owners of our protection products and accumulation products. In contrast, as interest rates fall, we attempt to adjust credited rates to compensate for the corresponding decline in reinvestment rates. We monitor interest rates and sell annuities

and life insurance policies that permit flexibility to make interest rate changes as part of the management of interest spreads. However, the profitability of our products is based upon persistency, mortality and expenses, as well as interest rate spreads.

We manage our investment portfolio in part to reduce exposure to interest rate fluctuations. In general, the market value of our fixed maturity portfolio increases or decreases in an inverse relationship with fluctuations in interest rates, and net investment income increases or decreases in a direct relationship with interest rate changes.

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

In force reserves and the assets allocated to each segment are modeled on a regular basis to analyze projected cash flows under a variety of economic scenarios. The result of this modeling is used to modify asset allocation, investment portfolio duration and renewal crediting strategies. We invest in derivatives to hedge against the effects of interest rate fluctuations or to hedge growth in policyowner liabilities for certain life and annuity products and funding agreements. For a further discussion and disclosure of the nature and extent of the use of derivatives, see note 4 to the consolidated financial statements.

Federal Income Tax Matters

Generally, AmerUs Group and our nonlife subsidiaries file a consolidated federal income tax return. The life insurance subsidiaries file separate federal income tax returns, except for ILIC and Bankers Life which together began filing a consolidated tax return in 2002. Beginning in 2006, ALIC, American and FBL intend to join AmerUs Group in the filing of a consolidated life-nonlife tax return. ILIC and Bankers will be eligible to join the consolidated life-nonlife tax return in 2007. Deferred income tax assets and liabilities are determined based on differences among the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws.

Emerging Accounting Matters

Other-Than-Temporary Impairment

In March 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) reached a final consensus on Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, (EITF 03-1). EITF 03-1 established impairment models for determining whether to record impairment losses associated with investments in certain equity and debt securities. It also required income to be accrued on a level-yield basis following an impairment of debt securities, where reasonable estimates of the timing and amount of future cash flows can be made. EITF 03-1 indicated that, although not presumptive, a pattern of selling investments prior to the forecasted recovery may call into question an investor s intent to hold the security until its value recovers. EITF 03-1 was to be effective for reporting periods beginning after June 15, 2004; however, in September 2004, the effective date of these provisions was delayed until the finalization of a FASB Staff Position (FSP) to provide further guidance on this topic.

In November 2005, the FASB issued proposed EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue 03-1, (EITF 03-1-a) but changed the title to FSP 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, (FSP FAS 115-1). The guidance in FSP 115-1 nullifies the accounting and measurement provisions of EITF 03-1, references existing OTTI guidance and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairments upon the Planned Sale

of a Security Whose Cost Exceeds Fair Value. FSP FAS 115-1 will be applied prospectively and is effective for reporting periods beginning after December 15, 2005. Our existing policies for recognizing an OTTI are consistent with the guidance in FASP FAS 115-1. As a result, we do not expect the adoption of FSP FAS 115-1 to have a material effect on our consolidated financial condition and results of operations.

Share-Based Payment

In December 2004, the FASB issued a revision to SFAS 123, Share-Based Payment, which is a revision of SFAS 123, Accounting for Stock-Based Compensation, (SFAS 123). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on fair values. Pro forma disclosure of fair value information is no longer an alternative. The statement is effective in the first interim or annual period beginning after June 15, 2005. In April 2005, the SEC announced the adoption of a new rule that delays our required effective date of SFAS 123R to January 1, 2006. In August 2005, the FASB issued FASB Staff Position (FSP) No. 123(R)-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)* (FSP 123R-1), which indefinitely defers the requirement of SFAS 123-R that a freestanding financial instrument originally subject to SFAS 123R becomes subject to other applicable GAAP when the rights conveyed by the instrument to the holder are no longer dependent on the holder being an employee of the entity. In October 2005, the FASB issued FSP No. 123(R)-2, *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)* (FSP 123R-2), which allows the grant date of an award to be the date the award is approved in accordance with an entity s corporate governance provisions, so long as the approved grant is communicated to employees within a relatively short time period from the date of approval, which is consistent with our current policy.

Adoption of SFAS 123R is to be made using either the modified prospective method or the modified retrospective method. The modified prospective method recognizes cost based on the requirements for all share-based payments granted after the effective date and for awards granted prior to the effective date that remain unvested prior to the effective date. The modified retrospective method includes the requirements of the modified prospective method but also permits restatement of financial statements based on pro forma amounts previously recognized under SFAS 123. Restatement can either be for all prior periods presented or prior interim periods of the year of adoption. Early adoption is permitted. We will adopt SFAS 123R effective January 1, 2006, using the modified prospective method. The pro forma impacts of recognizing fair value, as permitted by SFAS 123, are disclosed in note 1 to the consolidated financial statements. That disclosure reflects our estimate of 2005 additional expense for share-based payments of approximately $2.6 million (after-tax). The implementation of more sophisticated modeling techniques may affect this expense amount.

Deferred Acquisition Costs for Modifications or Exchanges of Insurance Contracts

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* . SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards (SFAS) No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* . SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. Retrospective application of SOP 05-1 to previously issued financial statements is not permitted. We do not believe the adoption of this pronouncement will have a material effect on our consolidated

financial condition and results of operations.

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Accounting Changes and Error Corrections

In June 2005, the FASB issued SFAS 154 (SFAS 154), *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements* . SFAS 154 requires retrospective application to prior periods financial statements for all voluntary changes in accounting principle, unless impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. SFAS 154 will have no immediate impact on our consolidated financial statements, though it will impact our presentation of future voluntary accounting changes or errors, if any occur.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main objectives in managing our investment portfolios are to optimize 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 our financial instruments primarily relate to the investment portfolio, which exposes us to risks related to interest rates, credit quality and prepayment variation. Analytical tools and monitoring systems are in place to assess each of these elements of market risk.

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. Actuarial professionals estimate the cash flow pattern of our liabilities to determine their duration. This is then compared to the characteristics of the assets that are currently backing the liabilities to arrive at an asset allocation strategy for future investments that management believes mitigates the overall effect of interest rates.

For variable and indexed products, profitability on the portion of the policyowner s account balance invested in the fixed general account option or strategy, if any, is also affected by the spreads between interest yields on investments and rates credited to those policies. For the variable products, the policyholder assumes essentially all the investment earnings risk for the portion of the account balance invested in the separate accounts. For the indexed products, we purchase primarily call options that are designed to match the return owed to contract holders who elect to participate in one or more market indices. Profitability on the portion of the indexed products tied to market indices is significantly impacted by the spread between interest earned on investments and the sum of (1) the cost of underlying call options purchased to match the returns owed to contract holders and (2) the minimum interest guarantees owed to the contract holder, if any. Profitability on the indexed products is also impacted by changes in the fair value of the embedded option which provides the contract holder the right to participate in market index returns after the next anniversary date of the contract. This impacts profitability as we primarily purchase one-year call options to fund the returns owed to the contract holders at the inception of each contract year. This practice matches with the contract holders rights to switch to different indices on each anniversary date. The value of the forward starting options embedded in the indexed products can fluctuate with changes in assumptions as to future volatility of the market indices, risk free interest rates, market returns and the lives of the contracts.

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The following table provides information about our fixed maturity investments and mortgage loans for both our trading and other than trading portfolios at December 31, 2005. The table presents amortized cost and related weighted average interest rates by expected maturity dates. The amortized cost approximates the cash flows of principal amounts in each of the periods. 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.

	2006	2007	2008	2009	2010	Thereafter	Expected Cash Flows	Fair Value
				($s in millions)				
Fixed maturity securities available-for-sale	$ 870	$ 1,041	$ 1,202	$ 895	$ 682	$ 11,932	$ 16,622	$ 16,728
Average interest rate	7.0%	6.2%	6.0%	6.2%	5.8%	5.7%		
Fixed maturity securities held-for-trading purposes	$ 94	$ 269	$ 253	$ 153	$ 187	$ 458	$ 1,414	$ 1,414
Average interest rate	3.3%	2.6%	2.8%	3.0%	2.5%	4.8%		
Mortgage loans	$ 60	$ 59	$ 73	$ 65	$ 75	$ 644	$ 976	$ 981
Average interest rate	6.9%	6.9%	6.9%	6.8%	6.8%	6.5%		
Total	$ 1,024	$ 1,369	$ 1,528	$ 1,113	$ 944	$ 13,034	$ 19,012	$ 19,123

In accordance with our strategy of minimizing credit quality risk, we consistently invest in high quality marketable securities. Fixed maturity securities are comprised of U.S. Treasury, government agency, mortgage-backed and corporate securities. Approximately 62% 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 8% of the bond portfolio is below investment grade. Fixed maturity securities have an average life of approximately 9.8 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 portfolio of mortgage-backed securities. Management monitors such risk regularly. We invest primarily in those classes of mortgage-backed securities that have average or lower prepayment risk.

Our use of derivatives is generally limited to hedging purposes and has principally consisted of using options, futures, interest rate swaps and caps and credit default swaps. These instruments, viewed separately, subject us 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. See notes 1 and 4 of the consolidated financial statements for additional information about our derivative positions.

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 generally been higher.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The consolidated financial statements begin on page F-1. Reference is made to the Index to Financial Statements on page F-1 herein.

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Additional financial statement schedules begin on page S-1. Reference is made to the Index to Financial Statement Schedules on page S-1 herein.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

(a) Based upon their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended, are effective for recording, processing, summarizing and reporting the information we are required to disclose in our reports filed under such act.

(b) There was no change in our internal control over financial reporting during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management s Report on Internal Control Over Financial Reporting

The management of AmerUs Group Co. is responsible for establishing and maintaining adequate internal control over financial reporting as described in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal control over financial reporting is a process designed under the supervision of our Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external purposes in conformity with accounting principles generally accepted in the United States.

As of December 31, 2005, management assessed the effectiveness of our internal control over financial reporting based on the criteria for effective internal control over financial reporting established in Internal Control Integrated Framework, issued by the Committee of Sponsoring Organizations (COSO) of the Treadway Commission. Based on the assessment, management determined that we maintained effective internal control over financial reporting as of December 31, 2005 based on those criteria.

Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this Annual Report on Form 10-K, has issued an attestation report on management s assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005. The report, which expresses unqualified opinions on management s assessment and on the effectiveness of our internal control over financial reporting as of December 31, 2005, is included in this Item under the heading Report of Independent Registered Public Accounting Firm.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
AmerUs Group Co.

We have audited management s assessment, included in the accompanying Management s Report on Internal Control over Financial Reporting, that AmerUs Group Co. maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). AmerUs Group Co. s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, management s assessment that AmerUs Group Co. maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, AmerUs Group Co. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, changes in stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005 of AmerUs Group Co. and our report dated February 17, 2006 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Des Moines, Iowa
February 17, 2006

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ITEM 9B. OTHER INFORMATION

None.

PART III

The Notice of 2006 Annual Meeting of Shareholders and Proxy Statement (the Proxy Statement), which, when filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, is incorporated by reference in this Annual Report on Form 10-K pursuant to General Instruction G(3) of Form 10-K, provides the information required under Part III.

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

(a) Information concerning directors of AmerUs Group Co. appears in the Proxy Statement, under Election of Directors. This portion of the Proxy Statement is incorporated herein by reference.

(b) For information with respect to Executive Officers, see Part I of this Annual Report on Form 10-K, under Executive Officers of the Company.

(c) Information concerning Section 16(a) beneficial ownership reporting compliance appears in the Proxy Statement, under Section 16(a) Beneficial Ownership Reporting Compliance. This portion of the Proxy Statement is incorporated herein by reference.

(d) Information concerning the identification of the audit committee and the audit committee financial expert appears in the Proxy Statement, under Board and Corporate Governance Matters. This portion of the Proxy Statement is incorporated herein by reference.

(e) Information describing any material changes to the procedures by which security holders may recommend nominees to the board of directors appears in the Proxy Statement, under Board and Corporate Governance Matters. This portion of the Proxy Statement is incorporated herein by reference.

(f) For information with respect to the Company s code of ethics that applies to the principal executive officer, principal financial officer, and principal accounting officer, see Part I of this Annual Report on Form 10-K, under Code of Ethics.

ITEM 11. EXECUTIVE COMPENSATION

Information with respect to executive compensation appears in the Proxy Statement, under Executive Compensation and Related Information. This portion of the Proxy Statement is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information with respect to security ownership of certain beneficial owners and management and related stockholder matters appears in the Proxy Statement, under Beneficial Ownership of Common Stock and Executive Compensation and Related Information. This portion of the Proxy Statement is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information with respect to certain relationships and related transactions appears in the Proxy Statement, under Certain Transactions and Relationships. This portion of the Proxy Statement is incorporated herein by reference.

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ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information with respect to principal accounting fees and services appears in the Proxy Statement, under Report of the Audit Committee of the Board of Directors. This portion of the Proxy Statement is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Financial Statements. Reference is made to the Index on page F-1 of the report.

2. Financial Statement Schedules. Reference is made to the Index on page S-1 of the report.

3. Exhibits. Reference is made to the Index to Exhibits on page 68 of the report.

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AMERUS GROUP CO. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit No.	Description
3.1	Amended and Restated Articles of Incorporation of the Registrant filed as Exhibit 3.1 on Form 10-Q, on November 8, 2005, is hereby incorporated by reference.
3.2	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 on Form 10-Q, dated August 6, 2004, is hereby incorporated by reference.
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	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.
4.5	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.
4.6	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.
4.7	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.
4.8	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.
4.9	Form of Purchase Contract Agreement between AmerUs Group Co. and Wachovia Bank, National Association (formerly known as First Union National Bank), as Purchase Contract Agent, filed as Exhibit 4.1 on Form 8-A12B, dated May 22, 2003, is hereby incorporated by reference.
4.10	Form of Pledge Agreement among AmerUs Group Co., BNY Midwest Trust Company, as Collateral Agent, Custodial Agent and Securities Intermediary and Wachovia Bank, National Association (formerly known as First Union National Bank), as Purchase Contract Agent, filed as Exhibit 4.2 on Form 8-A12B dated May 22, 2003, is hereby incorporated by reference.
4.11	

	Form of Remarketing Agreement among AmerUs Group Co., Wachovia Bank, National Association (formerly known as First Union National Bank), as Purchase Contract Agent, and the Remarketing Agent named therein, filed as Exhibit 4.3 on Form 8-A12B dated May 22, 2003, is hereby incorporated by reference.
4.12	Form of Income PRIDES (included in Exhibit 4.1 as Exhibit A thereto), filed as Exhibit 4.1 on Form 8-A12B, dated May 22, 2003, is hereby incorporated by reference.

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Exhibit No.	Description
4.13	Officer s Certificate attaching form of Senior Notes initially due 2008, filed as Exhibit 4.7 on Form 8-A12B, dated May 22, 2003, is hereby incorporated by reference.
4.14	Officers Certificate dated August 5, 2005 providing for issuance of 5.95% Senior Notes, filed as Exhibit 4.1 on Form 8-K dated August 8, 2005, is hereby incorporated by reference.
4.15	Senior Indenture between AmerUs Group Co. and The Bank of New York Trust Company, N.A., filed as Exhibit 4.2 on Form 8-K on August 8, 2005, is hereby incorporated by reference.
4.16	Form of Global Note for 5.95% Senior Notes filed as Exhibit 4.3 on Form 8-K on August 8, 2005, is hereby incorporated by reference.
4.17	Certificate of Series A Non-Cumulative Perpetual Preferred Stock, filed as Exhibit 4.1 on Form 8-K on September 27, 2005, 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 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.
10.4	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.
10.5	Form of Indemnification Agreement executed with directors and certain named executive 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.
10.6	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.
10.7	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.
10.8	Form of Reimbursement Agreement, dated February 15, 1999, among AmerUs Life Holdings, Inc. and certain named executive officers, filed as Exhibit 10.40 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
10.9	1999 Non-Employee Stock Option Plan, dated April 19, 1999, filed on Form S-3, Registration Number 333-72643, is hereby incorporated by reference.
10.10	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.
10.11	Investment Advisory Agreements by and between Indianapolis Life Insurance Company, Bankers Life Insurance Company of New York and AmerUs Capital Management Group, Inc. dated as of May 18, 2001 and February 18, 2000, respectively, filed as Exhibits 10.1,10.3 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.
10.12	

	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.
10.13	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.

Exhibit No.	Description
10.14	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.
10.15	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.
10.16	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.
10.17	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.
10.18	Credit Agreement dated December 8, 2003, among AmerUs Group Co., Various Lending Institutions, the Bank of New York, Bank One, NA, Fleet National Bank and Mellon Bank, N.A. as Co-Syndication Agents and J P Morgan Chase Bank as Administrative Agent, filed as Exhibit 10.29 on Form 10-K dated March 12, 2004 is hereby incorporated by reference.
10.19	Amendment No. 1 to Joint Venture Agreement, dated April 1, 2002, by and between Ameritas Life Insurance Corp. and AmerUs Life Insurance Company filed as Exhibit 10.37 on Form 10-Q dated August 12, 2002 is hereby incorporated by reference.
10.20	Distribution Commitment Agreement for Variable Business, dated April 1, 2002, by and between AmerUs Group Co. and Ameritas Variable Life Insurance Company filed as Exhibit 10.38 on Form 10-Q dated August 12, 2002 is hereby incorporated by reference.
10.21	Employment Agreement, dated as of September 19, 1997, among Mark V. Heitz, AmVestors Financial Corporation, American Investors Life Insurance Company, Inc., AmVestors Investment Group, Inc., and American Investors Sales Group, Inc. filed as Exhibit 99.3 to the registration statement of the Registrant on Form S-4, Registration Number 333-40065, is hereby incorporated by reference.
10.22	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 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.
10.23	All*AmerUs Supplemental Executive Retirement Plan filed as Exhibit 4.3 to the registration statement on Form S-8, Registration Number 333-101961, is hereby incorporated by reference.
10.24	Form of Supplemental Benefit Agreement, dated February 3, 2003, among AmerUs Group Co. and certain named executive officers, filed as Exhibit 10.1 on Form 10-Q dated May 15, 2003 is hereby incorporated by reference.
10.25	Tax Allocation and Indemnification Agreement dated as of July 1, 2000, filed as Exhibit 10.2 on Form 10-Q dated May 15, 2003 is hereby incorporated by reference.
10.26	Form of Stock Option Agreement for Employees Award Plan, dated February 11, 2005, filed as Exhibit 99.1 on Form 8-K dated February 17, 2005 is hereby incorporated by reference.
10.27	Amended and Restated All*AmerUs Excess Benefit Plan, filed as Exhibit 10.34 on Form 10-K on March 7, 2005, is hereby incorporated by reference.
10.28	Post-Retirement Consulting and Noncompetition Agreement between AmerUs Group Co. and Roger K. Brooks effective December 31, 2005, filed as Exhibit 10.35 on Form 10-K on March 7, 2005, is hereby incorporated by reference.

10.29	Confirmation between J.P. Morgan Securities Inc., as agent for JPMorgan Chase bank, National Association, London Branch and AmerUs Group Co. dated August 18, 2005 for purchase of 2,230,000 shares of common stock filed as Exhibit 99.1 on Form 8-K on August 24, 2005, is hereby incorporated by reference.
10.30	Declaration of Covenant, dated as of September 26, 2005, by AmerUs Group Co., filed as Exhibit 99.1 on Form 8-K on September 27, 2005, is hereby incorporated by reference.

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Exhibit No.	Description
10.31	Named executive officer and director compensation arrangements filed in Item 1.01 of the Company s Current Report on Form 8-K dated February 17, 2005.
10.32	Performance Based Compensation Procedures, filed as Exhibit 99.1 on Form 8-K dated May 4, 2005 is hereby incorporated by reference.
10.33	Forms of Long Term Incentive Plan Awards, filed as Exhibit 99.2 on Form 8-K dated May 4, 2005 is hereby incorporated by reference.
10.34	Amendment to AmerUs Group Co. MIP Deferral Plan, filed as Exhibit 99.4 on Form 8-K dated May 4, 2005, is hereby incorporated by reference.
10.35	AmerUs Group Co. MIP Deferral Plan, filed as Exhibit 4.3 on Form S-8 dated June 27, 2003, is hereby incorporated by reference.
10.36	Management Incentive Plan, filed as Exhibit 99.5 on Form 8-K dated May 4, 2005 is hereby incorporated by reference.
10.37	AmerUs Group Co. 2003 Stock Incentive Plan as amended, filed as Exhibit 99.6 on Form 8-K dated May 4, 2005 is hereby incorporated by reference.
10.38*	Form of AmerUs Group Co. Restricted Stock Agreement.
10.39*	Form of AmerUs Group Co. Restricted Stock Unit Agreement.
11.1*	Statement Re: Computation of Per Share Earnings is included in note 16 to the consolidated financial statements.
12*	Computation of Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends.
21.1*	List of Subsidiaries of the Registrant.
23.1*	Consent of Independent Registered Public Accounting Firm.
31.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).
31.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to Rule 13(a)-15(e) or Rule 15(d)-15(e).
32.1*	Certification of Chief Executive Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.
32.2*	Certification of Chief Financial Officer of Periodic Report Pursuant to 18 U.S.C. Section 1350.

* included herein

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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.

AMERUS GROUP CO.

/s/ Thomas C. Godlasky
Thomas C. Godlasky
Chairman, President and Chief Executive Officer

Date: March 14, 2006

POWER OF ATTORNEY

We, the undersigned officers and directors of AmerUs Group Co., hereby severally and individually constitute and appoint Melinda S. Urion, Brenda J. Cushing and James A. Smallenberger, and each of them, the true and lawful attorneys and agents of each of us to execute in the name, place and stead of each of us (individually and in any capacity stated below) any and all amendments to this Annual Report on Form 10-K and all instruments necessary or advisable in connection therewith and to file the same with the Securities and Exchange Commission, each of said attorneys and agents to have the power to act with or without the others and to have full power and authority to do and perform in the name and on behalf of each of the undersigned every act whatsoever necessary or advisable to be done on the premises as fully and to all intents and purposes as any of the undersigned might or could do in person, and we hereby ratify and confirm our signatures as they may be signed by said attorneys and agents or each of them to any and all such amendments and instruments.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Thomas C. Godlasky Thomas C. Godlasky	Chairman, President and Chief Executive Officer (principal executive officer) and Director	March 14, 2006
/s/ Melinda S. Urion Melinda S. Urion	Executive Vice President, Chief Financial Officer and Treasurer (principal financial officer)	March 14, 2006
/s/ Brenda J. Cushing Brenda J. Cushing	Senior Vice President and Controller (principal accounting officer)	March 14, 2006
/s/ David A. Arledge David A. Arledge	Director	March 14, 2006
/s/ Roger K. Brooks	Director	March 14, 2006

Roger K. Brooks		
/s/ Thomas F. Gaffney	Director	March 14, 2006
Thomas F. Gaffney		

/s/ Louis A. Holland	Director	March 14, 2006
Louis A. Holland		
/s/ Ward M. Klein	Director	March 14, 2006
Ward M. Klein		
/s/ John W. Norris, Jr.	Director	March 14, 2006
John W. Norris, Jr.		
/s/ Andrew J. Paine, Jr.	Director	March 14, 2006
Andrew J. Paine, Jr.		
/s/ Jack C. Pester	Director	March 14, 2006
Jack C. Pester		
/s/ Heidi L. Steiger	Director	March 14, 2006
Heidi L. Steiger		
/s/ Stephen Strome	Director	March 14, 2006
Stephen Strome		
/s/ John A. Wing	Director	March 14, 2006
John A. Wing		
/s/ F. A. Wittern, Jr.	Director	March 14, 2006
F. A. Wittern, Jr.		

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AMERUS GROUP CO.

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Separate financial statements of subsidiaries not consolidated and 50% or less owned persons accounted for by the equity method have been omitted because they do not individually constitute a significant subsidiary.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
AmerUs Group Co.

We have audited the accompanying consolidated balance sheets of AmerUs Group Co. as of December 31, 2005 and 2004, and the related consolidated statements of income, comprehensive income, stockholders equity, and cash flows for each of the three years in the period ended December 31, 2005. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AmerUs Group Co. as of December 31, 2005 and 2004, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AmerUs Group Co. s internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2006 expressed an unqualified opinion thereon.

As described in note 1 to the consolidated financial statements, in 2004 the Company changed its method of accounting for certain non-traditional long-duration insurance contracts and in 2003 the Company changed its method of accounting for embedded derivatives associated with certain reinsurance agreements.

/s/ Ernst & Young LLP

Des Moines, Iowa
February 17, 2006

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AMERUS GROUP CO.

CONSOLIDATED BALANCE SHEETS
($ in thousands)

	December 31, 2005	December 31, 2004
Assets		
Investments:		
Securities available-for-sale at fair value:		
Fixed maturity securities	$ 16,727,933	$ 15,646,653
Equity securities	75,658	77,024
Short-term investments	9,998	2,979
Securities held-for-trading purposes at fair value:		
Fixed maturity securities	1,414,225	1,718,125
Equity securities	2,358	15,468
Mortgage loans	976,135	865,733
Policy loans	483,441	486,071
Other investments	347,552	374,240
Total investments	20,037,300	19,186,293
Cash and cash equivalents	600,160	478,441
Accrued investment income	237,221	222,294
Premiums, fees and other receivables	40,667	39,688
Income taxes receivable	9,005	
Reinsurance receivables	730,532	666,493
Deferred policy acquisition costs	1,755,159	1,248,009
Deferred sales inducements	261,322	137,538
Value of business acquired	356,949	374,792
Goodwill	228,869	226,291
Property and equipment	44,467	46,114
Other assets	306,655	296,409
Separate account assets	221,694	248,507
Total assets	$ 24,830,000	$ 23,170,869

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

CONSOLIDATED BALANCE SHEETS (Continued)
($ in thousands)

	December 31,	
	2005	**2004**
Liabilities and Stockholders Equity		
Liabilities:		
Policy reserves and policyowner funds:		
Future life and annuity policy benefits	$ 19,486,854	$ 17,923,329
Policyowner funds	1,483,873	1,419,762
	20,970,727	19,343,091
Accrued expenses and other liabilities	975,419	837,514
Dividends payable to policyowners	278,839	322,037
Policy and contract claims	66,137	70,465
Income taxes payable		9,299
Deferred income taxes	58,818	145,332
Notes payable	556,051	571,155
Separate account liabilities	221,694	248,507
Total liabilities	23,127,685	21,547,400
Stockholders equity:		
Preferred Stock, no par value, 20,000,000 shares authorized, 6,000,000 shares issued and outstanding in 2005	144,830	
Common Stock, no par value, 230,000,000 shares authorized; 46,675,811 shares issued and 38,612,874 shares outstanding in 2005; 44,225,902 shares issued and 39,400,663 shares outstanding in 2004	46,676	44,226
Additional paid-in capital common stock	1,231,533	1,198,379
Accumulated other comprehensive income (loss)	(3,612)	114,670
Unearned compensation	(3,783)	(1,238)
Retained earnings	604,747	431,911
Treasury stock, at cost (8,062,937 shares in 2005 and 4,825,239 shares in 2004)	(318,076)	(164,479)
Total stockholders equity	1,702,315	1,623,469
Total liabilities and stockholders equity	$ 24,830,000	$ 23,170,869

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

CONSOLIDATED STATEMENTS OF INCOME
($ in thousands, except share data)

	For The Years Ended December 31, 2005	2004	2003
Revenues:			
Insurance premiums	$ 236,969	$ 267,666	$ 297,188
Product charges	238,358	220,554	181,354
Net investment income	1,109,503	1,037,447	1,001,914
Realized/unrealized capital gains (losses)	(14,908)	18,068	131,291
Other income	45,198	46,394	41,741
	1,615,120	1,590,129	1,653,488
Benefits and expenses:			
Policyowner benefits	858,528	888,696	953,834
Underwriting, acquisition and other expenses	157,562	155,064	128,911
Litigation following class certification, net	9,380		
Restructuring costs			23,294
Amortization of deferred policy acquisition costs and value of business acquired	191,581	204,863	179,664
Dividends to policyowners	86,467	81,092	98,393
	1,303,518	1,329,715	1,384,096
Income from continuing operations	311,602	260,414	269,392
Interest expense	32,173	32,120	30,154
Early extinguishment of debt	19,082		
Income before income tax expense	260,347	228,294	239,238
Income tax expense	69,168	39,041	78,610
Net income from continuing operations	191,179	189,253	160,628
Income from discontinued operations, net of tax		3,899	1,815
Net income before cumulative effect of change in accounting	191,179	193,152	162,443
Cumulative effect of change in accounting, net of tax		(510)	(1,296)
Net income	191,179	192,642	161,147
Dividends on preferred stock	2,417		
Net income available to common stockholders	$ 188,762	$ 192,642	$ 161,147
Net income from continuing operations available to common stockholders per common share:			

Basic	$	4.84	$	4.81	$	4.10
Diluted	$	4.43	$	4.60	$	4.05
Net income available to common stockholders per common share:						
Basic	$	4.84	$	4.90	$	4.11
Diluted	$	4.43	$	4.68	$	4.07
Weighted average common shares outstanding:						
Basic		39,020,987		39,334,798		39,175,924
Diluted		42,602,375		41,135,188		39,618,217

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
($ in thousands)

	For The Years Ended December 31,		
	2005	2004	2003
Net income	$ 191,179	$ 192,642	$ 161,147
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains (losses) arising during period	(186,326)	88,450	35,051
Reclassification adjustment for (gains) losses included in net income	4,353	(35,559)	(28,210)
Minimum pension liability adjustment		(6,505)	(4,993)
Other comprehensive income (loss), before tax	(181,973)	46,386	1,848
Income tax (expense) benefit related to items of other comprehensive income	63,691	(16,235)	(647)
	(118,282)	30,151	1,201
Amounts attributable to change in accounting for derivatives			(5,204)
Other comprehensive income (loss), net of taxes	(118,282)	30,151	(4,003)
Comprehensive income	$ 72,897	$ 222,793	$ 157,144

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY
For the Years Ended December 31, 2005, 2004 and 2003
($ in thousands)

	Preferred Stock	Common Stock	Additional Paid-In Capital Common Stock	Accumulated Other Comprehensive Income (Loss)	Unearned Compensation	Unallocated ESOP Shares	Retained Earnings	Treasury Stock	Total Stockhol Equit
nce at mber 31,	$	$ 43,656	$ 1,179,646	$ 88,522	$ (458)	$ (1,443)	$ 109,517	$ (156,492)	$ 1,262,
:									
ncome							161,147		161,
nrealized on ities				1,971					1,
nrealized on atives nated as flow hedges				2,476					2,
ge in unting fer of lized gain able-for-sale ities to ng				(5,204)					(5,
k issued r various tive plans, f forfeitures		180	11,717		(903)			66	11,
DES hase act tments and ated fees xpenses			(7,280)						(7,
hase of ry stock									
dends on non stock							(15,658)		(15,
			154			1,443			1,

ation of s in aged ESOP									
mum on liability tment				(3,246)					(3,
nce at mber 31,	$	$ 43,836	$ 1,184,237	$ 84,519	$ (1,361)	$	$ 255,006	$ (156,426)	$ 1,409,
:									
ncome							192,642		192,
nrealized on ities				33,959					33,
nrealized on atives nated as flow hedges				420					
issued r various tive plans, f forfeitures		390	14,142		123			1,100	15,
hase of ury stock								(9,153)	(9,
lends on non stock							(15,737)		(15,
mum on liability tment				(4,228)					(4,
nce at mber 31,		44,226	1,198,379	114,670	(1,238)		431,911	(164,479)	1,623,
:									
ncome							191,179		191,
nrealized on securities				(118,034)					(118,
nrealized on atives nated as flow hedges				(248)					(
nce of rred stock	144,830								144,
ersion of ANs		1,675	9,069						10,
issued r various tive plans,		775	24,085		(2,545)			958	23,

f forfeitures									
nase of ury stock								(154,555)	(154,
dends on rred stock							(2,417)		(2,
dends on mon stock							(15,926)		(15,
nce at mber 31,	$ 144,830	$ 46,676	$ 1,231,533	$ (3,612)	$ (3,783)	$	$ 604,747	$ (318,076)	$ 1,702,

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

CONSOLIDATED STATEMENTS OF CASH FLOWS
($ in thousands)

	For The Years Ended December 31, 2005	2004	2003
Cash flows from operating activities			
Net income	$ 191,179	$ 192,642	$ 161,147
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of change in accounting		510	1,296
Gain on sale of discontinued operations		(3,899)	
Early extinguishment of debt	19,082		
Product charges	(238,358)	(220,554)	(181,354)
Interest credited to policyowner account balances	517,087	487,579	472,881
Change in option value of indexed products and market value adjustments on total return strategy annuities	(10,475)	35,652	65,741
Realized/unrealized capital (gains) losses	14,908	(18,068)	(131,291)
DAC and VOBA amortization	191,581	204,863	179,664
DAC and VOBA capitalized	(496,524)	(390,236)	(357,348)
Change in:			
Accrued investment income	(14,927)	(16,802)	(19,832)
Reinsurance receivables	(157,942)	(77,765)	279,552
Securities held-for-trading purposes:			
Fixed maturities	278,778	394,090	(219,310)
Equity securities	13,088	(13,899)	(1,606)
Short-term investments		579	(596)
Liabilities for future policy benefits	(119,959)	(189,635)	(243,613)
Accrued expenses and other liabilities	139,667	371,880	181,595
Policy and contract claims and other policyowner funds	57,529	129,060	111,374
Income taxes:			
Current	(18,303)	(43,546)	(11,051)
Deferred	(11,020)	48,492	66,849
Other, net	46,628	39,444	40,785
Net cash provided by operating activities	402,019	930,387	394,883
Cash flows from investing activities:			
Purchase of fixed maturities available-for-sale	(4,969,786)	(5,624,235)	(10,430,571)
Proceeds from sale of fixed maturities available-for-sale	1,909,699	2,525,792	7,467,468
Maturities, calls and principal reductions of fixed maturities available-for-sale	1,512,296	1,389,431	2,354,539
Purchase of equity securities	(11,141)	(47,509)	(12,721)
Proceeds from sale of equity securities	11,634	47,093	14,926
Change in short-term investments, net	(6,298)	26,233	(108)
Purchase of mortgage loans	(220,808)	(133,673)	(202,721)

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AMERUS GROUP CO.

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

	For The Years Ended December 31,		
	2005	2004	2003
Proceeds from repayment and sale of mortgage loans	108,293	244,702	123,033
Purchase of other invested assets	(152,890)	(84,769)	(323,676)
Proceeds from sale of other invested assets	196,694	131,162	328,002
Change in policy loans, net	2,630	8,576	2,107
Proceeds from sale of discontinued operations		15,000	
Other assets, net	(12,476)	7,740	(9,800)
Net cash used in investing activities	(1,632,153)	(1,494,457)	(689,522)
Cash flows from financing activities:			
Deposits to policyowner account balances	3,283,839	2,404,255	2,220,545
Withdrawals from policyowner account balances	(1,895,122)	(1,576,963)	(1,825,472)
Change in debt, net	129	(49,796)	(61,596)
Dividends to preferred shareholders	(2,417)		
Dividends to common shareholders	(15,926)	(15,737)	(15,658)
Stock issued under various incentive plans, net of forfeitures	23,273	15,755	11,060
Purchase of treasury stock	(154,555)	(9,153)	
Proceeds from issuance of senior notes	297,522		
Proceeds from issuance of preferred stock	144,830		
Proceeds from issuance of PRIDES			135,701
Retirement of OCEANs	(204,720)		
Adoption and allocation of shares in leveraged ESOP			1,597
Retirement of senior notes	(125,000)		
Net cash provided by financing activities	1,351,853	768,361	466,177
Net increase in cash	121,719	204,291	171,538
Cash and cash equivalents at beginning of period	478,441	274,150	102,612
Cash and cash equivalents at end of period	$ 600,160	$ 478,441	$ 274,150
Supplemental disclosure of cash activities:			
Interest paid	$ 27,888	$ 30,965	$ 32,516
Income taxes paid	$ 87,068	$ 31,510	$ 25,422
Supplemental disclosure of non-cash operating activities:			
Capitalization of deferred sales inducements	$ 120,416	$ 60,495	$ 43,454

See accompanying notes to consolidated financial statements.

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

AmerUs Group Co. (Company) is a holding company whose subsidiaries are primarily engaged in the business of marketing, underwriting and distributing a broad range of individual life, annuity and insurance deposit products to individuals and businesses in 50 states, the District of Columbia and the U.S. Virgin Islands. The Company has two reportable operating segments: protection products and accumulation products. The primary offerings of the protection products segment are interest-sensitive whole life, term life, universal life and indexed life insurance policies. Indexed life is a type of universal life or interest-sensitive whole life product. The primary offerings of the accumulation products segment are individual fixed annuities, including traditional fixed annuities and indexed annuities, and insurance contracts issued through funding agreements.

Consolidation and Basis of Presentation

The accompanying consolidated financial statements of the Company and its wholly-owned subsidiaries have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) which, as to the insurance company subsidiaries, differ from statutory accounting practices prescribed or permitted by regulatory authorities.

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. and its subsidiaries (collectively, AAG, formerly AmVestors Financial Corporation (AmVestors)), AmerUs Capital Management Group, Inc. (ACM), and ILICO Holdings, Inc., the holding company of Indianapolis Life Insurance Company (ILIC) and its subsidiaries (collectively, ILICO). All significant intercompany transactions and balances have been eliminated in consolidation.

Certain amounts in the 2004 and 2003 financial statements have been reclassified to conform to the 2005 financial statement presentation.

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The valuation of financial instruments, derivatives, and amortization of deferred policy acquisition costs and value of business acquired are areas which involve a high degree of estimation to determine their reported amounts. These areas are described in more detail in the following policies.

Cash and Cash Equivalents

For purposes of reporting cash flows, the Company includes cash and amounts due from other financial institutions and interest-bearing deposits in other financial institutions purchased with original maturities of three months or less in cash and cash equivalents. Amounts of interest-bearing deposits included as cash equivalents at December 31, 2005 and 2004 were $151.0 million and $144.1 million, respectively.

Closed Block

The Company has established two Closed Blocks of policies: (a) the first on June 30, 1996 in connection with the reorganization of ALIC from a mutual company to a stock company, and (b) the second on March 31, 2000 in connection with the reorganization of ILIC from a mutual company to a stock company (collectively, the Closed Block). Insurance policies which had a dividend scale in effect as of each Closed Block establishment date were included in the Closed Block. The Closed Block was designed to give reasonable assurance to owners of insurance policies included therein that, after the reorganizations of ALIC and ILIC, assets would be available to maintain the dividend scales and interest credits in effect prior to the reorganization, if the experience underlying such scales and

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

crediting continued. The assets, including revenue therefrom, allocated to the Closed Block will accrue solely to the benefit of the owners of policies included in the Closed Block until the Closed Block no longer exists. The Company will continue to pay guaranteed benefits under all policies, including policies included in the Closed Block, in accordance with their terms. In the event that the Closed Block s assets were insufficient to meet the benefits of the Closed Block s guaranteed benefits, general assets would be utilized to meet the contractual benefits of the Closed Block s policyholders.

A policyowner dividend obligation is required to be established for earnings in the Closed Block that are not available to shareholders. A model of the Closed Block was established to produce the pattern of expected earnings in the Closed Block. If actual cumulative earnings of the Closed Block are greater than the expected cumulative earnings of the Closed Block, only the expected cumulative earnings will be recognized in income with the excess recorded as a policyowner dividend obligation. This policyowner dividend obligation represents undistributed accumulated earnings that will be paid to Closed Block policyowners as additional policyowner dividends unless offset by future performance of the Closed Block that is less favorable than originally expected. If actual cumulative performance is less favorable than expected, only actual earnings will be recognized in income.

Investments

Investments in fixed maturity securities, equity securities and short-term investments that are to be held for indefinite periods of time are reported as securities available-for-sale and are reported in the accompanying consolidated financial statements at fair value. Any valuation changes resulting from changes in the fair value of these securities are reflected as a component of stockholders equity. These unrealized gains or losses in stockholders equity are reported net of taxes and adjustments to deferred policy acquisition costs (DAC), value of business acquired (VOBA), deferred sales inducements and policy reserves. Fixed maturity securities, equity securities and short-term investments that are bought and held principally to back our total return strategy fixed annuity products are reported as held-for-trading securities and are carried at fair value with unrealized gains or losses reported in net income. Premiums and discounts on fixed maturity securities are amortized or accreted over the life of the related security as an adjustment to yield using the effective interest method. The accreted carrying value of investments in structured securities that can be contractually prepaid or settled in a way that substantially all of an investment may not be recovered is determined by updating the estimate for the amount and timing of cash flows with resulting adjustments in the accretable yield accounted for prospectively. Should this estimate of cash flows reflect an adverse change from an immediately preceding estimate, an other-than-temporary impairment (OTTI) is deemed to have occurred and, accordingly, the structured security is written down to fair value with the change reflected in net income. For loan-backed and structured securities included in fixed maturity securities, income is recognized using a constant effective yield based on currently anticipated cash flows.

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

Market values of fixed maturity securities are reported based on quoted market prices, where available. Market values of fixed maturity securities not actively traded in a liquid market are estimated by comparison to similar securities

with quoted prices when possible. Otherwise, the most recent purchases and sales of similar unquoted securities, independent broker quotes or internally prepared valuations are used to estimate fair value. Internally prepared valuations use a matrix calculation assuming a spread (based on interest rates and a risk assessment of the bonds) over U.S. Treasury bonds. Market values of redeemable preferred stocks and equity securities are based on the latest quoted market prices, or for those not readily marketable, generally at values which are representative of the market values of comparable issues.

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Loans are stated at cost less amortized discounts and allowances for possible losses. Policy loans are stated at their aggregate unpaid balances. Investments in loans are considered impaired when the Company determines that collection of all amounts due under the contractual terms is doubtful or carrying values exceed the fair value of applicable underlying collateral or assets. The Company adjusts such assets to their estimated net realizable value at the point at which it determines an impairment is other than temporary. Interest income on impaired mortgage loans is recognized when cash is received. In addition, the Company establishes a specific valuation allowance for loans when they are considered to be impaired.

Other long-term investments include investments in partnerships, derivatives and other investments. Investments in partnerships in which the Company s ownership percentage exceeds 3% and joint ventures are generally accounted for under the equity method whereby the Company initially records the investment at cost. Subsequently, the Company increases or decreases the carrying amount of the investment for its share of income or loss of the investee. Investments in partnerships in which the Company s ownership percentage is less than 3% are generally accounted for under the cost method whereby dividends received by the investee are recognized as income. The Company is primarily a limited partner in such investments. These investments are shown as other investments and totaled approximately $29.7 million and $36.8 million at December 31, 2005 and 2004, respectively. Derivatives are primarily carried at fair value. All other investments are generally carried at amortized cost.

Realized gains and losses are included in earnings and are determined using the specific identification method.

Derivative Instruments and Hedging Activities

The Company hedges certain portions of its exposure to interest rate risk, credit risk, and equity risk fluctuations by entering into derivative transactions. All derivative instruments are recognized as either assets or liabilities in the consolidated balance sheet at fair value. The accounting for changes in the fair value of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, the Company designates the hedging instrument based upon the exposure being hedged as a fair value hedge or a cash flow hedge. Derivative instruments that are economic hedges, but not designated as hedging instruments, are also utilized. The Company also uses derivatives to replicate returns of fixed income securities that are either unavailable or more expensive in the cash market. These replicated securities are comprised of a credit default swap and a highly rated fixed income security that when combined replicate a third security.

For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting loss or gain on the hedged item attributable to the hedged risk are recognized in net income during the period of change in fair values. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of accumulated other comprehensive income (AOCI) and reclassified into net income in the same period or periods during which the hedged transaction affects net income. The remaining gain or loss on the derivative instrument in excess of the cumulative change in the present value of designated future cash flows of the hedged item (hedge ineffectiveness), if any, is recognized in net income during the period of change. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in current income during the period of change in realized/unrealized capital gains (losses).

The Company has certain modified coinsurance and coinsurance with funds withheld reinsurance arrangements with embedded derivatives related to the funds withheld assets. These derivatives are considered total return swaps with contractual returns that are attributable to various assets and liabilities associated with these reinsurance arrangements. Changes in the fair value of these derivatives are recorded in net income as they occur. Offsetting these amounts are corresponding changes in the fair value of trading securities in portfolios that support these arrangements.

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Derivative instruments that are currently used for managing interest rate risk include interest rate swaps, interest rate futures and interest rate caps. Call options on equity indexed products, total return swaps and equity futures are used to manage equity market risk. Credit default swaps are used to manage credit risk.

The use of derivative instruments exposes the Company to credit and market risk. If the counterparty fails to perform, the credit risk is equal to the extent of the fair value gain in the derivative. The Company minimizes the credit or payment risk in derivative instruments by entering into transactions with high quality counterparties that are regularly monitored. The Company also maintains a policy of requiring that all derivative contracts be governed by an International Swaps and Derivatives Association (ISDA) Master Agreement. Market risk is the adverse effect that a change in interest rates, implied volatility rates, or a change in certain equity indices or instruments has on the value of a financial instrument. The Company manages the market risk by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Derivative instruments are monitored by the Company s Investment and Risk Management Committee of the Board of Directors as part of its oversight of derivative activities. The committee is responsible for implementing various hedging strategies that are developed through its analysis of financial simulation models and other internal and industry sources. The resulting hedging strategies are then incorporated into the Company s overall risk management strategies.

The Company utilizes derivative instruments which may include the following:

Call Options Call options are primarily used as economic hedges of embedded options within indexed life and annuity products.

Futures Futures are used to manage changes in the value of securities owned or anticipated to be acquired or sold.

Interest Rate Swaps Interest rate swap agreements are utilized to manage interest rate exposures arising from mismatches between assets and liabilities and to hedge against changes in the value of assets anticipated to be acquired.

Interest Rate Caps and Floors Interest rate cap and floor agreements are hedges to mitigate the asset/liability risks of a significant and sustained increase or decrease, respectively, in interest rates.

Credit Default Swaps and Swaptions Credit default swaps are contractual agreements that allow one party to put a security to a counterparty at par upon the occurrence of a credit event sustained by underlying referenced entity. A swaption is a contractual agreement whereby one party holds an option to enter into a credit default swap with another party on predefined terms.

Total Rate of Return Swaps Total rate of return swaps are swaps where one party receives interest payments on an asset, index, or basket of assets plus any capital gains and losses while the other party receives a specified fixed or floating cash flow unrelated to the credit worthiness of the underlying reference asset.

Derivative Instruments Embedded in Modified Coinsurance and Coinsurance with Funds Withheld Arrangements The Company is party to modified coinsurance and coinsurance with funds withheld reinsurance agreements that have embedded derivatives.

Fair value hedges are accounted for by recognizing changes in fair value of the instruments as realized/unrealized capital gains (losses). Premiums, if any, received on such instruments are recorded as net investment income. Cash flow hedges are accounted for by reflecting receipts and payments on instruments in net investment income and changes in fair value reclassified from AOCI to realized/unrealized capital gains (losses). Economic hedges are recognized in current income with asset changes included in realized/unrealized capital gains (losses) and liability changes in policyowner benefit expense.

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Deferred Policy Acquisition Costs

Certain commissions, policy issue and underwriting costs, and other variable costs incurred to acquire or renew traditional life insurance, universal life insurance, indexed life and annuity products are deferred. The method of amortizing DAC for traditional life insurance products varies, dependent upon whether the contract is participating or non-participating. Participating contracts are those which are expected to pay dividends to policyowners in proportion to their relative contribution to the Company s statutory surplus. DAC for participating traditional life insurance is generally amortized over the life of the policies in proportion to the present value of estimated gross margins. Non-participating traditional life insurance DAC is amortized over the premium-paying period of the related policies in proportion to the ratio of annual premium revenues to total anticipated premium revenues using assumptions consistent with those used in computing policy benefit reserves. For universal life insurance, indexed life and annuity products, DAC is generally amortized in proportion to the present value of estimated gross margins from surrender charges and investment, mortality, and expense margins. The effect on the cumulative amortization of DAC for revisions in estimated future gross margins on participating traditional life, universal life, indexed life and annuity products is reflected in the period such estimates are revised. The DAC asset is also adjusted for the impact on estimated gross margins of net unrealized gains and losses on securities supporting such products.

Deferred Sales Inducements

Sales inducements offered on certain annuity products are recognized as policyowner liabilities as the inducements are accrued and credited to the policyowner s account. A sales inducement is capitalized as an asset if it is explicitly identified in the contract at inception, is incremental to amounts credited on similar contracts without sales inducements and is higher than the contract s expected ongoing crediting rates for periods after the inducement period. The amortization of deferred sales inducements are expensed to policyowner benefits in proportion to the present value of estimated gross margins similar to DAC.

Value of Business Acquired

The portion of the purchase price from insurance companies allocated to the right to receive future cash flows from insurance contracts existing at the date of the acquisition is referred to as VOBA. This cost of policies purchased represents the actuarially determined present value of the projected future gross margins from the acquired policies.

The expected future gross margins used in determining such value are based on actuarially determined projections of future premium receipts, mortality, surrenders, operating expenses, changes in insurance liabilities, investment yields on the assets retained to support the policy liabilities and other factors. These projections take into account all factors known or expected at the valuation date, based on the judgment of management. The actual experience on purchased business may vary from projections due to differences in renewal premium, investment spread, investment gains or losses, mortality and morbidity costs and other factors.

The discount rate used to determine the value of policies purchased is the rate of return required in order to invest in the business being acquired. Factors in determining this rate include the cost of capital required to fund the acquisition; the acquired company s compatibility with other Company activities that may impact future gross margins; the complexity of the acquired company; and recent discount rates used by others to determine valuations to acquire similar blocks of business.

VOBA is amortized based on the incidence of the expected gross margins using the interest rate credited to the underlying policies. If gross margins differ from expectations, the amortization of the VOBA is adjusted. The VOBA asset is adjusted for the impact on estimated gross margins of net unrealized gains and losses on securities supporting the underlying business. Each year, the recoverability of the VOBA is evaluated and if the evaluation indicates that the existing insurance liabilities, together with the present value of future gross margins from the

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blocks of business acquired, is insufficient to recover the VOBA, the difference is charged to expense as an additional write-off of the VOBA.

Goodwill

Goodwill represents the excess of the amount paid to acquire a company over the fair value of its net assets. Goodwill is tested for impairment on an annual basis as of October 1, and between annual tests if indicators of potential impairment exist, using a fair-value-based approach. No impairment of goodwill has been identified during any period presented.

Property and Equipment

Property and equipment is recorded at cost and is depreciated principally under the straight-line method over the estimated useful lives of the assets.

Separate Account

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

Recognition of Revenues

Premiums for traditional life insurance products (including those products with fixed and guaranteed premiums and benefits and which consist principally of whole life insurance policies and certain annuities with life contingencies) are recognized as revenues when due. For limited payment life insurance policies, premiums are recorded as income when due with any excess profit deferred and recognized over the expected lives of the contracts. Amounts received as payments for universal life insurance policies (including indexed life products), annuity products (including deferred annuities, indexed annuities and annuities without life contingencies) and funding agreements are not recorded as premium revenue. Revenues for such contracts consist of policy charges for the cost of insurance, policy administration charges, and surrender charges assessed against policyowner account balances during the period. All insurance-related revenue is reported net of reinsurance ceded.

Future Policy Benefits

The liability for future policy benefits for traditional life insurance is computed using the net level method, utilizing the guaranteed interest and mortality rates used in calculating cash surrender values as described in the contracts. Reserve interest assumptions range from 2.00 percent to 7.50 percent. The weighted average interest rate for all traditional life policy reserves was 4.47 percent in 2005 and 4.46 percent in 2004 and 2003. Policy benefit claims are charged to expense in the period that the claims are incurred. All insurance-related benefits, losses, and expenses are reported net of reinsurance ceded.

Future policy benefit reserves for universal life insurance, indexed life, annuity products and funding agreements are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. The weighted average interest crediting rates for universal life products were 4.47 percent in 2005, 4.62 percent in 2004 and 4.96 percent in 2003. The range of interest crediting rates for annuity products, excluding sales inducement payouts, was 2.75 percent to 7.00 percent in 2005 and 3.00 percent to 7.20 percent in 2004 and 2003. An additional liability is established for universal life contracts with death or other insurance benefit features which is determined using an equally-weighted range of scenarios

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with respect to investment returns, policyowner lapses, benefit election rates, premium payment patterns and mortality. The additional liability represents the present value of future expected benefits based on current product assumptions.

Unearned revenue reserves are established for fees charged for insurance benefit features which are assessed in a manner that is expected to result in higher profits in earlier years followed by lower profits or losses in subsequent years. The excess charges are deferred and amortized to product charges over the period benefited using the same assumptions and factors to amortize DAC.

The Company has indexed life and annuity products that guarantee the return of principal to the customer and credit interest based on certain indices, primarily the Standard & Poor s 500 Composite Stock Price Index® (S&P 500 Index). A portion of the premium from each customer is invested in investment grade fixed income securities and is intended to cover the minimum guaranteed value due the customer at the end of the term. A portion of the premium is used to purchase call options to hedge the growth in interest credited to the customer as a direct result of increases in the related indices. 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 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 product 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 contracts is included in policyowner benefits in the consolidated statements of income.

The Company has issued funding agreements totaling $986.2 million outstanding as of December 31, 2005, consisting of one to ten year maturity fixed rate insurance contracts. The assets backing the funding agreements are legally segregated and are not subject to claims that arise out of any other business of the insurance subsidiaries. The funding agreements are further backed by the general account assets of the insurance companies. The segregated assets and liabilities are included with general account assets in the financial statements. The funding agreements may not be cancelled by the holders unless there is a default under the agreements, but the Company may terminate the agreements at any time. The weighted average interest rates for fixed-rate and floating-rate funding agreements were 4.58 percent and 4.69 percent in 2005, and 4.48 percent and 2.66 percent in 2004, and 4.69 percent and 1.17 percent in 2003, respectively.

Reinsurance

The Company enters into reinsurance agreements with other companies in the normal course of business. The Company may assume reinsurance or cede reinsurance to other companies. Assets and liabilities related to reinsurance ceded are reported on a gross basis. Premiums and expenses are reported net of reinsurance ceded. The Company is

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

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Participating Policies

Participating policies entitle the policyowners to receive dividends based on actual interest, mortality, morbidity, and expense experience for the related policies. These dividends are distributed to the policyowners through an annual dividend using current dividend scales which are approved by the board of directors. Approximately 39 percent in 2005 and 44 percent in 2004 of traditional life policies are currently paying dividends. Traditional life policies represent approximately 66 percent in 2005 and 69 percent in 2004 of the Company s individual life policies in force (based on face amounts).

Stock-Based Compensation

At December 31, 2005, the Company has stock-based employee compensation plans, which are described more fully in note 13. The Company primarily accounts for those plans under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. For most of these stock-based plans, no compensation cost is reflected in net income, as options and units granted under those plans had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123, Accounting for Stock-Based Compensation, to stock-based employee compensation:

	Years Ended December 31,		
	2005	2004	2003
Net income available to common stockholders, as reported	$ 188,762	$ 192,642	$ 161,147
Add: Stock-based compensation expense included in reported net income, net of related tax effects	1,839		
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(4,464)	(3,986)	(4,087)
Pro forma net income available to common stockholders	$ 186,137	$ 188,656	$ 157,060
Earnings per common share:			
Basic as reported	$ 4.84	$ 4.90	$ 4.11
Basic pro forma	$ 4.77	$ 4.80	$ 4.01
Diluted as reported	$ 4.43	$ 4.68	$ 4.07
Diluted pro forma	$ 4.37	$ 4.59	$ 3.96

Guaranty Fund Assessments

The Company is subject to insurance guaranty laws in the states in which it writes business. These laws provide for assessments against insurance companies for the benefit of policyowners and claimants in the event of insolvency of other life insurance companies. As of December 31, 2005 and 2004, the Company has accrued for the gross amount of guaranty fund assessments for known insolvencies and has established an other asset for assessments expected to be recovered through future premium tax offsets.

Income Taxes

Generally, the Company and its nonlife insurance subsidiaries file a consolidated federal income tax return. The life insurance subsidiaries file separate federal income tax returns, except for ILIC and Bankers Life Insurance Company of New York which together file a consolidated tax return beginning in 2002. Beginning in 2006, ALIC,

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American and FBL intend to join AmerUs Group in the filing of a consolidated life-nonlife tax return. ILIC and Bankers will be eligible to join the consolidated life-nonlife tax return in 2007. Deferred income tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws.

Comprehensive Income (Loss)

Comprehensive income (loss) includes all changes in stockholders equity during a period except those resulting from investments by and distributions to stockholders. Other comprehensive income (loss) excludes net realized investment gains (losses) included in net income which merely represent transfers from unrealized to realized gains and losses. Such amounts totaled losses of $4.4 million, gains of $35.6 million and gains of $28.2 million in 2005, 2004 and 2003, respectively

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, warrants, PRIDESs^{sm} and the Company s Optionally Convertible Equity-linked Accreting Notes (OCEANs^{sm}) and is calculated using the treasury stock method.

Diluted earnings per share applicable to the Company s PRIDES securities are determined using the treasury stock method as it is currently anticipated that holders of the PRIDES are more likely to tender cash in the future for the securities forward contract. The PRIDES added 1,835,569 shares and 833,715 shares to the diluted earnings per share calculation for the years ended 2005 and 2004, respectively, and none for 2003. See further discussion of the PRIDES in note 8.

Diluted earnings per share applicable to the Company s OCEANs are determined using the guidance of the Financial Accounting Standards Board s Emerging Issues Task Force Issue 04-8 (EITF 04-8), The Effect of Contingently Convertible Debt on Diluted Earnings per Share, which was effective for periods ending after December 15, 2004. EITF 04-8 requires diluted earnings per share to be computed following the guidance of EITF 90-19, Convertible Bonds with Issuer Option to Settle for Cash upon Conversion, for securities such as the OCEANs which are considered to be Instrument C securities. The conversion spread portion of an Instrument C security should be included in diluted earnings per share based on the number of shares that would be required to be delivered if the instrument had been converted at the end of the period. The OCEANs added 796,159 and 294,008 shares for the diluted earnings per share calculation for the years ended 2005 and 2004 and added no shares for the year ended 2003. EITF 04-8 required restatement of diluted earnings per share for all periods presented; however, there was no change to diluted earnings per share for 2003. As of September 13, 2005, all of the OCEANs were converted with settlement in cash and common stock. See further discussion of the OCEANs in note 8.

Accounting Changes

Effective January 1, 2004, the Company adopted Statement of Position 03-1 (SOP 03-1), Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Insurance Contracts and for Separate Accounts, issued by the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants. The adoption of SOP 03-1 resulted in establishing additional policy reserve liabilities for fees charged for insurance

benefit features which are assessed in a manner that is expected to result in profits in earlier years and losses in subsequent years. The total effect of adopting SOP 03-1 (including reinsurance recoverables) as of January 1, 2004 and the establishment of reinsurance recoveries, amounted to a decrease of $0.8 million ($0.5 million after-tax) in net income which has been reflected as a cumulative effect of a change in accounting. The basic and diluted earnings per common share for the change in accounting amounted to $.01 for 2004.

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In addition, the adoption of SOP 03-1 established guidance for the accounting and presentation of costs related to sales inducements. There was no change to the Company s method of accounting for sales inducements; however, the capitalized costs are now separately disclosed in the consolidated balance sheet and the related amortization expense is included in policyowner benefits in the consolidated statement of income.

The Financial Accounting Standards Board s Derivatives Implementation Group issued SFAS 133 Implementation Issue No. B36, Embedded Derivatives: Bifurcation of a Debt Instrument that Incorporates both Interest Rate Risk and Credit Risk Exposures that are Unrelated or Only Partially Related to the Creditworthiness of the Issuer of that Instrument, or DIG Issue B36. DIG Issue B36 applies to modified coinsurance and coinsurance with funds withheld arrangements where interest is determined by reference to a pool of fixed maturity assets or a total return debt index. DIG Issue B36 considers the reinsurer s receivable from the ceding company to contain an embedded derivative that must be bifurcated and accounted for separately under SFAS 133. The Company adopted DIG Issue B36 on October 1, 2003. See note 4 for additional information regarding the adoption of DIG Issue B36.

Emerging Accounting Matters

Other-Than-Temporary Impairment

In March 2004, the Emerging Issues Task Force of the Financial Accounting Standards Board (FASB) reached a final consensus on Issue 03-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, (EITF 03-1). EITF 03-1 established impairment models for determining whether to record impairment losses associated with investments in certain equity and debt securities. It also required income to be accrued on a level-yield basis following an impairment of debt securities, where reasonable estimates of the timing and amount of future cash flows can be made. EITF 03-1 indicated that, although not presumptive, a pattern of selling investments prior to the forecasted recovery may call into question an investor s intent to hold the security until its value recovers. EITF 03-1 was to be effective for reporting periods beginning after June 15, 2004; however, in September 2004, the effective date of these provisions was delayed until the finalization of a FASB Staff Position (FSP) to provide further guidance on this topic.

In November 2005, the FASB issued proposed EITF 03-1-a, Implementation Guidance for the Application of Paragraph 16 of EITF Issue 03-1, (EITF 03-1-a) but changed the title to FSP 115-1 and FAS 124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, (FSP FAS 115-1). The guidance in FSP 115-1 nullifies the accounting and measurement provisions of EITF 03-1, references existing OTTI guidance and supersedes EITF Topic No. D-44, Recognition of Other-Than-Temporary Impairments upon the Planned Sale of a Security Whose Cost Exceeds Fair Value. FSP FAS 115-1 will be applied prospectively and is effective for reporting periods beginning after December 15, 2005. Our existing policies for recognizing an OTTI are consistent with the guidance in FASP FAS 115-1. As a result, we do not expect the adoption of FSP FAS 115-1 to have a material effect on our consolidated financial condition and results of operations.

Share-Based Payment

In December 2004, the FASB issued a revision to SFAS 123, Share-Based Payment, (SFAS 123R) which is a revision of SFAS 123, Accounting for Stock-Based Compensation, (SFAS 123). SFAS 123R requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on fair

values. Pro forma disclosure of fair value information is no longer an alternative. The statement is effective in the first interim or annual period beginning after June 15, 2005. In April 2005, the SEC announced the adoption of a new rule that delays our required effective date of SFAS 123R to January 1, 2006. In August 2005, the FASB issued FASB Staff Position (FSP) No. 123(R)-1, *Classification and Measurement of Freestanding Financial Instruments Originally Issued in Exchange for Employee Services under FASB Statement No. 123(R)* (FSP 123R-1), which indefinitely defers the requirement of SFAS 123-R that a freestanding financial instrument originally subject to SFAS 123R becomes subject to other applicable GAAP when the rights conveyed by the instrument to the holder are no longer dependent on the holder being an employee of the entity. In October 2005, the FASB issued

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FSP No. 123(R)-2, *Practical Accommodation to the Application of Grant Date as Defined in FASB Statement No. 123(R)* (FSP 123R-2), which allows the grant date of an award to be the date the award is approved in accordance with an entity s corporate governance provisions, so long as the approved grant is communicated to employees within a relatively short time period from the date of approval, which is consistent with our current policy.

Adoption of SFAS 123R is to be made using either the modified prospective method or the modified retrospective method. The modified prospective method recognizes cost based on the requirements for all share-based payments granted after the effective date and for awards granted prior to the effective date that remain unvested prior to the effective date. The modified retrospective method includes the requirements of the modified prospective method but also permits restatement of financial statements based on pro forma amounts previously recognized under SFAS 123. Restatement can either be for all prior periods presented or prior interim periods of the year of adoption. Early adoption is permitted. We will adopt SFAS 123R effective January 1, 2006, using the modified prospective method. The pro forma impacts of recognizing fair value, as permitted by SFAS 123, are disclosed in note 1 to the consolidated financial statements. That disclosure reflects our estimate of 2005 additional expense for share-based payments of approximately $2.6 million (after-tax). The implementation of more sophisticated modeling techniques may affect this expense amount.

Deferred Acquisition Costs for Modifications or Exchanges of Insurance Contracts

In September 2005, the Accounting Standards Executive Committee of the American Institute of Certified Public Accountants (AcSEC) issued Statement of Position 05-1 (SOP 05-1), *Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts* . SOP 05-1 provides guidance on accounting by insurance enterprises for deferred acquisition costs on internal replacements of insurance and investment contracts other than those specifically described in Statement of Financial Accounting Standards (SFAS) No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments* . SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006, with earlier adoption encouraged. Retrospective application of SOP 05-1 to previously issued financial statements is not permitted. We are currently evaluating the impact of the adoption of this pronouncement on our consolidated financial condition and results of operations.

Accounting Changes and Error Corrections

In June 2005, the FASB issued SFAS 154 (SFAS 154), *Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements* . SFAS 154 requires retrospective application to prior periods financial statements for all voluntary changes in accounting principle, unless impracticable. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 31, 2005. SFAS 154 will have no immediate impact on our consolidated financial statements, though it will impact our presentation of future voluntary accounting changes, if any occur.

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(2) CLOSED BLOCK

The Closed Block is presented on a pre-tax basis and accordingly does not include current or deferred taxes. Summarized financial information of the Closed Block as of December 31, 2005, 2004 and 2003 and for the years then ended is as follows:

	2005	2004	2003
		($ in thousands)	
Liabilities:			
Future life and annuity policy benefits	$ 2,765,095	$ 2,804,222	$ 2,845,365
Policyowner funds	7,835	8,096	9,232
Accrued expenses and other liabilities	6,420	32,140	44,473
Dividends payable to policyowners	154,793	161,475	173,703
Policy and contract claims	17,986	14,705	22,694
Policyowner dividend obligation	116,684	152,975	134,386
Total Liabilities	3,068,813	3,173,613	3,229,853
Assets:			
Fixed maturity securities available-for-sale at fair value	1,916,052	2,028,790	2,027,177
Mortgage loans	60,541	70,686	80,170
Policy loans	331,561	335,573	346,823
Other investments		34	
Cash and cash equivalents	63,506	8,473	3,492
Accrued investment income	32,972	32,637	32,629
Premiums and fees receivable	58,778	59,369	55,134
Other assets		17	17
Total Assets	2,463,410	2,535,579	2,545,442
Maximum future earnings to be recognized from assets and liabilities of the Closed Block	$ 605,403	$ 638,034	$ 684,411

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	2005	2004	2003
		($ in thousands)	
Change in policyowner dividend obligation:			
Balance at beginning of year	$ 152,975	$ 134,386	$ 118,623
Impact on net income before income taxes	13,588	2,795	8,345
Unrealized investment gains (losses)	(49,879)	15,794	7,418
Balance at end of year	$ 116,684	$ 152,975	$ 134,386
Operations:			
Insurance premiums	$ 163,616	$ 193,313	$ 211,966
Product charges	6,065	5,190	9,789
Net investment income	146,460	146,545	151,769
Realized gains (losses) on investments	(1,249)	(1,693)	9,326
Policyowner benefits	(197,369)	(225,408)	(251,872)
Underwriting, acquisition and other expenses	(3,391)	(4,896)	(4,114)
Dividends to policyowners	(78,519)	(76,256)	(87,388)
Contribution from the Closed Block before income taxes	$ 35,613	$ 36,795	$ 39,476
Maximum future earnings from Closed Block assets and liabilities:			
Beginning of year	$ 638,034	$ 684,411	$ 669,744
Pretax contribution from the Closed Block	(35,613)	(36,795)	(39,476)
Federal income taxes funded by the Closed Block	2,982	(9,582)	54,143
Balance at end of year	$ 605,403	$ 638,034	$ 684,411

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(3) INVESTMENTS

Investment Assets

The Company s investments at December 31, 2005 and 2004, classified as securities available-for-sale, are summarized as follows:

	2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	($ in thousands)			
Fixed maturity securities available-for-sale:				
Corporate bonds	$ 11,922,049	$ 307,175	$ 144,162	$ 12,085,062
U.S. government bonds	262,710	759	4,560	258,909
State and political subdivisions	76,639	1,163	531	77,271
Foreign government bonds	179,805	8,425	2,237	185,993
Asset-backed bonds	321,708	2,615	3,505	320,818
Collateralized mortgage-backed securities	1,205,341	3,833	23,891	1,185,283
Mortgage-backed securities	2,074,406	5,928	34,652	2,045,682
Indexed debt instruments	579,073	3,063	13,221	568,915
Total fixed maturities available-for-sale	16,621,731	332,961	226,759	16,727,933
Equity securities available-for-sale	74,951	707		75,658
Short-term investments available-for-sale	9,990	8		9,998
Total available-for-sale securities	$ 16,706,672	$ 333,676	$ 226,759	$ 16,813,589

	2004			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	($ in thousands)			
Fixed maturity securities available-for-sale:				
Corporate bonds	$ 10,585,934	$ 527,780	$ 29,123	$ 11,084,591
U.S. government bonds	283,064	5,181	1,186	287,059
State and political subdivisions	63,818	1,801	692	64,927
Foreign government bonds	110,337	5,124	89	115,372

Asset-backed bonds	509,059	10,620	1,228	518,451
Collateralized mortgage-backed securities	1,088,296	17,660	4,258	1,101,698
Mortgage-backed securities	1,889,249	24,522	3,937	1,909,834
Indexed debt instruments	571,965	1,728	8,973	564,720
Redeemable preferred stock	1			1
Total fixed maturities available-for-sale	15,101,723	594,416	49,486	15,646,653
Equity securities available-for-sale	74,769	2,468	213	77,024
Short-term investments available-for-sale	2,951	51	23	2,979
Total available-for-sale securities	$ 15,179,443	$ 596,935	$ 49,722	$ 15,726,656

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amortized cost and estimated fair value of investments in available-for-sale fixed maturity securities at December 31, 2005 are summarized by stated maturity as follows:

	Amortized cost	Fair value
	($ in thousands)	
Fixed maturities available-for-sale:		
Due in 2006	$ 350,086	$ 353,976
Due in 2007 - 2011	3,461,676	3,528,419
Due in 2012 - 2016	5,181,504	5,170,772
Due after 2016	5,554,059	5,629,084
Mortgage-backed securities	2,074,406	2,045,682
	$ 16,621,731	$ 16,727,933

The foregoing data is based on the stated maturities of the securities. Actual maturities will differ for some securities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

The Company holds fixed maturities available-for-sale investments in indexed debt instruments (IDIs) in which the principal is initially partially defeased by an obligation of a third party financial institution (institution) collateralized by U.S. Treasuries which will accrete to 50% of the original principal amount of the IDIs at maturity. The balance of the principal amount due at maturity is subject to a dynamic defeasance mechanism, which should provide a return of the initial investment. The instruments issued by the institutions are linked to the performance of a hedge fund or fund of funds. The annual income on these investments will be equal to the quarterly distribution of the hedge fund or fund of funds plus the change in the present value of anticipated distributions to be received at maturity and will be included in net investment income. Over the life of the IDIs, the income will be a function of the cumulative performance of the linked hedge fund or fund of funds and the return on any defeased portion of the investment. The quarterly distribution paid, if any, reduces the amount of future participation in the performance of the linked hedge fund or fund of funds. At maturity, the Company will take delivery of the referenced hedge fund interests and cash or U.S. Treasuries equal to the portion of the instruments that have been defeased, the total of which should equal or exceed the instruments principal amount. The investment purpose of these instruments is to enable the Company to obtain the return as if they had invested in hedge funds or fund of funds with dynamic principal protection. The instruments as of December 31, 2005 carried an A rating or better by Fitch.

At December 31, 2005 and 2004, the Company held investments with JP Morgan Chase & Co. amounting to $192.3 million and $175.2 million, respectively, Bear Stearns Company amounting to $164.3 million and $163.1 million, respectively, and AG Deutsche Bank amounting to $164.2 million and $161.7 million, respectively. The investments are primarily IDIs and exceeded 10% of stockholders equity.

Included in equity securities available-for-sale is Federal Home Loan Bank (FHLB) capital stock amounting to $64.8 million and $62.4 million at December 31, 2005 and 2004, respectively. As a member of the FHLB, the Company is required to own the capital stock to utilize various FHLB financing and other services.

At December 31, 2005 and 2004, investments in fixed maturity securities with a carrying amount of $36.9 million and $37.1 million, respectively, were on deposit with state insurance departments to satisfy regulatory requirements.

The Company participates in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time. The Company receives a fee in exchange for the loan of securities and requires initial collateral equal to 102 percent, with an on-going level of 100 percent, of the market value of the loaned securities to be separately maintained. Securities with a market value

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of $458.8 million and $342.6 million were on loan under the program and the Company has cash collateral under its control of $474.6 million and $351.7 million at December 31, 2005 and 2004, respectively. The collateral held under the securities lending program has been included in cash and cash equivalents in the consolidated balance sheet and the obligation to return the collateral upon the return of the loaned securities has been included in accrued expenses and other liabilities.

The Company enters into securities borrowing arrangements from time to time whereby the Company borrows securities from other institutions and pays a fee. Securities borrowed amounted to $138.2 million at both December 31, 2005 and 2004 and are also included in accrued expenses and other liabilities in the consolidated balance sheet.

Other investments include investments which are carried on the equity method of accounting. Distributions from such equity method investments amounted to $1.9 million, $0.6 million and $1.5 million in 2005, 2004 and 2003, respectively.

Major categories of investment income are summarized as follows:

	Years ended December 31,		
	2005	2004	2003
	($ in thousands)		
Fixed maturity securities	$ 1,001,403	$ 924,146	$ 874,185
Equity securities	857	723	817
Mortgage loans	68,352	69,144	74,739
Policy loans	29,886	30,147	30,473
Other	27,943	30,761	36,846
Gross investment income	1,128,441	1,054,921	1,017,060
Investment expenses	18,938	17,474	15,146
Net investment income	$ 1,109,503	$ 1,037,447	$ 1,001,914

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Realized and Unrealized Gains (Losses)

Realized and unrealized gains and losses on investments and provisions for loan losses are summarized as follows:

	Years ended December 31,		
	2005	2004	2003
	($ in thousands)		
Available-for-sale securities:			
Fixed maturity securities			
Gross realized gains	$ 24,358	$ 27,374	$ 184,996
Gross realized losses	(29,218)	(66,700)	(143,097)
Equity securities			
Gross realized gains	1,156	1,555	89
Gross realized losses	(335)		(211)
Other investments	(1,971)	(7,358)	(8,979)
Reduction in provision for loan losses		6,650	8,723
Realized/unrealized gains/(losses) on swaps		(2,620)	3,852
Realized/unrealized gains on option assets	7,058	50,634	59,098
Realized/unrealized gains/(losses) on held-for-trading securities	(15,956)	8,533	26,820
Total	$ (14,908)	$ 18,068	$ 131,291

The unrealized appreciation (depreciation) on invested assets available-for-sale is reported as a separate component of stockholders equity, reduced by adjustments to DAC, VOBA, future life and annuity policy benefits, and a provision for deferred income taxes. Unrealized appreciation attributable to the Closed Block amounting to $74.8 million at December 31, 2005, $124.7 million at December 31, 2004 and $108.9 million at December 31, 2003 has been included in dividends payable to policyowners.

A summary of the components of the net unrealized appreciation (depreciation) on invested assets carried at fair value and other components of accumulated other comprehensive income is as follows:

	December 31,	
	2005	2004
	($ in thousands)	
Unrealized appreciation:		
Available-for-sale securities:		
Fixed maturity securities	$ 106,202	$ 544,930
Equity securities	707	2,255

Short-term investments	8	28
Other investments	228	1,030
Adjustments for assumed change in amortization of:		
DAC, deferred sales inducements, and VOBA	(22,770)	(233,210)
Policy reserves and policyowner funds	510	2,765
Minimum pension liability adjustment	(16,973)	(16,973)
Policyowner dividend obligation	(74,775)	(124,655)
Deferred income taxes	3,251	(61,500)
	$ (3,612)	$ 114,670

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The change in unrealized appreciation (depreciation) on fixed maturity securities was a decrease of $438.7 million, an increase of $74.9 million and an increase of $8.9 million for the years ended December 31, 2005, 2004 and 2003, respectively; the corresponding amounts for equity securities was a decrease of $1.5 million, an increase of $0.2 million and an increase of $1.4 million, respectively.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous loss position, at December 31, 2005:

AFS Unrealized Loss December 31, 2005 ($ in millions)

	Less than 7 months		7-12 months		More than 12 months		Total	
otal Temporarily Impaired Securities:	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealize loss**
orporate bonds	$ 5,188.2	$ 107.2	$ 441.3	$ 21.7	$ 325.0	$ 15.3	$ 5,954.5	$ 144.2
.S. government bonds	121.3	2.2	12.8	0.3	54.9	2.1	189.0	4.6
tate and political subdivisions	32.0	0.5					32.0	0.5
oreign government bonds	79.4	1.5	5.1	0.1	14.2	0.6	98.7	2.2
sset-backed bonds	161.2	2.8	18.6	0.3	9.1	0.4	188.9	3.5
ollateralized mortgage-backed securities	935.4	18.5	60.2	2.1	62.8	3.3	1,058.4	23.9
ortgage-backed securities	1,326.5	25.2	170.0	4.1	152.6	5.4	1,649.1	34.7
ndexed debt instruments	80.3	1.8			319.8	11.4	400.1	13.2
otal	$ 7,924.3	$ 159.7	$ 708.0	$ 28.6	$ 938.4	$ 38.5	$ 9,570.7	$ 226.8

	Less than 7 months		7-12 months		More than 12 months		Total	
Less Than 20% Loss Position:	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**
Corporate bonds	$ 5,188.2	$ 107.2	$ 440.0	$ 21.3	$ 325.0	$ 15.3	$ 5,953.2	$ 143.8
U.S. government bonds	121.3	2.2	12.8	0.3	54.9	2.1	189.0	4.6
State and political subdivisions	32.0	0.5					32.0	0.5
Foreign government bonds	79.4	1.5	5.1	0.1	14.2	0.6	98.7	2.2
Asset-backed bonds	161.2	2.8	18.6	0.3	9.1	0.4	188.9	3.5
	935.4	18.5	60.2	2.1	62.8	3.3	1,058.4	23.9

Collateralized mortgage-backed securities								
Mortgage-backed securities	1,326.5	25.2	170.0	4.1	152.6	5.4	1,649.1	34.7
Indexed debt instruments	80.3	1.8			319.8	11.4	400.1	13.2
Total	$ 7,924.3	$ 159.7	$ 706.7	$ 28.2	$ 938.4	$ 38.5	$ 9,569.4	$ 226.4

	Less than 7 months		**7-12 months**		**More than 12 months**		**Total**	
20%-50% Loss Position:	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**
Corporate bonds	$	$	$ 1.3	$ 0.4	$	$	$ 1.3	$ 0.4

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

There were no available-for-sale securities that were in more than a 50% loss position at December 31, 2005.

The following table shows gross unrealized losses and fair value, aggregated by investment category and length of time the individual securities have been in a continuous loss position, at December 31, 2004:

AFS Unrealized Loss December 31, 2004 ($ in millions)

Total Temporarily Impaired Securities:	Less than 7 months Fair value	Less than 7 months Gross unrealized loss	7-12 months Fair value	7-12 months Gross unrealized loss	More than 12 months Fair value	More than 12 months Gross unrealized loss	Total Fair value	Total Gross unrealized loss
Corporate bonds	$ 1,094.3	$ 8.5	$ 396.1	$ 7.7	$ 379.8	$ 12.9	$ 1,870.2	$ 29.1
U.S. government bonds	37.0	0.2	47.4	1.0	0.4		84.8	1.2
State and political subdivisions			1.5		18.0	0.7	19.5	0.7
Foreign government bonds	12.4		1.9		0.2		14.5	
Asset-backed bonds	75.8	0.2	49.5	0.9	5.5	0.1	130.8	1.2
Collateralized mortgage-backed securities	257.6	2.4	76.6	1.6	8.5	0.3	342.7	4.3
Mortgage-backed securities	287.3	1.0	115.4	1.5	104.6	1.5	507.3	4.0
Indexed debt instruments			242.5	2.5	239.5	6.5	482.0	9.0
Equity securities	0.3	0.2					0.3	0.2
Short-term investments	12.9						12.9	
Total	$ 1,777.6	$ 12.5	$ 930.9	$ 15.2	$ 756.5	$ 22.0	$ 3,465.0	$ 49.7

Less Than 20% Loss Position:	Less than 7 months Fair value	Less than 7 months Gross unrealized loss	7-12 months Fair value	7-12 months Gross unrealized loss	More than 12 months Fair value	More than 12 months Gross unrealized loss	Total Fair value	Total Gross unrealized loss
Corporate bonds	$ 1,094.3	$ 8.5	$ 396.1	$ 7.7	$ 375.7	$ 11.8	$ 1,866.1	$ 28.0
U.S. government bonds	37.0	0.2	47.4	1.0	0.4		84.8	1.2
State and political subdivisions			1.5		18.0	0.7	19.5	0.7
Foreign government bonds	12.4		1.9		0.2		14.5	
Asset-backed bonds	75.8	0.2	49.5	0.9	5.5	0.1	130.8	1.2
Collateralized mortgage-backed securities	257.6	2.4	76.6	1.6	8.5	0.3	342.7	4.3

Mortgage-backed securities	287.3	1.0	115.4	1.5	104.6	1.5	507.3	4.0
Indexed debt instruments			242.5	2.5	239.5	6.5	482.0	9.0
Short-term investments	12.9						12.9	
Total	$ 1,777.3	$ 12.3	$ 930.9	$ 15.2	$ 752.4	$ 20.9	$ 3,460.6	$ 48.4

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Less than 7 months		7-12 months		More than 12 months		Total	
20%-50% Loss Position:	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**	**Fair value**	**Gross unrealized loss**
Corporate bonds	$	$	$	$	$ 4.1	$ 1.1	$ 4.1	$ 1.1
Equity securities	0.3	0.2					0.3	0.2
Total	$ 0.3	$ 0.2	$	$	$ 4.1	$ 1.1	$ 4.4	$ 1.3

There were no available-for-sale securities that were in more than a 50% loss position at December 31, 2004.

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

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

Company description, industry characteristics and trends, company-to-industry profile, quality of management, etc.

Ability and intent to hold the security.

Severity and duration of the impairment, if any.

Industry factors.

Financial factors such as earnings trends, asset quality, liquidity, subsequent events, enterprise valuation, fair value and volatility (among others).

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

During 2005 and 2004, the Company has recorded impairments on one issuer and four issuers of investments which were considered to be OTTI amounting to $0.3 million and $6.4 million, respectively.

Variable Interest Entities

At December 31, 2005 and 2004, the Company had investments in limited partnerships, for which the Company provides management functions. These investments have been consolidated rather than carried as equity method investments as the Company is considered the primary beneficiary. Consolidation of the investments resulted in an increase in total assets, primarily fixed maturity securities, and total liabilities, primarily other liabilities, of $73.8 million and $67.3 million at December 31, 2005 and 2004, respectively. There was no change in stockholders equity or net income in either year. There is no recourse to the Company by creditors of the partnerships. The Company had no investments in variable interest entities at December 31, 2005 and 2004, for which it would not be the primary beneficiary.

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(4) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company s outstanding derivative positions shown in notional or contract amounts, along with their carrying value, at estimated fair value, are summarized as follows:

	December 31, 2005		December 31, 2004	
	Notional amount	Carrying value	Notional amount	Carrying value
	($ in thousands)			
Equity derivatives:				
Call options	$ 4,624,001	$ 185,735	$ 3,180,051	$ 158,857
Futures		2,755		1,171
Interest rate derivatives:				
Interest rate swaps	681,000	(650)	464,000	422
Caps	350,000	349		
Floors	50,000	42		
Other	30,000	225		
Credit derivatives:				
Credit default swaps	62,000	131	115,000	536
Credit default swaptions	10,000	(15)	20,000	(31)
Total rate of return swaps			93,500	513
Other			225,000	(482)
Total	$ 5,807,001	$ 188,572	$ 4,097,551	$ 160,986

The following table shows the carrying value of the maturities of derivative products as of December 31, 2005:

	Maturity Schedule by Year for Derivative Products										
	2006	2007	2008	2009	2010	2011	2012	2013	2014	Thereafter	Table
	($ in thousands)										
uity derivatives:											
l options	$ 144,007	$ 30,766	$ 276	$ 37	$ 417	$ 2,232	$ 4,960	$ 3,040	$	$	$ 185,73
ures	2,755										2,75
erest rate ivatives:											
erest rate swaps		43		(595)			(4)			(94)	(65
ps		50	141	158							34
ors				42							4

er		57	74	94							22
dit derivatives:											
dit default ps	5	19		55	52						13
dit default ptions	(15)										(1
al rate of return ps											
al	$ 146,752	$ 30,935	$ 491	$ (209)	$ 469	$ 2,232	$ 4,956	$ 3,040	$	$ (94)	$ 188,57

During 2005, 2004 and 2003, an unrealized loss has been recognized amounting to $16.0 million, an unrealized gain of $8.5 million and an unrealized gain of $26.8 million, respectively, from the change in fair value on the trading securities backing the total return strategy products. Additionally, realized/unrealized gains (losses) on investments included an unrealized gain of $7.1 million, an unrealized gain of $48.0 million and an unrealized gain of $62.9 million for 2005, 2004, and 2003, respectively, from the change in fair value on call options used as a natural hedge of embedded options within indexed products. Policyowner benefits included an offsetting

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

adjustment to contract liabilities for fair value changes in options embedded within the indexed products and fair value changes on total return strategy annuity contracts. The total adjustment to policyowner benefits amounted to a decrease in expense of $10.5 million, an increase in expense of $35.7 million, and an increase in expense of $65.7 million in 2005, 2004 and 2003, respectively.

The following table summarizes the income (loss) impact of the market value adjustment on trading securities and derivatives and the cash flow hedge amortization:

	Year Ended December 31, 2005			
	Total Return Products	Indexed Products	Other	Total
	($ in thousands)			
Fixed maturity securities held-for-trading	$ (11,947)	$	$ (4,008)	$ (15,955)
Options		7,042	16	7,058
Market value adjustment to liabilities	2,133	4,282	4,060	10,475
Cash flow hedge amortization			143	143
DAC amortization impact of net adjustments above	696	(5,205)		(4,509)
Pre-tax total	(9,118)	6,119	211	(2,788)
Income taxes	3,192	(2,142)	(74)	976
After-tax total	$ (5,926)	$ 3,977	$ 137	$ (1,812)

	Year Ended December 31, 2004			
	Total Return Products	Indexed Products	Other	Total
	($ in thousands)			
Fixed maturity securities held-for-trading	$ 7,522	$	$ 1,011	$ 8,533
Options		50,082	(2,068)	48,014
Market value adjustment to liabilities	(9,291)	(27,657)	1,296	(35,652)
Cash flow hedge amortization			(908)	(908)
DAC amortization impact of net adjustments above	103	(8,595)		(8,492)
Pre-tax total	(1,666)	13,830	(669)	11,495
Income taxes	583	(4,840)	234	(4,023)
After-tax total	$ (1,083)	$ 8,990	$ (435)	$ 7,472

	Year Ended December 31, 2003			
	Total Return Products	Indexed Products	Other	Total
	($ in thousands)			
Fixed maturity securities held-for-trading	$ 24,593	$	$ 2,227	$ 26,820
Options		58,711	4,238	62,949
Market value adjustment to liabilities	(17,894)	(50,454)	2,607	(65,741)
Cash flow hedge amortization			(3,827)	(3,827)
DAC amortization impact of net adjustments above	751	(4,563)	(3,231)	(7,043)
Pre-tax total	7,450	3,694	2,014	13,158
Income taxes	(2,607)	(1,293)	(705)	(4,605)
After-tax total	$ 4,843	$ 2,401	$ 1,309	$ 8,553

AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Financial Accounting Standards Board s Derivatives Implementation Group issued DIG Issue B36 which applies to modified coinsurance and coinsurance with funds withheld arrangements where interest is determined by reference to a pool of fixed maturity assets or a total return debt index. Such arrangements in which funds are withheld by the ceding insurer cause the reinsurer to recognize a receivable from the ceding insurer as well as a liability representing reserves for the insurance coverage assumed under the reinsurance arrangements. The terms of the ceding company s payable provide for the future payment of principal plus a rate of return on either its general account assets or a specified block of those assets which is typically composed of fixed-rate debt securities. DIG Issue B36 considers the payable from the ceding company to contain an embedded derivative that must be bifurcated and accounted for separately under SFAS 133. We adopted DIG Issue B36 on October 1, 2003, which included establishing an embedded derivative liability of $6.5 million and the reclassification of certain securities supporting the products being reinsured from available-for-sale to held for trading. The net cumulative effect of the change in accounting for DIG Issue B36 was a decrease of $2.0 million ($1.3 million after-tax) in net income and a decrease of $5.2 million in accumulated other comprehensive income (AOCI), net of tax. The basic and diluted earnings per common share for the cumulative effect of the change in accounting for derivatives in accordance with DIG Issue B36 amounted to $0.03 for 2003.

(5) MORTGAGE LOANS

Mortgage loans consisted of the following:

	December 31,	
	2005	2004
	($ in thousands)	
Single-family real estate	$ 288	$ 381
Multi-family real estate	84,874	83,528
Commercial real estate	889,899	780,660
Commercial	1,074	1,164
	976,135	865,733
Allowance for credit losses		
	$ 976,135	$ 865,733

The Company manages its credit risk associated with these loans by diversifying its mortgage portfolio by property type and geographic location and by seeking favorable loan to value ratios on secured properties. At December 31, 2005, the states with the highest concentration of mortgage loans were Texas, California, Florida, Ohio and Georgia with carrying values of $138.3 million, $116.4 million, $115.6 million, $49.8 million and $46.7 million, respectively.

The amounts the Company will ultimately realize from these loans could differ materially from their carrying values because of future developments affecting the underlying collateral or the borrower s ability to repay the loans and

leases. As of December 31, 2005, there were no material commitments to lend additional funds to customers whose loans were classified as non-accrual or restructured.

No mortgage loan on any one individual property exceeded $25.0 million at December 31, 2005 and 2004.

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AMERUS GROUP CO.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Provisions for losses are summarized as follows:

	Years ended December 31,		
	2005	2004	2003
	($ in thousands)		
Balance at beginning of year	$	$ 6,650	$ 15,373
Reduction in provision for loan losses, net		(6,650)	(8,723)
Balance at end of year	$	$	$ 6,650

(6) DEFERRED POLICY ACQUISITION COSTS

A summary of the policy acquisition costs deferred and amortized are as follows: