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AMERUS GROUP CO/IA
Form 10-Q
August 12, 2002

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2002

OR

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER 000-30898

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

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

IOWA
(State or other jurisdiction of
incorporation or organization)

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

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

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

The number of shares outstanding of each of the Registrant's classes of common stock on August 6, 2002 was as follows:

| | |
|--------------|-------------------|
| Common Stock | 39,723,659 shares |
|--------------|-------------------|

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SAFE HARBOR STATEMENT

All statements, trend analyses and other information contained in this report relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements under the Private

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Securities Litigation Reform Act of 1995. 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 market performance, which may affect our ability to sell our products, the market value of our investments and the lapse rate and profitability of policies; (b) our ability to achieve anticipated levels of operational efficiencies and cost-saving initiatives and to meet cash requirements based upon projected liquidity sources; (c) customer response to new products, distribution channels and marketing initiatives; (d) mortality, morbidity, and other factors which may affect the profitability of our insurance products; (e) our ability to develop and maintain effective risk management policies and procedures and to maintain adequate reserves for future policy benefits and claims; (f) changes in the federal income tax laws and regulations which may affect the relative tax advantages of some of our products; (g) increasing competition in the sale of insurance and annuities and the recruitment of sales representatives; (h) regulatory changes or actions, including those relating to regulation of insurance products and of insurance companies; (i) our ratings and those of our subsidiaries by independent rating organizations which we believe are particularly important to the sale of our products; (j) the performance of our investment portfolios; (k) the impact of changes in standards of accounting for derivatives and business combinations, goodwill and other intangibles and purchase accounting adjustments; (l) our ability to integrate the business and operations of acquired entities; (m) expected life and annuity product margins; (n) the impact of anticipated investment transactions; and (o) unanticipated litigation or regulatory investigations.

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 - FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

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

| | June 30, 2002 |
|-----------------------------------------------|----------------------|
| | ----- (unaudited) |
| Assets | |
| Investments: | |
| Securities available-for-sale, at fair value: | |
| Fixed maturity securities | \$11,850,297 |
| Equity securities | 45,562 |

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| | |
|------------------------------------------------------|--------------|
| Short-term investments | 15,149 |
| Securities held for trading purposes, at fair value: | |
| Fixed maturity securities | 1,941,177 |
| Equity securities | -- |
| Short-term investments | 7,985 |
| Mortgage loans | 926,903 |
| Real estate | 1,287 |
| Policy loans | 500,273 |
| Other investments | 307,495 |
| | ----- |
| Total investments | 15,596,128 |
| Cash and cash equivalents | 102,272 |
| Accrued investment income | 182,467 |
| Premiums, fees and other receivables | 7,502 |
| Reinsurance receivables | 805,130 |
| Deferred policy acquisition costs | 788,190 |
| Value of business acquired | 546,131 |
| Goodwill | 217,632 |
| Property and equipment | 77,900 |
| Deferred income taxes | -- |
| Other assets | 293,023 |
| Separate account assets | 283,975 |
| Assets of discontinued operations | 30,152 |
| | ----- |
| Total assets | \$18,930,502 |
| | ===== |

See accompanying notes to consolidated financial statements.

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

| | June 30, 2002 | Decemb 20 |
|-----------------------------------------|------------------|--------------|
| | ----- | |
| | (unaudited) | |
| Liabilities and Stockholders' Equity | | |
| Liabilities: | | |
| Policy reserves and policyowner funds: | | |
| Future life and annuity policy benefits | \$ 15,581,845 | \$ 15,10 |
| Policyowner funds | 785,759 | 43 |
| | ----- | ----- |
| | 16,367,604 | 15,53 |
| Accrued expenses and other liabilities | 281,146 | 48 |
| Dividends payable to policyowners | 246,615 | 22 |
| Policy and contract claims | 42,994 | 3 |
| Income taxes payable | 12,534 | 4 |
| Deferred income taxes | 10,044 | |

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| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|
| Notes payable | 419,617 | 31 |
| Separate account liabilities | 283,975 | 32 |
| Liabilities of discontinued operations | 19,484 | 2 |
| | ----- | |
| Total liabilities | 17,684,013 | 16,99 |
| Company-obligated mandatorily redeemable preferred capital securities of subsidiary trusts holding solely junior subordinated debentures of the Company | 48,249 | 6 |
| Stockholders' equity: | | |
| Preferred Stock, no par value, 20,000,000 shares authorized, none issued | -- | |
| Common Stock, no par value, 230,000,000 shares authorized; 39,721,666 shares issued and outstanding in 2002 (net of 3,916,622 treasury shares) and 41,759,450 shares issued and outstanding in 2001 (net of 1,746,548 treasury shares) | 39,722 | 4 |
| Additional paid-in capital | 1,048,979 | 1,12 |
| Accumulated other comprehensive income | 18,910 | 1 |
| Unearned compensation | (510) | |
| Unallocated ESOP shares | (224) | |
| Retained earnings | 91,363 | 6 |
| | ----- | |
| Total stockholders' equity | 1,198,240 | 1,23 |
| | ----- | |
| Total liabilities and stockholders' equity | \$ 18,930,502 | \$ 18,29 |
| | ===== | |

See accompanying notes to consolidated financial statements.

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

| | For The Three Months Ended June 30, | |
|---------------------------------------------|-------------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | ----- |
| Revenues: | | (unaudit |
| Insurance premiums | \$ 93,247 | \$ 71,712 |
| Universal life and annuity product charges | 39,314 | 34,847 |
| Net investment income | 251,897 | 207,093 |
| Realized/unrealized (losses) on investments | (75,911) | (11,825) |
| Other income | 19,925 | 11,952 |
| | ----- | ----- |
| | 328,472 | 313,779 |
| | ----- | ----- |
| Benefits and expenses: | | |

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| | | |
|-------------------------------------------------------------------------------------|------------|------------|
| Policyowner benefits | 220,376 | 189,363 |
| Underwriting, acquisition and other expenses | 43,201 | 35,121 |
| Demutualization costs | 179 | 202 |
| Restructuring costs | 6,416 | -- |
| Amortization of deferred policy acquisition costs and value of business acquired | 28,324 | 29,971 |
| Dividends to policyowners | 19,221 | 23,067 |
| | ----- | ----- |
| | 317,717 | 277,724 |
| | ----- | ----- |
| Income from continuing operations | 10,755 | 36,055 |
| Interest expense | 6,337 | 7,410 |
| | ----- | ----- |
| Income before income tax expense | 4,418 | 28,645 |
| Income tax expense | 696 | 8,950 |
| | ----- | ----- |
| Net income from continuing operations | 3,722 | 19,695 |
| Discontinued operations (net of tax): | | |
| Income from discontinued operations | 540 | 532 |
| | ----- | ----- |
| Net income before cumulative effect of change in accounting for derivatives | 4,262 | 20,227 |
| Cumulative effect of change in accounting for derivatives, net of tax | -- | -- |
| | ----- | ----- |
| Net income | \$ 4,262 | \$ 20,227 |
| | ===== | ===== |
| Net income from continuing operations per common share: | | |
| Basic | \$ 0.09 | \$ 0.57 |
| | ===== | ===== |
| Diluted | \$ 0.09 | \$ 0.57 |
| | ===== | ===== |
| Net income from discontinued operations per common share: | | |
| Basic | \$ 0.01 | \$ 0.02 |
| | ===== | ===== |
| Diluted | \$ 0.01 | \$ 0.02 |
| | ===== | ===== |
| Net income per common share: | | |
| Basic | \$ 0.11 | \$ 0.59 |
| | ===== | ===== |
| Diluted | \$ 0.10 | \$ 0.59 |
| | ===== | ===== |
| Weighted average common shares outstanding: | | |
| Basic | 40,155,276 | 34,364,932 |
| | ===== | ===== |
| Diluted | 40,661,337 | 34,528,541 |
| | ===== | ===== |

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See accompanying notes to consolidated financial statements.

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

| | For The Three Months Ended June 30, | |
|--------------------------------------------------------|-------------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | |
| | (unaudited) | |
| Net income | \$ 4,262 | \$ 20,227 |
| Other comprehensive income (loss), before tax: | | |
| Unrealized gains (losses) on securities: | | |
| Transfer related to unrealized gain on available- | | |
| for-sale securities reclassified to trading | -- | -- |
| Unrealized holding gains (losses) arising during | | |
| period | 27,724 | (38,083) |
| Less: Reclassification adjustment for (losses) | | |
| included in net income | (37,697) | (7,247) |
| | ----- | |
| Other comprehensive income (loss), before tax | 65,421 | (30,836) |
| Income tax (expense) benefit related to items of other | | |
| comprehensive income | (22,897) | 10,792 |
| | ----- | |
| | 42,524 | (20,044) |
| Amounts attributable to: | | |
| Change in accounting for derivatives | -- | -- |
| | ----- | |
| Other comprehensive income (loss), net of taxes | 42,524 | (20,044) |
| Comprehensive income (loss) | \$ 46,786 | \$ 183 |
| | ===== | |

See accompanying notes to consolidated financial statements.

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

| | Common Stock | Additional Paid-In Capital | Accumulated Other Comprehensive Income (Loss) | Unearned Compensation | Un |
|--|-----------------|----------------------------------|-----------------------------------------------------------|--------------------------|----|
|--|-----------------|----------------------------------|-----------------------------------------------------------|--------------------------|----|

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| | | | | |
|----------------------------------------------------------------------------------------------|----------|--------------|-------------|----------|
| Balance at December 31, 2000 | \$30,011 | \$ 809,894 | \$ (17,188) | \$ (146) |
| 2001: | | | | |
| Net income | -- | -- | -- | -- |
| Change in accounting for derivatives | -- | -- | 2,661 | -- |
| Transfer related to unrealized gain on available-for-sale securities reclassified to trading | -- | -- | (430) | -- |
| Net unrealized gain (loss) on securities | -- | -- | 35,891 | -- |
| Net unrealized gain (loss) on derivatives designated as cash flow hedges | -- | -- | (5,933) | -- |
| Stock issued under various incentive plans, net of forfeitures | 338 | 8,921 | -- | (581) |
| Dividends declared on common stock | -- | -- | -- | -- |
| Purchase of treasury stock | (1,406) | (43,579) | -- | -- |
| Acquisition of IL Holdings | 9,047 | 223,358 | -- | -- |
| Conversion of company-obligated mandatorily redeemable preferred capital securities | 3,769 | 123,779 | -- | -- |
| Allocation of shares in leveraged ESOP | -- | 480 | -- | -- |
| Minimum pension liability adjustment | -- | -- | (2,332) | -- |
| Balance at December 31, 2001 | \$41,759 | \$ 1,122,853 | \$ 12,669 | \$ (727) |
| 2002 (unaudited): | | | | |
| Net income | -- | -- | -- | -- |
| Net unrealized gain on securities | -- | -- | 5,955 | -- |
| Net unrealized gain on derivatives designated as cash flow hedges | -- | -- | 286 | -- |
| Stock issued under various incentive plans, net of forfeitures | 477 | 12,864 | -- | 217 |
| Purchase of treasury stock | (2,514) | (86,738) | -- | -- |
| Balance at June 30, 2002 | \$39,722 | \$ 1,048,979 | \$ 18,910 | \$ (510) |

See accompanying notes to consolidated financial statements.

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| | ----- (unaudited) | |
|-------------------------------------------------------------------------------------------------------------------|----------------------|-------------|
| Cash flows from operating activities | | |
| Net income | \$ 29,176 | \$ 31,863 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Cumulative effect of change in accounting for derivatives | -- | 8,236 |
| Policyowner assessments on universal life and annuity products | (70,159) | (46,255) |
| Interest credited to policyowner account balances | 222,872 | 181,081 |
| Change in option value of equity-indexed products and market value adjustments on total return strategy annuities | (35,867) | (32,510) |
| Realized/unrealized (gains) losses on investments | 100,623 | 51,660 |
| Goodwill amortization | -- | 3,898 |
| DAC amortization | 32,682 | 18,185 |
| VOBA amortization | 35,482 | 37,057 |
| Change in: | | |
| Accrued investment income | (8,229) | (8,046) |
| Reinsurance receivables | (73,100) | 16,677 |
| Securities held for trading purposes: | | |
| Fixed maturities | 215,125 | (48,891) |
| Equity securities | 12,471 | (1,648) |
| Short-term investments | (3,780) | -- |
| Deferred policy acquisition costs | (201,575) | (107,687) |
| Liabilities for future policy benefits | 434,465 | (3,283) |
| Accrued expenses and other liabilities | (29,499) | (59,110) |
| Policy and contract claims and other policyowner funds | 28,122 | (1,720) |
| Income taxes: | | |
| Current | (33,277) | (12,292) |
| Deferred | 25,637 | 20,690 |
| Other, net | (41,007) | (17,890) |
| | ----- | ----- |
| Net cash provided by operating activities | 640,162 | 30,015 |
| | ----- | ----- |
| Cash flows from investing activities: | | |
| Purchase of fixed maturities available-for-sale | (3,033,669) | (1,603,208) |
| Proceeds from sale of fixed maturities available-for-sale | 1,686,139 | 909,026 |
| Maturities, calls and principal reductions of fixed maturities available-for-sale | 507,723 | 257,064 |
| Purchase of equity securities | (35,945) | (52,541) |
| Proceeds from sale of equity securities | 3,604 | 54,749 |
| Change in short-term investments, net | (334) | 9,473 |
| Purchase of mortgage loans | (36,558) | (81,967) |

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| | For The Six Months Ended June 30, | |
|------------------------------------------------------------------------------|-----------------------------------|------------|
| | 2002 | 2001 |
| | ----- | |
| | (unaudited) | |
| Proceeds from repayment and sale of mortgage loans | 53,520 | 50,752 |
| Purchase of real estate and other invested assets | (29,551) | (49,002) |
| Proceeds from sale of real estate and other invested assets | 30,230 | 57,603 |
| Change in policy loans, net | 6,045 | 1,459 |
| Other assets, net | (8,977) | (51,991) |
| Acquisitions, net of cash acquired | -- | 156,959 |
| | ----- | |
| Net cash (used in) investing activities | (857,773) | (341,624) |
| | ----- | |
| Cash flows from financing activities: | | |
| Deposits to policyowner account balances | 998,428 | 1,010,247 |
| Withdrawals from policyowner account balances | (859,614) | (639,913) |
| Change in debt, net | (80,957) | (11,471) |
| Stock issued under various incentive plans, net of forfeitures | 13,558 | 1,495 |
| Purchase of treasury stock | (89,252) | (857) |
| Proceeds from issuance of OCEANs | 178,494 | -- |
| Retirement of company-obligated mandatorily redeemable capital securities | (20,150) | -- |
| | ----- | |
| Net cash provided by financing activities | 140,507 | 359,501 |
| | ----- | |
| Net (decrease) in cash | (77,104) | 47,892 |
| Cash and cash equivalents at beginning of period | 179,376 | 65,485 |
| | ----- | |
| Cash and cash equivalents at end of period | \$ 102,272 | \$ 113,377 |
| | ===== | |
| Supplemental disclosure of cash activities: | | |
| Interest paid | \$ 11,402 | \$ 14,392 |
| | ===== | |
| Income taxes paid | \$ 26,921 | \$ 9,829 |
| | ===== | |

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

For The Six Months Ended June 30,
2002 2001

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(unaudited)

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

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

(1) CONSOLIDATION AND BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for annual financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All adjustments were of a normal recurring nature, unless otherwise noted in Management's Discussion and Analysis and the Notes to Consolidated Financial Statements. Operating results for the six months ended June 30, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002 (see further discussion in Management's Discussion and Analysis). For further information and for capitalized terms not defined in this Form 10-Q, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

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

Effective on March 29, 2002, Western Security Life Insurance Company, a subsidiary of ILIC, was sold. The insurance business of Western Security Life Insurance Company was transferred to ILIC prior to the sale. The sale of the corporate organization and insurance licenses resulted in a gain of approximately \$1.9 million which is included in realized gains.

Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 financial statement presentation.

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(2) EARNINGS PER SHARE

Basic earnings per share of common stock are computed by dividing net income by the weighted-average number of common shares outstanding during the period. Diluted earnings per share assumes the issuance of common shares applicable to stock options and warrants calculated using the treasury stock method. In addition, diluted earnings per share applicable to the Company's Optionally Convertible Equity-linked Accreting Notes (OCEANs(SM)) are determined using the if-converted method for the number of days in the period in which the common stock price conversion condition is met. No undistributed net income has been allocated to the convertible securities holders since their participation in dividends with common stockholders is established at the amount of the annual regular dividend. See further discussion of the OCEANs in note 5.

(3) DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standard (SFAS) No. 133 "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS 137 and SFAS 138, which requires that all derivative instruments, including certain derivative instruments embedded in other contracts, be reported on the balance sheet at fair value. Accounting for gains and losses resulting from changes in the values of derivatives is dependent upon the use of the derivative and its qualification for special hedge accounting. In accordance with the provisions of SFAS

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No. 133, the Company recorded a transition adjustment as of January 1, 2001 upon adoption of the standard to recognize its derivative instruments at fair value resulting in a pre-tax reduction to income of \$12.4 million (\$8.2 million after-tax) and an increase to Accumulated Other Comprehensive Income (AOCI) of \$2.7 million. The reduction to income which is classified as a "cumulative effect of change in accounting for derivatives, net of tax" in the Consolidated Statements of Income, is attributable to losses on basis swaps that were natural hedges and losses on interest rate swaps reclassified from AOCI that have been redesignated as cash flow hedges of floating rate funding agreement liability effective January 1, 2001. In addition, the reduction to income includes adjustments to fair value for options being used to hedge embedded options contained within equity-indexed annuity products. The increase in AOCI, which is classified as "change in accounting for derivatives" in the Consolidated Statements of Comprehensive Income, is attributable to the reclassification of the interest rate swap's fair value adjustment from AOCI to the Consolidated Statements of Income.

During the first six months of 2002 and 2001, realized/unrealized gains (losses) on investments included an unrealized loss of \$34.8 million and \$34.1 million, respectively, from the change in fair value on call options used as a natural hedge of embedded options within equity-indexed annuities. Additionally, the first six months of 2002 and 2001 included an unrealized loss of \$19.5 million and \$3.5 million, respectively, from the change in fair value on the trading securities backing the total return strategy products. Policyowner benefits included an offsetting adjustment to reduce contract liabilities for fair value changes in options embedded within the equity-indexed products and fair value changes on total return strategy products of \$35.9 million and \$32.5 million for the first six months of 2002 and 2001, respectively. In addition, basis swaps were terminated during the first quarter of 2001 and an increase in

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fair value of \$1.8 million on those swaps was included in net investment income. AOCI included an unrealized gain of \$0.3 million and loss of \$2.1 million from the fair value change in interest rate swaps used to hedge the floating rate funding agreement liability during the first six months of 2002 and 2001, respectively. The Company undesignated a cash flow hedge and is now amortizing the amount in AOCI to earnings over the remaining life of the basis swap, which amounted to \$0.7 million expense in the second quarter of 2002. The Company estimates that \$4.0 million of derivative losses included in AOCI will be reclassified into earnings within the next twelve months.

The following table summarizes the income (loss) impact of the market value adjustments on trading securities and derivatives and the cash flow hedge amortization for the first six months ended June 30, 2002 and 2001 (in thousands):

| | For The Six Months Ended June 30, 2002 | 2001 |
|---------------------------------------------------------------------------------|-------------------------------------------|------------|
| (\$ in thousands) | | |
| Fixed maturity securities held for trading | \$ (19,450) | \$ (3,519) |
| Options on equity-indexed annuities | (34,786) | (34,096) |
| Equity-indexed and total return strategy fixed annuity liabilities | 35,867 | 32,510 |
| Cash flow hedge amortization | (697) | - |
| Deferred policy acquisition cost amortization impact of net annuity adjustments | (2,662) | 2,102 |
| | ----- | |
| Pre-tax total | (21,728) | (3,003) |
| Income taxes | 7,605 | 1,051 |
| | ----- | |
| After-tax total | \$ (14,123) | \$ (1,952) |

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(4) CLOSED BLOCK

The Company has established two closed blocks, which we refer to as the Closed Block. The first was established on June 30, 1996 in connection with the reorganization of ALIC to a stock form. The second was established as of March 31, 2000 in connection with the reorganization of ILIC to a stock form. The operations of ILIC have been included in the consolidated financial statements of the Company since May 18, 2001. 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 provide reasonable assurance to owners of insurance policies included therein that, after the reorganization 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 continues.

Summarized financial information of the Closed Block as of June 30, 2002 and December 31, 2001 and for the three months and six months ended June 30, 2002 and 2001 are as follows:

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| | June 30, 2002 | December 31, 2001 |
|------------------------------------------------------------------------------------------|-------------------|----------------------|
| | ----- | |
| | (\$ in thousands) | |
| | (unaudited) | |
| LIABILITIES | | |
| Future life and annuity policy benefits | \$ 2,821,245 | \$ 2,835,423 |
| Policyowner funds | 4,745 | 4,656 |
| Accrued expenses and other liabilities | 72,964 | 69,678 |
| Dividends payable to policyowners | 154,966 | 154,139 |
| Policy and contract claims | 11,865 | 8,843 |
| Policyowner dividend obligation | 54,542 | 61,486 |
| | ----- | |
| Total Liabilities | 3,120,327 | 3,134,225 |
| | ----- | |
| ASSETS | | |
| Fixed maturity securities available-for-sale | 1,869,819 | 1,829,060 |
| Mortgage loans | 100,872 | 105,901 |
| Policy loans | 357,964 | 363,981 |
| Other investments | 31,350 | 4,653 |
| Cash and cash equivalents | 3,612 | 18,382 |
| Accrued investment income | 31,258 | 32,396 |
| Premiums and fees receivable | 14,778 | 22,414 |
| Other assets | 45,726 | 41,827 |
| | ----- | |
| Total Assets | 2,455,379 | 2,418,614 |
| | ----- | |
| Maximum future earnings to be recognized from assets and liabilities of the Closed Block | \$ 664,948 | \$ 715,611 |
| | ===== | |

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| | For The Three Months Ended June 30, | |
|----------------------------------------------|----------------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | |
| | (\$ in thousands) | |
| | (unaudited) | |
| OPERATIONS: | | |
| Insurance premiums | \$ 68,323 | \$ 59,714 |
| Universal life and annuity product charges | 544 | 3,015 |
| Net investment income | 38,934 | 29,530 |
| Realized gains (losses) on investments | (5,378) | 69 |
| Policyowner benefits | (72,634) | (62,075) |
| Underwriting, acquisition and other expenses | (1,481) | (922) |
| Dividends to policyowners | (16,970) | (21,195) |
| | ----- | |

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| | | |
|-----------------------------------------------------------|-----------|----------|
| Contribution from the Closed Block before income taxes | \$ 11,338 | \$ 8,136 |
| | ===== | ===== |

For The Six
Months Ended June 30,
2002 2001

(\$ in thousands)
(unaudited)

OPERATIONS:

| | | |
|----------------------------------------------|------------|------------|
| Insurance premiums | \$ 134,111 | \$ 104,562 |
| Universal life and annuity product charges | 3,441 | 6,329 |
| Net investment income | 76,977 | 54,809 |
| Realized gains (losses) on investments | (754) | 313 |
| Policyowner benefits | (144,749) | (110,898) |
| Underwriting, acquisition and other expenses | (2,736) | (1,687) |
| Dividends to policyowners | (43,304) | (38,823) |
| | ----- | ----- |

| | | |
|-----------------------------------------------------------|-----------|-----------|
| Contribution from the Closed Block before income taxes | \$ 22,986 | \$ 14,605 |
| | ===== | ===== |

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(5) NOTES PAYABLE AND CAPITAL SECURITIES

Notes payable and capital securities consist of the following:

June 30, December 31,
2002 2001

(\$ in thousands)
(unaudited)

| | | |
|------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Federal Home Loan Bank community investment long-term advances with a weighted average interest rate of 5.80% at June 30, 2002 (A) | \$ 14,124 | \$ 14,369 |
| Optionally Convertible Equity-linked Accreting Notes due on March 6, 2032 (B) | 185,493 | -- |
| Senior notes bearing interest at 6.95% due June, 2005 | 125,000 | 125,000 |
| Revolving credit agreement | 70,000 | 150,000 |
| Surplus notes bearing interest at 8.66% due on April 11,2011 | 25,000 | 25,000 |
| Note payable to a bank bearing interest at 7.24% due March, 2004 | -- | 1,205 |
| | ----- | ----- |
| | \$419,617 | \$315,574 |

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| | ===== | ===== |
|-----------------------------------------------------------------------------------------------------------|-----------|-----------|
| AmerUs Capital I 8.85 % Capital Securities Series A due February 1, 2007 (C) | \$ 48,095 | \$ 68,900 |
| AmerUs Capital II 7.00 % Adjustable Conversion-rate Equity Security Units are due July 27, 2003 | 154 | 154 |
| | ----- | ----- |
| | \$ 48,249 | \$ 69,054 |
| | ===== | ===== |

(A) The Company has multiple credit arrangements with the Federal Home Loan Bank (FHLB). In addition to the long-term advances disclosed above, the Company is eligible to borrow under variable-rate short term fed funds arrangements of which no amount was outstanding at June 30, 2002. These borrowings are secured and interest is payable at the current rate at the time of each advance.

(B) On March 6, 2002, the Company issued and sold in a private placement \$185 million aggregate original principal amount of OCEANs. The OCEANs are senior subordinated debt and were issued and sold in an original principal amount of \$1,000 per OCEAN, with a principal amount at maturity of \$1,270 per OCEAN. The maturity date of the OCEANs is March 6, 2032. The OCEANs will have aggregate principal amount at maturity of \$234,950,000. The notes are convertible into shares of the Company's

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common stock at an initial conversion price (subject to adjustment) of \$37.60 per share only if the sale price of the common stock exceeds \$47.85 per share for at least 20 trading days in a 30-day trading period or in certain other limited circumstances.

Proceeds from the OCEANs were used to repay borrowings on the Company's revolving credit agreement and to purchase approximately 1.7 million shares amounting to \$59 million of the Company's common stock. The OCEANs are senior subordinated debt, subordinated in right of payment to all existing and future senior debt and senior to all existing and future junior subordinated debt.

(C) On March 26, 2002, \$20.8 million of the AmerUs Capital I 8.85% Capital Securities were repurchased which did not result in a material gain.

For an additional discussion of the terms of the above indebtedness refer to the Company's consolidated financial statements as of December 31, 2001.

(6) FEDERAL INCOME TAXES

The effective income tax rate for the three-months and six months ending June 30, 2002 and 2001, respectively, varied from the prevailing corporate rate primarily as a result of non-deductible demutualization costs, low income housing and rehabilitation credits, and tax exempt income in 2002 and 2001 and goodwill amortization in 2001.

(7) ACQUISITIONS

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On May 18, 2001, the Company completed the acquisition of ILICO for an amount of cash, policy credits and shares of the Company's common stock equal to the value of 9.3 million shares of the Company's common stock. The purchase price totaled approximately \$326 million. The acquisition was accounted for using the purchase method of accounting and accordingly the total purchase price was allocated to the assets and liabilities of ILICO based on the relative fair values as of May 18, 2001, with the excess of the purchase price over the fair value of the assets acquired less the fair value of the liabilities assumed recorded as goodwill. Goodwill was amortized over thirty years through December 31, 2001. In accordance with SFAS 142, "Goodwill and Other Intangible Assets," effective January 1, 2002, goodwill is no longer amortized but instead tested for impairment on an annual basis (see note 9). The operations of ILICO have been included in the consolidated financial statements of the Company since May 18, 2001. The allocation of the purchase price of ILICO is as follows (in millions):

| | |
|---------------------------------------------------------|------------|
| Investments (including cash and short-term investments) | \$ 4,655.7 |
| Receivables and other assets | 402.1 |
| Value of business acquired | 215.4 |
| Goodwill | 34.9 |
| Separate account assets | 345.6 |
| Policyowner reserves and funds | (4,801.3) |
| Other liabilities | (155.4) |
| Debt | (25.0) |
| Separate account liabilities | (345.6) |
| | ----- |
| Total investment in ILICO | \$ 326.4 |
| | ===== |

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In June 2002, the Company acquired an independent marketing organization for cash of \$7.5 million. The total purchase price was allocated to the assets and liabilities based on the relative fair values with the excess of the purchase price over the fair value of the assets acquired less the fair value of the liabilities assumed recorded as goodwill. Goodwill amounting to \$7.2 million was established in connection with the acquisition.

(8) RESTRUCTURING CHARGES

During the third quarter of 2001, the Company began consolidating various functions in connection with a restructuring of its protection products and accumulation products operations and investment activities. The objective of the restructuring plan is to eliminate duplicative functions for all business units. The elimination of duplicative functions is intended to reduce on-going operating costs for the Company. General administrative functions will be transitioned so they are performed primarily in Des Moines, Iowa. Protection products processes will be transitioned so they are performed primarily in Des Moines, Iowa and Indianapolis, Indiana and accumulation products functions will be transitioned to Topeka, Kansas. Investment activities have been restructured to eliminate real estate management services which will be outsourced in the future.

Restructuring charges have been included in the consolidated statement of income for the three months and six months ended June 30, 2002. The restructuring charges for the six months ended June 30, 2002 include pre-tax severance and termination benefits of \$5.3 million related to the elimination of

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approximately 80 positions and other pre-tax costs of \$2.9 million primarily related to systems conversion and relocation of employees. An accrual for severance and termination benefits not yet paid amounted to \$2.6 million at June 30, 2002.

The Company has not finalized all restructuring activities as of June 30, 2002. Additional activities will primarily involve relocation or severance benefits for affected employees and various administrative, financial, and actuarial system conversion costs. Expenditures for all restructuring activities are expected to be completed by the fourth quarter of 2003.

(9) ADOPTION OF SFAS 142

SFAS 142, "Goodwill and Other Intangible Assets," changes the accounting for goodwill and other intangible assets and generally became effective January 1, 2002. SFAS 142 adopts a nonamortization, impairment-only model for the Company's goodwill and indefinite-lived intangible assets. This includes a more stringent impairment test methodology for measuring and recognizing impairment losses. The Company accordingly discontinued amortization of goodwill on January 1, 2002. As of June 30, 2002, goodwill of \$34.2 million is in the protection products segment and \$183.4 million is in the accumulation products segment. The only intangible asset other than goodwill, is value of business acquired (VOBA) which is being amortized and amounted to a gross carrying amount of \$819.2 million and accumulated amortization of \$273.1 million of at June 30, 2002. Goodwill changed from \$195.5 million at December 31, 2001 to \$217.6 million at June 30, 2002 primarily due to the adjustment of the ILICO purchase price allocation which increased goodwill approximately \$14.0 million and goodwill attributable to the acquisition of independent marketing organizations of approximately \$8.1 million. The Company has evaluated the transitional impairment analysis for goodwill and other intangible assets and determined such assets are not impaired as of January 1, 2002.

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A reconciliation of net income and basic and diluted earnings per share reported for the three months and six months ended June 30, 2001 to exclude amortization expense of goodwill is as follows:

| | For The Three Months Ended June 30, 2002 | 2001 | For The Si 2002 |
|----------------------------------------|---------------------------------------------|-----------|--------------------|
| | ----- | | ----- |
| | (\$ in thousands, except per share) | | |
| Net income as reported | \$ 4,262 | \$ 20,227 | \$ 29,17 |
| Goodwill amortization expense | - | 1,955 | |
| | ----- | | ----- |
| Adjusted net income | \$ 4,262 | \$ 22,182 | \$ 29,17 |
| | ===== | | ===== |
| Basic earnings per share as reported | \$ 0.11 | \$ 0.59 | \$ 0.7 |
| Goodwill amortization expense | - | 0.06 | |
| | ----- | | ----- |
| Adjusted basic earnings per share | \$ 0.11 | \$ 0.65 | \$ 0.7 |
| | ===== | | ===== |
| Diluted earnings per share as reported | \$ 0.10 | \$ 0.59 | \$ 0.7 |
| Goodwill amortization expense | - | 0.05 | |
| | ----- | | ----- |

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| | | | |
|-------------------------------------|---------|---------|--------|
| Adjusted diluted earnings per share | \$ 0.10 | \$ 0.64 | \$ 0.7 |
| | ===== | ===== | ===== |

(10) COMMITMENTS AND CONTINGENCIES

In recent years, the life insurance industry, including the Company and its subsidiaries, have been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. The Company is involved in litigation, including class actions, reinsurance claims and regulatory proceedings, arising in the ordinary course of its business. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages. Although no assurances can be given and no determinations can be made at this time, the Company believes that the ultimate liability, if any, with respect to these other claims and legal actions, would have no material effect on our results of operations and financial position.

(11) OPERATING SEGMENTS

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

Protection Products. The primary product offerings consist of whole life, interest-sensitive whole life, term life, universal life and equity-indexed life insurance policies. These products are marketed on a national basis primarily through a Preferred Producer agency system, a Personal Producing General Agent (PPGA) distribution system and Independent Marketing Organizations (IMOs).

Accumulation Products. The primary product offerings consist of individual fixed annuities marketed on a national basis primarily through independent brokers and IMOs and insurance contracts issued through separate account funding agreements.

The Company uses the same accounting policies and procedures to measure operating segment income and assets as it uses to measure its consolidated income from operations and assets with the exception of the elimination of certain items which management believes are not necessarily indicative of overall operating trends. These items are shown between adjusted pre-tax operating income and income from continuing operations on the following operating segment tables and are as follows:

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- 1) Realized gains and losses on open block investments.
- 2) Market value changes and amortization of assets and liabilities associated with the application of SFAS 133, such as:
 - Unrealized gains and losses on securities held for trading.
 - Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities.

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- Cash flow hedge amortization.
- 3) Amortization of deferred policy acquisition costs and VOBA related to the realized gains and losses on the open block investments and the SFAS 133 adjustments.
- 4) Demutualization costs.
- 5) Restructuring costs.

These items will either fluctuate from period to period depending on the prevailing interest rate and economic environment or are not continuing in nature, so management believes they do not reflect the Company's ongoing earnings capacity of its operating segments.

Premiums, product charges, policyowner benefits, insurance expenses, amortization of deferred policy acquisition costs and VOBA and dividends to policyowners are attributed directly to each operating segment. Net investment income and closed block realized gains and losses on investments are allocated based on directly-related assets required for transacting the business of that segment. Other revenues and benefits and expenses which are deemed not to be associated with any specific segment are grouped together in the All Other category. These items primarily consist of holding company revenues and expenses and the operations of the Company's real estate management subsidiary.

Assets are segmented based on policy liabilities directly attributable to each segment. There are no significant intersegment transactions. Depreciation and amortization, excluding amortization of deferred policy acquisition costs and VOBA as previously discussed, are not significant. There have been no material changes in segment assets since December 31, 2001.

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Operating segment income is as follows:

Operating Segment Income
(\$ in thousands)

| | For The Three Months Ended J | | |
|-----------------------------------------------------|------------------------------|--------------------------|-----------|
| | Protection Products | Accumulation Products | All Other |
| Revenues: | | | |
| Insurance premiums | \$ 89,808 | \$ 3,228 | \$ 211 |
| Universal life and annuity product charges | 28,590 | 10,724 | -- |
| Net investment income | 83,418 | 166,544 | 1,935 |
| Realized gains (losses) on closed block investments | (5,378) | -- | -- |
| Other income | 992 | 17,897 | 1,036 |
| | 197,430 | 198,393 | 3,182 |
| Benefits and expenses: | | | |
| Policyowner benefits | 112,598 | 127,423 | 394 |

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| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|----------|
| Underwriting, acquisition, and other expenses | 21,301 | 18,390 | 3,510 |
| Amortization of deferred policy acquisition costs and value of business acquired, net of open block loss adjustment of (\$6,840) | 14,506 | 20,658 | -- |
| Dividends to policyowners | 19,221 | -- | -- |
| | ----- | ----- | ----- |
| | 167,626 | 166,471 | 3,904 |
| | ----- | ----- | ----- |
| Adjusted pre-tax operating income | \$ 29,804 | \$ 31,922 | \$ (722) |
| | ===== | ===== | ===== |
| Realized (losses) on open block investments | | | |
| Unrealized (losses) on open block trading investments | | | |
| Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities | | | |
| Cash flow hedge amortization | | | |
| Amortization of deferred policy acquisition costs and VOBA due to open block gains or losses | | | |
| Demutualization costs | | | |
| Restructuring costs | | | |
| Income from continuing operations | | | |
| Interest (expense) | | | |
| Income tax (expense) | | | |
| Income from discontinued operations, net of tax | | | |
| Net income | | | |

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Operating Segment Income
(\$ in thousands)

| | For The Three Months Ended Jun | | |
|-----------------------------------------------------|--------------------------------|--------------------------|-----------|
| | Protection Products | Accumulation Products | All Other |
| | ----- | ----- | ----- |
| Revenues: | | | |
| Insurance premiums | \$ 68,906 | \$ 2,581 | \$ 225 |
| Universal life and annuity product charges | 25,821 | 9,026 | -- |
| Net investment income | 65,294 | 138,684 | 3,115 |
| Realized gains (losses) on closed block investments | 69 | (305) | -- |
| Other income | -- | 9,732 | 2,220 |

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| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|----------|
| | 160,090 | 159,718 | 5,560 |
| ----- | | | |
| Benefits and expenses: | | | |
| Policyowner benefits | 82,431 | 103,877 | 596 |
| Underwriting, acquisition, and other expenses | 17,911 | 13,565 | 3,645 |
| Amortization of deferred policy acquisition costs and value of business acquired, net of open block loss adjustment of (\$4,899) | 12,123 | 22,747 | -- |
| Dividends to policyowners | 23,067 | -- | -- |
| | ----- | | |
| | 135,532 | 140,189 | 4,241 |
| | ----- | | |
| Adjusted pre-tax operating income | \$ 24,558 | \$ 19,529 | \$ 1,319 |
| | ===== | | |
| Realized (losses) on open block investments | | | |
| Unrealized (losses) on open block trading investments | | | |
| Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities | | | |
| Amortization of deferred policy acquisition costs and VOBA due to open block gains or losses | | | |
| Demutualization costs | | | |
| Income from continuing operations | | | |
| Interest (expense) | | | |
| Income tax (expense) | | | |
| Income from discontinued operations, net of tax | | | |
| Net income | | | |

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Operating Segment Income
(\$ in thousands)

For The Six Months Ended June 30

| | | |
|------------------------|--------------------------|-----------|
| | | |
| Protection Products | Accumulation Products | All Other |

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| | | | |
|----------------------------------------------------------------------------------------------------------------------------------------|------------|-----------|------------|
| ----- | | | |
| Revenues: | | | |
| Insurance premiums | \$ 178,343 | \$ 6,180 | \$ 832 |
| Universal life and annuity product charges | 61,446 | 20,739 | -- |
| Net investment income | 163,843 | 324,887 | 2,937 |
| Realized gains (losses) on closed block investments | (754) | -- | -- |
| Other income | 1,945 | 28,442 | 1,550 |
| | ----- | | |
| | 404,823 | 380,248 | 5,319 |
| Benefits and expenses: | | | |
| Policyowner benefits | 222,149 | 245,763 | 1,190 |
| Underwriting, acquisition, and other expenses | 40,942 | 31,388 | 7,122 |
| Amortization of deferred policy acquisition costs and value of business acquired, net of open block loss adjustment of (\$5,286) | 28,841 | 44,611 | -- |
| Dividends to policyowners | 47,624 | -- | -- |
| | ----- | | |
| | 339,556 | 321,762 | 8,312 |
| | ----- | | |
| Adjusted pre-tax operating income | \$ 65,267 | \$ 58,486 | \$ (2,993) |
| | ===== | | |
| Realized (losses) on open block investments | | | |
| Unrealized (losses) on open block trading investments | | | |
| Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities | | | |
| Cash flow hedge amortization | | | |
| Amortization of deferred policy acquisition costs and VOBA due to open block gains or losses | | | |
| Demutualization costs | | | |
| Restructuring costs | | | |
| Income from continuing operations | | | |
| Interest (expense) | | | |
| Income tax (expense) | | | |
| Income from discontinued operations, net of tax | | | |
| Net income | | | |

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Operating Segment Income
(\$ in thousands)

| | For The Six Months Ended June 30, 2013 | | |
|----------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|--------------------------|-----------------------|
| | Protection Products | Accumulation Products | All Other Products |
| Revenues: | | | |
| Insurance premiums | \$ 121,432 | \$ 7,194 | \$ 253 |
| Universal life and annuity product charges | 42,955 | 16,158 | -- |
| Net investment income | 118,325 | 265,872 | 4,024 |
| Realized gains (losses) on closed block investments | 313 | 347 | -- |
| Other income | -- | 17,789 | 4,495 |
| | 283,025 | 307,360 | 8,772 |
| Benefits and expenses: | | | |
| Policyowner benefits | 147,537 | 194,235 | 585 |
| Underwriting, acquisition, and other expenses | 32,051 | 28,082 | 6,322 |
| Amortization of deferred policy acquisition costs and value of business acquired, net of open block loss adjustment of (\$5,537) | 21,733 | 39,046 | -- |
| Dividends to policyowners | 42,225 | -- | -- |
| | 243,546 | 261,363 | 6,907 |
| Adjusted pre-tax operating income | \$ 39,479 | \$ 45,997 | \$ 1,865 |
| Realized (losses) on open block investments | | | |
| Unrealized (losses) on open block trading investments | | | |
| Change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities | | | |
| Amortization of deferred policy acquisition costs and VOBA due to open block gains or losses | | | |
| Demutualization costs | | | |
| Income from continuing operations | | | |
| Interest (expense) | | | |
| Income tax (expense) | | | |
| Income from discontinued operations, net of tax | | | |
| Cumulative effect of change in accounting for derivatives, net of tax | | | |

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Net income

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

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

NATURE OF OPERATIONS

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 protection products segment was formerly known as the life insurance segment and the accumulation products segment was formerly known as the annuity segment. The protection products segment primary offerings consist of whole life, interest-sensitive whole life, term life, universal life and equity-indexed life insurance policies. The primary offerings of the accumulation products segment are individual fixed annuities and funding agreements.

ADJUSTED NET OPERATING INCOME

The following table reflects net income adjusted to eliminate certain items (net of applicable income taxes) which our management believes do not necessarily indicate overall operating trends. Adjusted net operating income, which is referred to herein as operating income, is the basis we use to assess our overall performance. Adjusted net operating income as described by us may not be comparable to similarly titled measures reported by other companies, including insurance companies. The adjusted net operating income shown below does not constitute net income computed in accordance with accounting principles generally accepted in the United States, or GAAP.

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| | For The Three Months Ended June 30, 2002 | 2001 | For The S 2002 |
|---------------------------------------------------------------------------------------------------|---------------------------------------------|-----------|-------------------|
| | ----- | | ----- |
| | (\$ in thousands, except per sh | | |
| Net income | \$ 4,262 | \$ 20,227 | \$ 2 |
| Realized losses on open block investments (A) | 23,155 | 4,677 | 2 |
| Net amortization of deferred policy acquisition costs due to open block gains or losses (B) | (3,668) | (1,317) | (|
| Net effect of accounting differences | | | |

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| | | | |
|------------------------------------------------------------------|------------|------------|-------|
| from the adoption of SFAS 133 (C) | 8,801 | 2,541 | 1 |
| Demutualization costs (D) | 179 | 202 | |
| Restructuring costs (E) | 3,937 | -- | |
| Discontinued operations (F) | (540) | (532) | |
| Cumulative effect of change in accounting for derivatives (G) | -- | -- | |
| | ----- | ----- | ----- |
| Adjusted Net Operating Income | \$ 36,126 | \$ 25,798 | \$ 7 |
| | ===== | ===== | ===== |
| Adjusted Net Operating Income per common share: | | | |
| Basic | \$ 0.90 | \$ 0.75 | \$ |
| | ===== | ===== | ===== |
| Diluted | \$ 0.89 | \$ 0.75 | \$ |
| | ===== | ===== | ===== |
| Weighted average common shares outstanding: | | | |
| Basic | 40,155,276 | 34,364,932 | 40,74 |
| | ===== | ===== | ===== |
| Diluted | 40,661,337 | 34,528,541 | 41,31 |
| | ===== | ===== | ===== |

- (A) Represents total open block realized gains or losses on investments adjusted for income taxes. Open block realized gains or losses may vary widely between periods. Such amounts are determined by management's timing of individual transactions or current market conditions and do not necessarily correspond to the underlying operating trends.
- (B) Represents amortization of deferred policy acquisition costs and VOBA on the open block realized gains or losses that are included in our product margins, adjusted for income taxes on such amounts.
- (C) Represents the net effect of SFAS 133, "Accounting for Derivative Instruments and Hedging Activities," related accounting entries, adjusted for income taxes. The accounting entries consist of cash flow hedge amortization, market value adjustments on trading securities, derivatives, certain annuity contracts, and the associated change in amortization of deferred acquisition costs and VOBA resulting from such adjustments.
- (D) Represents costs directly related to ILIC's demutualization. The costs consist primarily of legal, actuarial and consulting expenses.
- (E) Represents costs of restructuring our operations to eliminate duplicative functions, adjusted for income taxes. The costs consist primarily of severance and termination benefits, relocation of employees and systems conversion.
- (F) Represents the net income from our discontinued operations.

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(G) Represents the cumulative effect of change in accounting for derivatives, net of income taxes, as of January 1, 2001, resulting from our adoption of SFAS 133.

Adjusted net operating income increased \$10.3 million to \$36.1 million, or \$0.89 per diluted share, for the second quarter of 2002 compared to \$25.8 million, or \$0.75 per diluted share, for the second quarter of 2001. For the six months ended June 30, adjusted net operating income was \$72.2 million in 2002 compared to \$48.6 million in 2001. The increase in adjusted net operating income in 2002 was primarily attributable to the acquisition of ILICO which operations have been included in our consolidated financial statements since May 18, 2001. This change is analyzed further in the operating segment discussion.

SALES

PROTECTION PRODUCTS

The following table sets forth annualized premium information regarding our protection products segment sales activity by life insurance product:

| | Sales Activity by Product | | |
|---------------------------------------|---------------------------------------------|----------|----------------------------|
| | For The Three Months Ended June 30, 2002 | 2001 | For The Six Months 2002 |
| | ----- | | |
| | (\$ in thousands) | | |
| Traditional life insurance: | | | |
| Whole life | \$ 1,140 | \$ 1,506 | \$ 2,260 |
| Interest-sensitive whole life | 11,282 | 2,425 | 21,486 |
| Term life | 5,967 | 1,891 | 8,515 |
| Universal life | 6,399 | 4,053 | 14,725 |
| Equity-indexed life | 12,095 | 5,455 | 20,760 |
| | ----- | | ----- |
| Direct first year annualized premiums | 36,883 | 15,330 | 67,746 |
| Private label term life premiums | 1,048 | 733 | 4,644 |
| | ----- | | ----- |
| Total | \$37,931 | \$16,063 | \$72,390 |
| | ===== | | ===== |

Direct life insurance sales as measured by annualized premiums were \$36.9 million in the second quarter of 2002 compared to \$15.3 million in the second quarter of 2001. Year-to-date, direct life insurance sales increased \$42.0 million to \$67.7 million in 2002 compared to \$25.7 million in 2001. Approximately \$16.7 million and \$35.0 million of the increase for the quarter and year-to-date periods, respectively, was due to sales from ILICO which was acquired during the second quarter of 2001. Excluding the sales from ILICO, life insurance sales increased 47% and 34% for the quarter and year-to-date periods, respectively, as compared to 2001. The increase, excluding ILICO, was primarily from the equity-indexed life products which allow the policyowner to elect an earnings strategy for a portion of the account value whereby earnings are credited based on increases in the S&P 500 Index, excluding dividends. The earnings credit is subject to a participation rate and an annual cap. In the first six months

of 2002, sales of these products were \$20.8 million as compared to \$10.7 million for the same period a year ago.

We also distribute term products of ILICO through strategic alliances with private label partners. Under private label arrangements, ILICO designs and issues products that are distributed through the field forces of other life insurance companies, our private label partners. ILICO reinsures a portion of the risks on those products which we refer to as our private label sales. We have two private label partners that are actively writing new business. During the second quarter of 2002, we decided to cease recruiting new private label partners and the impact of this decision on future sales is not yet determinable.

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

| | Collected Premiums by Product | | |
|-------------------------------------------|---------------------------------------------|------------|----------------------------------|
| | For The Three Months Ended June 30, 2002 | 2001 | For The Six Months Ended 2002 |
| | ----- (\$ in thousands) | | |
| Individual life premiums collected: | | | |
| Traditional life: | | | |
| First year and single | \$ 38,210 | \$ 26,027 | \$ 80,777 |
| Renewal | 80,690 | 65,022 | 175,599 |
| | ----- | | |
| Total | 118,900 | 91,049 | 256,376 |
| | ----- | | |
| Universal life: | | | |
| First year and single | 13,889 | 5,290 | 33,541 |
| Renewal | 33,441 | 23,494 | 63,914 |
| | ----- | | |
| Total | 47,330 | 28,784 | 97,455 |
| | ----- | | |
| Equity-indexed life: | | | |
| First year and single | 19,729 | 7,474 | 31,611 |
| Renewal | 1,506 | 1,053 | 7,558 |
| | ----- | | |
| Total | 21,235 | 8,527 | 39,169 |
| | ----- | | |
| Total individual life | 187,465 | 128,360 | 392,999 |
| | ----- | | |
| Reinsurance assumed | 12,309 | 5,517 | 24,911 |
| Reinsurance ceded | (38,467) | (15,802) | (118,180) |
| | ----- | | |
| Total individual life, net of reinsurance | \$ 161,307 | \$ 118,075 | \$ 299,729 |

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Traditional life insurance premiums collected were \$118.9 million for the second quarter of 2002 compared to \$91.0 million for the second quarter of 2001. Year-to-date, traditional life insurance premiums increased \$96.1 million to \$256.4 million in 2002 compared to \$160.3 million in 2001. The increase in 2002 was primarily due to the additional premiums from ILICO which increased \$30.4 million and \$97.5 million for the quarter and year-to-date periods, respectively. Excluding the ILICO premiums, first year and single premiums remained relatively consistent between periods with such premiums decreasing \$0.3 million in the second quarter of 2002 and increasing \$1.7 million year-to-date as compared to the respective 2001 periods, as more of our life premium growth has shifted to the equity-indexed products. Renewal collected premium, excluding ILICO premiums, decreased \$2.3 million in the second quarter of 2002 and decreased \$3.2 million year-to-date as compared to 2001 primarily due to continued run-off of the closed block.

Universal life insurance premiums collected were \$47.3 million for the second quarter of 2002 compared to \$28.8 million for the second quarter of 2001 and \$97.5 million for the first six months of 2002 compared to \$51.9 million for the first six months of 2001. Approximately \$18.6 million and \$46.0 million of the increase in universal life insurance premiums for the quarter and year-to-date periods of

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2002 were from ILICO. Excluding ILICO, universal life premiums decreased \$0.1 million and \$0.4 million for the quarter and year-to-date periods, respectively, as a result of our shift in product focus from universal life to equity-indexed life.

Equity-indexed life premiums collected were \$21.2 million for the second quarter of 2002 compared to \$8.5 million for the second quarter of 2001 and \$39.2 million for the first six months of 2002 compared to \$16.6 million for the first six months of 2001. The increase in 2002 reporting periods as compared to 2001 was a result of our shift in product focus from universal life to equity-indexed life and continued customer interest in this product following its introduction in 2000.

Reinsurance assumed increased approximately \$6.8 million and \$18.9 million in the second quarter and year-to-date periods, respectively, of 2002 as compared to 2001. The increase is attributable to the acquisition of ILICO which private labels various term life products. The products are designed by ILICO, issued by ILICO's private label partners and then assumed in whole or in part by ILICO.

Reinsurance ceded was \$38.5 million in the second quarter of 2002 compared to \$15.8 million in the second quarter of 2001 and \$118.2 million for the first six months of 2002 compared to \$25.2 million for the first six months of 2001. ALIC entered into additional reinsurance arrangements in 2000 and in the fourth quarter of 2001. ALIC has reinsurance arrangements that reduce retention to 10% of the net amount of mortality risk on any one policy, not to exceed company retention limits, for the majority of policies issued since July 1, 1996 and for the majority of new business going forward. ALIC's retention limits on any one life vary by age and rating table and are generally between

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\$500,000 and \$1,000,000. In addition, ALIC has a reinsurance agreement covering its closed block policies. Under this agreement, ALIC has reinsured approximately 90% of ALIC's closed block mortality net amount at risk not previously reinsured. As a result of the new arrangements, ceded reinsurance premium, excluding ILICO, was \$19.7 million in the second quarter of 2002 compared to \$9.3 million in the second quarter of 2001 and was \$79.2 million for the first six months of 2002 compared to \$18.6 million for the first six months of 2001. The remainder of the increase in ceded premium amounting to \$12.3 million for the second quarter of 2002 and \$32.5 million for the first six months of 2002 was from the ILICO acquisition. ILICO's reinsurance agreements effectively reduce ILICO's retention of mortality risk to \$500,000.

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The following table sets forth information regarding our protection products segment life insurance in force for each date presented:

| Individual Life Insurance in Force | | |
|------------------------------------|--------------|--------------|
| As of June 30, | | |
| | 2002 | 2001 |
| ----- | | |
| (\$ in thousands) | | |
| Traditional life | | |
| Number of policies | 444,292 | 403,718 |
| GAAP life reserves | \$ 3,178,715 | \$ 3,058,196 |
| Face amounts | \$53,381,000 | \$45,153,000 |
| | | |
| Universal life | | |
| Number of policies | 151,609 | 157,701 |
| GAAP life reserves | \$ 1,402,581 | \$ 1,415,319 |
| Face amounts | \$19,184,000 | \$20,150,000 |
| | | |
| Equity-indexed life | | |
| Number of policies | 15,784 | 6,226 |
| GAAP life reserves | \$ 76,345 | \$ 25,380 |
| Face amounts | \$ 3,045,000 | \$ 1,099,000 |
| | | |
| Total life insurance | | |
| Number of policies | 611,685 | 567,645 |
| GAAP life reserves | \$ 4,657,641 | \$ 4,498,895 |
| Face amounts | \$75,610,000 | \$66,402,000 |

ACCUMULATION PRODUCTS

The following table sets forth our accumulation products segment collected deposits for the periods indicated:

| Deposits by Product | | |
|---------------------|-------------------------------------|--------------------|
| | For The Three Months Ended June 30, | For The Six Months |
| | 2002 | 2001 |
| | ----- | |
| | 2002 | |
| ----- | | |
| (\$ in thousands) | | |

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| | | | |
|------------------------------------|------------|------------|--------------|
| Annuities | | | |
| Fixed annuities: | | | |
| Deferred fixed annuities | \$ 245,936 | \$ 293,953 | \$ 470,391 |
| Equity-indexed annuities | 157,137 | 139,643 | 326,643 |
| Variable annuities | 1,818 | 4,197 | 4,481 |
| Funding agreements | 75,000 | - | 350,000 |
| | ----- | | |
| Total | 479,891 | 437,793 | 1,151,515 |
| Reinsurance assumed | - | - | - |
| Reinsurance ceded | (2,905) | (56,144) | (4,382) |
| | ----- | | |
| Total deposits, net of reinsurance | \$ 476,986 | \$ 381,649 | \$ 1,147,133 |
| | ===== | | |

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Fixed Annuity Products. Deferred fixed annuity collected premiums were \$245.9 million in the second quarter of 2002 compared to \$294.0 million in the second quarter of 2001. Year-to-date, deferred fixed annuity collected premiums were \$470.4 million in 2002 compared to \$731.0 million in 2001. The decrease in deferred fixed annuity collected premiums in 2002 as compared to 2001 was primarily attributable to the decision to manage the growth of the business. Equity-indexed annuity products have continued to grow in popularity with consumers and agents and as a result, premiums increased \$17.5 million and \$102.6 million in the second quarter and first six months of 2002, respectively, as compared to the respective 2001 periods. Partially offsetting the second quarter growth in equity-indexed annuity premiums was a decline of approximately \$19 million in premiums due to the discontinuation of a relationship with a former marketing partner of ILICO. The discontinuation of this relationship is not expected to have a significant impact on future period premiums as other producers have replaced this source.

During 2001, we had a reinsurance agreement which ceded 35% of certain fixed annuity production on a modified coinsurance basis. Fixed annuity production ceded under this agreement totaled approximately \$52.0 million and \$100.7 million in the second quarter and first six months of 2001, respectively. In the fourth quarter of 2001, the agreement was cancelled and the previously ceded premiums were recaptured. In addition, ILICO reinsures approximately 75% of its fixed annuities on a modified coinsurance basis for which ceded premium decreased approximately \$2.9 million in the second quarter of 2002 and \$1.5 million in the first six months of 2002.

Variable Annuities. ILICO had a variable annuity product line. In the first quarter of 2002, ILICO ceased new sales of these products, except for new policies issued as part of existing employer-sponsored qualified plan contracts. The sales of \$1.8 million and \$4.5 million for the second quarter and first six months of 2002, respectively, primarily reflect additions to existing contracts and renewal premiums. Our agents will be encouraged to make new sales of variable annuities through our Ameritas Joint Venture. Future direct sales of variable annuities will be reduced significantly as a result of this change. As these sales will be through our joint venture, they will not appear in our direct sales amounts. 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."

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Funding Agreements. We have placed fixed rate funding agreements totaling \$75 million and \$350 million in the second quarter and first six months of 2002, respectively. Funding agreements are insurance contracts for which we receive deposit funds and for which we agree to repay the deposit and a contractual return for the duration of the contract. The assets backing the funding agreements are legally segregated and are not subject to claims that arise from our other business. The funding agreements are further backed by general account assets. Total funding agreements as of June 30, 2002 amounted to \$600 million. We currently anticipate placing additional funding agreements during the remainder of the year as conditions warrant. The funding agreements may not be cancelled unless there is a default under the agreement, but ALIC may terminate the agreement at any time.

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

| | Fixed Annuities in Force | |
|----------------------------------------|--------------------------|---------------|
| | As of June 30, | |
| | 2002 | 2001 |
| | ----- | |
| | (\$ in thousands) | |
| Deferred fixed and immediate annuities | | |
| Number of policies | 176,393 | 172,774 |
| GAAP annuity reserves | \$ 7,250,509 | \$ 6,546,124 |
| Equity-indexed annuities | | |
| Number of policies | 74,491 | 70,488 |
| GAAP annuity reserves | \$ 3,636,287 | \$ 3,683,940 |
| Total fixed annuities | | |
| Number of policies | 250,884 | 243,262 |
| GAAP annuity reserves | \$ 10,886,796 | \$ 10,230,064 |

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RESULTS OF OPERATIONS

PROTECTION PRODUCTS

A summary of our protection products segment operations follows:

| | For The Three Months Ended June 30, | |
|--------------------|-------------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | |
| | (\$ | |
| Revenues: | | |
| Insurance premiums | \$ 89,808 | \$ 68,906 |

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| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Universal life product charges | 28,590 | 25,821 |
| Net investment income | 83,418 | 65,294 |
| Realized gains (losses) on closed block investments | (5,378) | 69 |
| Other income | 992 | -- |
| | ----- | ----- |
| Total revenues | 197,430 | 160,090 |
| | ----- | ----- |
| Benefits and expenses: | | |
| Policyowner benefits: | | |
| Traditional: | | |
| Death benefits | 19,971 | 5,700 |
| Change in liability for future policy benefits and other policy benefits | 64,967 | 51,827 |
| Universal: | | |
| Death benefits in excess of cash value | 2,976 | 7,877 |
| Interest credited on policyowner account balances | 18,004 | 15,763 |
| Other | 6,680 | 1,264 |
| | ----- | ----- |
| Total policyowner benefits | 112,598 | 82,431 |
| Underwriting, acquisition and other expenses | 21,301 | 17,911 |
| Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of open block gain/loss adjustment of (\$89) and \$411 for the three months ended June 30, 2002 and 2001, respectively, and \$110 and \$584 for the six months ended June 30, 2002 and 2001, respectively | 14,506 | 12,123 |
| Dividends to policyowners | 19,221 | 23,067 |
| | ----- | ----- |
| Total benefits and expenses | 167,626 | 135,532 |
| | ----- | ----- |
| Adjusted pre-tax operating income - Protection Products segment | \$ 29,804 | \$ 24,558 |
| | ===== | ===== |

Traditional life insurance premiums were \$89.8 million in the second quarter of 2002 compared to \$68.9 million in the second quarter of 2001. Year-to-date, traditional life insurance premiums increased \$56.9 million to \$178.3 million in 2002 compared to \$121.4 million in 2001. Approximately \$16.0 million and \$54.0 million of the increase for the quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding these ILICO premiums, traditional life insurance premiums increased \$4.9 million and \$2.9 million for the quarter and year-to-date periods, respectively, primarily as a result of increased ALIC open block sales in prior years which are in renewal status. Our life insurance lapse rate, exclusive of ILICO, was 6.8% for the first six months of 2002 and 7.6% for the first six months of 2001. Lapses decreased compared to the first six months of 2001 as 2001 lapses had been higher following the completion of American Mutual Holding Company's demutualization in the third quarter of 2000. The total life insurance lapse rate including ILICO was 7.7% for the first six months of 2002 and 7.2% for the first six months of 2001. This higher lapse rate was expected due to the completion of ILICO's demutualization in May 2001.

Universal life product charges were \$28.6 million in the second quarter of 2002 compared to \$25.8 million in the second quarter of 2001. Year-to-date, universal life product charges increased \$18.4 million to \$61.4 million in 2002 compared to \$43.0 million in 2001. Approximately \$9.9 million and \$30.1 million of the increased universal life product charges for the second quarter and year-to-date periods, respectively, was attributable to the acquisition of ILICO. Excluding ILICO, universal life product charges decreased \$7.1 million and \$11.7 million for the quarter and year-to-date periods, respectively, primarily due to a new reinsurance agreement effective December 31, 2001 covering pre-July 1, 1996 universal life policies. Partially offsetting the reinsured premiums were the increased sales of equity-indexed life products and increased cost of insurance charges of approximately \$1.4 million and \$3.6 million for the quarter and year-to-date periods, respectively, corresponding with the normal aging and growth of the block of business.

Net investment income was \$83.4 million in the second quarter of 2002 compared to \$65.3 million in the second quarter of 2001. Year-to-date, net investment income increased \$45.5 million to \$163.8 million in 2002 compared to \$118.3 million in 2001. Approximately \$17.5 million and \$45.1 million of the increase for the quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, net investment income increased \$0.6 million and \$0.4 million for the quarter and year-to-date periods, respectively, primarily due to higher average invested assets (excluding market value adjustments) offset by lower effective yields as compared to 2001. Average invested assets (excluding market value adjustments) increased \$949.8 million and \$1,407.1 million for the quarter and year-to-date periods primarily due to the acquisition of ILICO in the second quarter of 2001. Average invested assets (excluding market value adjustments), exclusive of the ILICO acquisition, increased \$136.6 million and \$140.8 million for the quarter and year-to-date periods, respectively, primarily due to the growth of our protection products business. The effective yield on the investment portfolio was 7.28% in the second quarter of 2002 compared to 7.22% in the second quarter of 2001 and 7.16% for the first six months of 2002 compared to 7.47% for the first six months of 2001. Excluding ILICO, 2002 yields for the second quarter and year-to-date were 7.26% and 7.33%, respectively, compared to 2001 yields for the second quarter and year-to-date of 7.58% and 7.69%, respectively. The decrease in yields in 2002 primarily resulted from the lower interest rate market.

Closed block realized gains and losses on investments were a net loss of \$5.4 million in the second quarter of 2002 compared to a net gain of \$0.1 million in the second quarter of 2001. Year-to-date, closed block realized gains and losses on investments decreased \$1.1 million to a net loss of \$0.8 million in 2002 compared to a net gain of \$0.3 million in 2001. These gains and losses are included in operating income as they are a component of the total contribution from the closed block that represents our operating income on this business. The level of realized gains and losses will fluctuate from year to year depending on the prevailing interest rate and economic environment and the timing of our sales of investments. See note 4 to the consolidated financial statements for further discussion of the closed block operations.

Other income primarily consists of Corporate Owned Life Insurance (or COLI) income. COLI is life insurance policies on the lives of corporate employees held for the benefit of the corporation. Income on COLI is not subject to income taxes. Other income totaled \$1.0 million and \$1.9 million in the second quarter and first six months of 2002, respectively. The COLI investment was purchased at the end of the second quarter of 2001. COLI is classified as an other asset so the income from this asset appears in other income instead of net

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investment income.

Total policyowner benefits were \$112.6 million in the second quarter of 2002 compared to \$82.4 million in the second quarter of 2001. Year-to-date, total policyowner benefits increased \$74.6 million to \$222.1 million in 2002 compared to \$147.5 million in 2001. The increase in policyowners benefits was primarily due to the acquisition of ILICO. Excluding ILICO, total policyowner benefits decreased \$28.7

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million and \$77.9 million for the quarter and year-to-date periods, respectively, as compared to 2001, primarily due to increased reinsurance recoveries. Although unfavorable mortality was experienced with ALIC's traditional closed block policies and universal life open and closed block policies, more claims were subject to reinsurance agreements in comparison to prior periods, which primarily contributed to the decline in benefit expenses. The weighted average crediting rate on universal life policyowner account balances was 5.40% for the first six months of 2002 compared to 5.48% for the first six months of 2001 while the average fund value grew to approximately \$1,316 million.

Underwriting, acquisition and other expenses were \$21.3 million in the second quarter of 2002 compared to \$17.9 million in the second quarter of 2001. Year-to-date, underwriting, acquisition and other expenses increased \$8.8 million to \$40.9 million in 2002 compared to \$32.1 million in 2001. Approximately \$7.6 million and \$15.0 million of the increased expenses for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, underwriting, acquisition and other expenses decreased \$4.2 million and \$6.2 million for the quarter and year-to-date periods, respectively, primarily due to increased reimbursement from reinsurance commission and expense allowances as more policies are subject to reinsurance and expense structure changes resulting from the integration with ILICO.

Amortization of deferred policy acquisition costs and VOBA amounted to \$14.5 million in the second quarter of 2002 compared to \$12.1 million in the second quarter of 2001. Year-to-date, amortization of deferred policy acquisition costs and VOBA increased \$7.1 million to \$28.8 million in 2002 compared to \$21.7 million in 2001. Approximately \$0.7 million and \$5.1 million of the increased amortization expense for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Amortization expense, exclusive of ILICO, increased \$1.7 million and \$2.0 million for the quarter and year-to-date periods, respectively, as deferred policy acquisition costs and VOBA are generally amortized in proportion to gross margins, which increased between periods.

Dividends to policyowners were \$19.2 million in the second quarter of 2002 compared to \$23.1 million in the second quarter of 2001. Year-to-date, dividends to policyowners increased \$5.4 million to \$47.6 million in 2002 compared to \$42.2 million in 2001. Approximately \$3.8 million and \$10.0 million of the increased dividends to policyowners for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Dividends to policyowners, exclusive of ILICO, decreased \$7.7 million and \$4.6 million for the quarter and year-to-date periods, respectively, primarily due to a \$8.4 million reduction in the policyholder dividend obligation liability associated with the ALIC closed block in the second quarter of 2002 compared to an increase in the liability of \$0.3 million in the second quarter of 2001. Dividends to policyowners includes increases or decreases to the policyholder dividend obligation liability carried on the consolidated balance sheet. To the extent

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cumulative actual earnings of the closed block exceed the cumulative expected earnings based on the actuarial calculation at the time of the formation of the closed block (which we refer to as the closed block glide path), an increase in the policyholder dividend obligation liability is recorded. Increased realized losses in the second quarter and first six months of 2002 decreased closed block earnings which reduced the policyholder dividend obligation liability through a reduction of dividend expense. As a result of this accounting treatment, operating earnings only include the predetermined closed block glide path. See note 4 of the consolidated financial statements for further discussion of the closed block operations.

Adjusted pre-tax operating income from our protection products operations was \$29.8 million in the second quarter of 2002 compared to \$24.6 million in the second quarter of 2001 and \$65.3 million in the first six months of 2002 compared to \$39.5 million in the first six months of 2001. Approximately \$4.0 million and \$22.4 million of the increase for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, our protection products operating income increased \$1.2 million and \$3.4 million for the quarter and year-to-date periods, respectively, primarily due to a slight growth in margins and a decline in operating expenses.

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ACCUMULATION PRODUCTS

A summary of our accumulation products segment operations follows:

| | For The Three Months Ended June 30, 2002 | 2001 |
|-------------------------------------------------------|---------------------------------------------|----------|
| | ----- | |
| | (\$ in thousand) | |
| Revenues: | | |
| Immediate annuity and supplementary contract premiums | \$ 3,228 | \$ 2,581 |
| Annuity product charges | 10,724 | 9,026 |
| Net investment income | 166,544 | 138,684 |
| Realized gains (losses) on closed block investments | -- | (305) |
| Other income: | | |
| Income from IMOs | 14,941 | 7,077 |
| Other | 2,956 | 2,655 |
| | ----- | |
| Total revenues | 198,393 | 159,718 |
| | ----- | |
| Benefits and expenses: | | |
| Policyowner benefits: | | |
| Interest credited on policyowner account balances | 94,251 | 81,243 |
| Other benefits | 33,172 | 22,634 |
| | ----- | |
| Total policyowner benefits | 127,423 | 103,877 |
| Underwriting, acquisition and other expenses: | | |
| Expenses from IMOs | 10,512 | 4,810 |
| Other | 7,878 | 8,755 |

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| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------|-----------|
| Amortization of deferred policy acquisition costs and value of business acquired (VOBA), net of open block gain/loss adjustment of (\$6,751) and (\$5,310) for the three months ended June 30, 2002 and 2001, respectively, and (\$5,396) and (\$6,121) for the six months ended June 30, 2002 and 2001, respectively | 20,658 | 22,747 |
| | | |
| Total benefits and expenses | 166,471 | 140,189 |
| | | |
| Adjusted pre-tax operating income - Accumulation Products segment | \$ 31,922 | \$ 19,529 |
| | | |

Immediate annuity and supplementary contract premiums were \$3.2 million in the second quarter of 2002, compared to \$2.6 million in the second quarter of 2001. Year-to-date, immediate annuity and supplementary contract premiums decreased \$1.0 million to \$6.2 million in 2002 compared to \$7.2 million in 2001. These premiums are expected to remain relatively level between periods as these products are not a high growth product line.

Annuity product charges were \$10.7 million in the second quarter of 2002 compared to \$9.0 million in the second quarter of 2001. Year-to-date, annuity product charges increased \$4.5 million to \$20.7 million in 2002 compared to \$16.2 million in 2001. Approximately \$1.4 million and \$5.3 million of the increased annuity product charges for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, annuity product charges increased \$0.3 million and declined \$0.8 million for the quarter and year-to-date periods, respectively, primarily due to slightly higher surrenders of annuity policies with surrender charges in the second quarter. Year-to-date, surrenders, exclusive of ILICO, totaled approximately \$435.9 million for the six months of 2002 compared to \$510.2 million for the first six months of 2001. Annuity withdrawal rates, exclusive of ILICO, averaged 8.1% in the first six months of 2002 compared to 14.6% in the first six months of 2001. Excluding ILICO and internal replacements, withdrawal rates decreased to 7.3% for the first six months of 2002 compared to

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11.8% for the first six months of 2001. Annuity withdrawal rates, including ILICO from the acquisition date forward, averaged 11.5% for the first six months of 2002 compared to 15.6% for the first six months of 2001. Surrenders at ILICO were \$376.6 million for the first six months of 2002 compared to \$77.6 million from the acquisition date through June 30, 2001.

Net investment income was \$166.5 million for the second quarter of 2002 compared to \$138.7 million for the second quarter of 2001. Year-to-date, net investment income increased \$59.0 million to \$324.9 million in 2002 compared to \$265.9 million in 2001. Approximately \$12.3 million and \$39.6 million of the increased net investment income for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, net investment income increased \$15.5 million and \$19.4 million for the quarter and year-to-date periods, respectively, primarily due to higher average invested assets (excluding market value adjustments) offset by lower effective yields as compared to 2001. Average invested assets (excluding market value adjustments) increased approximately \$2,176.0 million and \$2,869.2 million for the quarter

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and year-to-date periods, respectively, primarily due to the acquisition of ILICO in the second quarter of 2001. Average invested assets (excluding market value adjustments) exclusive of the ILICO acquisition increased approximately \$1,110.0 million and \$1,014.0 million for the quarter and year-to-date periods, respectively, primarily due to the growth of our accumulation products business. The effective yield on the investment portfolio was 6.16% in the second quarter of 2002 compared to 6.43% in the second quarter of 2001 and 6.07% for the first six months of 2002 compared to 6.77% for the first six months of 2001. Excluding ILICO, 2002 yields for second quarter and year-to-date which were 6.79% and 6.69%, respectively, compared to 2001 yields for the second quarter and year-to-date which were 6.99% and 7.10%, respectively. The decrease in yields in 2002 primarily resulted from the lower interest rate market. The overall yield including ILICO is lower primarily due to the higher percentage of convertible securities ILICO carries in its investment portfolio. The convertible securities are associated with ILICO's total return strategy fixed annuity products. The effective yield on the deferred fixed annuity portfolio was 6.77% in the second quarter of 2002 compared to 7.09% in the second quarter of 2001 and 6.72% in the first six months of 2002 compared to 7.14% in the first six months of 2001.

Other income primarily consists of third party annuity commissions received by wholly-owned IMOs and COLI income. Other income totaled \$17.9 million for the second quarter of 2002 compared to \$9.7 million for the second quarter of 2001. Year-to-date, other income increased \$10.6 million to \$28.4 million in 2002 compared to \$17.8 million in 2001. The increase in other income was primarily due to operations of an IMO purchased in the second quarter of 2002. COLI income is classified as an other asset so the income from this asset appears in other income instead of net investment income.

Policyowner benefits were \$127.4 million in the second quarter of 2002 compared to \$103.9 million in the second quarter of 2001. Year-to-date, policyowner benefits increased \$51.6 million to \$245.8 million in 2002 compared to \$194.2 million in 2001. Approximately \$7.1 and \$30.1 million of the increased policyowner benefits for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, policyowner benefits increased approximately \$16.4 million and \$21.5 million for the quarter and year-to-date periods, respectively. Excluding ILICO, interest credited to deferred annuity account balances increased \$11.8 million and \$24.4 million for the quarter and year-to-date periods, respectively, primarily due to higher average balances, partially offset by a decline in crediting rates. For the first six months of 2002, average deferred fixed annuity account balances increased \$759.7 million while the weighted average crediting rate on deferred fixed annuity account balances decreased 35 basis points to 4.73% as compared to the same period in 2001. Crediting rates were lowered in the fourth quarter of 2001 and in the first and second quarters of 2002 to correspond with the decline in the investment yields of the deferred fixed annuity portfolio. Overall, spreads on deferred fixed annuities declined 8 basis points to 199 basis points in the first six months of 2002 as compared to the first six months of 2001. Other benefits exclusive of ILICO declined approximately \$4.6 million in the second quarter of 2002 and \$2.9 million in the first six months of 2002 primarily due to a

decline in immediate annuity and supplementary contract benefits. The decrease in other benefits was partially offset by funding agreement benefits which increased \$4.6 million and \$4.3 million for the second quarter and year-to-date periods, respectively, as new funding agreements were entered into at the end of the first quarter and early second quarter of 2002. ILICO added approximately \$6.0 million and \$23.5 million of other benefits to the second quarter and

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| | | |
|------------------------------------------------------|----------|----------|
| Net investment income | 1,935 | 3,115 |
| Other income | 1,036 | 2,220 |
| | ----- | ----- |
| Total revenues | 3,182 | 5,560 |
| | ----- | ----- |
| Benefits and expenses: | | |
| Other policyowner benefits | 394 | 596 |
| Underwriting, acquisition and other expenses | 3,510 | 3,645 |
| | ----- | ----- |
| Total benefits and expenses | 3,904 | 4,241 |
| | ----- | ----- |
| Adjusted pre-tax operating income - Other operations | \$ (722) | \$ 1,319 |
| | ===== | ===== |

Adjusted pre-tax operating loss from our other operations was \$0.7 million in the second quarter of 2002 compared to income of \$1.3 million in the second quarter of 2001 and a loss of \$3.0 million in the first six months of 2002 compared to income of \$1.9 million in the first six months of 2001. Other operations primarily consist of holding company revenues and expenses and operations of our real estate management subsidiary. In 2001, other income included investment fee income for asset management services provided to ILICO prior to the acquisition amounting to \$1.2 million in the second quarter of 2001 and \$2.8 million in the first six months of 2001. After the acquisition of ILICO, such fees are eliminated with expenses in consolidation. The remainder of the increased loss is primarily due to decreased real estate investment and management fee income.

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A summary of our adjusted pre-tax operating income by segment and the remaining line items of our consolidated statements of income follows:

| | For The Three Months Ended June 30, | |
|--------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------|-----------|
| | 2002 | 2001 |
| | ----- | |
| | (\$ in thousands) | |
| Adjusted pre-tax operating income: | | |
| Protection Products | \$ 29,804 | \$ 24,558 |
| Accumulation Products | 31,922 | 19,529 |
| Other operations | (722) | 1,319 |
| | ----- | ----- |
| Total adjusted pre-tax operating income | 61,004 | 45,406 |
| Non-operating increases (decreases) to income: | | |
| Realized gains on open block investments | (35,755) | (7,223) |
| Unrealized losses on open block investments | (34,778) | (4,366) |
| Fair value change in option value of equity-indexed annuity products and market value adjustments on total return strategy annuities | 20,736 | (2,459) |
| Cash flow hedge amortization | (697) | -- |
| Amortization of DAC & VOBA due to open block losses | 6,840 | 4,899 |
| Demutualization costs | (179) | (202) |

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| | | |
|--------------------------------------------------------------------------|----------|-----------|
| Restructuring costs | (6,416) | -- |
| | ----- | |
| Income from continuing operations | 10,755 | 36,055 |
| Interest expense | (6,337) | (7,410) |
| Income tax expense | (696) | (8,950) |
| | ----- | |
| Net income from continuing operations | 3,722 | 19,695 |
| Income from discontinued operations | 540 | 532 |
| Cumulative effect of change in accounting for derivatives, net of tax | -- | -- |
| | ----- | |
| Net income | \$ 4,262 | \$ 20,227 |
| | ===== | |

Total adjusted pre-tax operating income was \$61.0 million in the second quarter of 2002 compared to \$45.4 million in the second quarter of 2001. Year-to-date, total adjusted pre-tax operating income increased \$33.5 million to \$120.8 million in 2002 compared to \$87.3 million in 2001. Approximately \$10.2 million and \$34.5 million of the increase for the second quarter and year-to-date periods, respectively, was attributable to ILICO. Excluding ILICO, the protection products and accumulation products segment operations increased approximately \$8.0 million and \$5.1 million for the quarter and year-to-date periods, respectively, which were offset by declines in the other operations as previously discussed.

Realized losses on open block investments amounted to \$35.8 million in the second quarter of 2002 compared to \$7.2 million in the second quarter of 2001. Year-to-date, realized losses on open block investments amounted to \$45.6 million in 2002 compared to \$14.7 million in 2001. The losses in the second quarter of 2002 consisted primarily of realized losses and writedowns on investments primarily related to WorldCom, Inc. and its related entities. Additionally, in the first quarter of 2002 the sale of Western Security Life Insurance Company, a subsidiary of ILIC, resulted in a gain of approximately \$1.9 million. The level of realized gains and losses will fluctuate from period to period depending on the prevailing interest rate and economic environment and the timing of investment sales.

Unrealized losses on open block investments amounted to \$34.8 million in the second quarter of 2002 compared to \$4.4 million in the second quarter of 2001. Year-to-date, unrealized losses on open

block investments amounted to \$54.2 million in 2002 compared to \$37.7 million in 2001. The unrealized losses are generated from our options and trading securities. We use options to hedge our equity-indexed annuity products. In accordance with SFAS 133, we adjusted our options to market value, which, due to the economic environment and deteriorating stock market conditions, resulted in an unrealized loss of \$28.0 million and \$34.8 million in the second quarter and first six months of 2002, respectively, and \$0.8 million and \$34.1 million in the second quarter and first six months of 2001, respectively. In addition, we

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also have trading securities that back our total return strategy fixed annuity products. The market value adjustment on the trading securities resulted in a loss of \$6.8 million and \$19.4 million in the second quarter and first six months of 2002, respectively, and a loss of \$3.6 million for both the second quarter and first six months of 2001, respectively. Most of the unrealized gains and losses on the options and trading securities are offset by similar adjustments to the option portion of the equity-indexed annuity reserves and to the total return strategy annuity reserves. The reserve adjustments are reflected in policyowner benefits expense in the consolidated statements of income and are explained in the following paragraph.

The fair value change in options embedded within our equity-indexed products and the fair value changes on our total return strategy fixed annuity contracts was a \$20.7 million decrease and \$35.9 million decrease in reserve balances in the second quarter and first six months of 2002, respectively, and \$2.5 million increase and \$32.5 million decrease in the second quarter and first six months of 2001, respectively. These fair value changes are being recorded in accordance with SFAS No. 133, which we adopted January 1, 2001. As previously discussed, these fair value changes are offset by similar adjustments to unrealized gains (losses) on investments related to the fair value changes on the options that hedge the equity-indexed products and on the trading securities that back the total return strategy products. The reduction in such annuity contract expense is less than the decline in investment income primarily due to minimum guaranteed interest rates.

During the second quarter of 2002, we undesignated a cash flow hedge which is now being amortized over the related swap's remaining life and amounted to amortization expense of \$0.7 million.

Amortization of deferred policy acquisition costs and VOBA due to realized and unrealized losses on open block investments amounted to an expense reduction on net losses of \$6.8 million and \$5.3 million in the second quarter and first six months of 2002, respectively, compared to an expense reduction on net losses of \$4.9 million and \$5.5 million in the second quarter and first six months of 2001, respectively. The amortization fluctuates from period to period depending on the related open block gains and losses.

The 2002 demutualization costs consist primarily of legal, actuarial and consulting expenses associated with the demutualization of ILIC. Since these costs are not ongoing, they have been excluded from our operating segment amounts.

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 is to eliminate duplicative functions for all business units. The elimination of duplicative functions is intended to reduce on-going operating costs. General administrative functions will be transitioned so they are performed primarily in Des Moines, Iowa. Protection products processes will be transitioned so they are performed primarily in Des Moines and Indianapolis and accumulation products functions will be transitioned to Topeka. Investment activities have been restructured to eliminate real estate management services which will be outsourced in the future. The restructuring charges expensed in the second quarter of 2002 included pre-tax severance and termination benefits of \$4.9 million related to the elimination of approximately 70 positions and other pre-tax costs of \$1.5 million primarily related to systems conversion and relocation of employees. For the first six months of 2002, restructuring charges included pre-tax

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severance and termination benefits of \$5.3 related to the elimination of approximately 80 positions and other pre-tax costs of \$2.9 million. An accrual for severance and termination benefits not yet paid amounted to \$2.6 million at June 30, 2002. Additional activities will primarily involve relocation or severance benefits for affected employees and various administrative, financial and actuarial system conversion costs. System conversion costs will be expensed as incurred and are expected to primarily be completed by the fourth quarter of 2003.

Interest expense was \$6.3 million in the second quarter of 2002 compared to \$7.4 million in the second quarter of 2001. Year-to-date, interest expense decreased \$2.3 million to \$12.4 million in 2002 compared to \$14.7 million in 2001. The decreased interest expense in the second quarter and first six months of 2002 was primarily due to lower borrowing rates in 2002. In addition, the amount of debt outstanding changed between periods with \$185 million of OCEANs securities issued during the month of March in 2002 compared to \$129 million of adjustable conversion-rate equity security units which were outstanding for the entire first six months of 2001, prior to their maturity in July 2001. Interest expense for ILIC in the second quarter and the first six months of 2002 amounted to \$0.5 million and \$1.1 million, respectively. ILIC has a \$25 million, 8.66% surplus note, due on April 1, 2011.

Income tax expense was \$12.1 million in the first six months of 2002 compared to \$19.0 million in the first six months of 2001. The effective tax rate was 30.1% for the first six months of 2002 and 32.6% for the first six months of 2001. The decrease in the effective tax rate in the first six months of 2002 reflected the increased tax exempt income from the COLI investment and the elimination of nondeductible goodwill amortization expense.

Net income from continuing operations was \$3.7 million in the second quarter of 2002 compared to \$19.7 million in the second quarter of 2001. Year-to-date, net income from continuing operations decreased \$11.0 million to \$28.2 million in 2002 compared to \$39.2 million in 2001. Net income from continuing operations of ILICO decreased \$0.4 million in the second quarter of 2002 compared to the second quarter of 2001. Year-to-date, ILICO contributed an additional \$9.1 million of income from continuing operations as compared to the same period a year ago. Exclusive of ILICO, net income from continuing operations decreased \$15.6 million and \$20.1 million in the second quarter and year-to-date periods, respectively, primarily due to the realized and unrealized losses on open block investments partially offset by the fair value changes in options within our equity-indexed products and our total return strategy fixed annuity contracts. These non-operating results offset the growth in earnings from our protection products and accumulation products segments previously discussed.

We adopted SFAS 133 on January 1, 2001. In accordance with the provisions of the statement, we recorded the differences between the previous carrying amounts of our derivative instruments and the fair value of our derivative instruments, as of this initial application date, as the effect of a change in accounting principle. The gross difference between carrying amounts and fair value amounts of our derivative instruments was a reduction of approximately \$11.3 million. The deferred policy acquisition cost and VOBA amortization impact from the derivative adjustments was approximately \$1.1 million and the income tax benefit was \$4.2 million, resulting in the net cumulative effect of change in accounting for derivatives of \$8.2 million.

Net income was \$4.3 million in the second quarter of 2002 compared to \$20.2 million in the second quarter of 2001. Year-to-date, net income decreased \$2.7 million to \$29.2 million in 2002 compared to \$31.9 million in 2001. Net income from ILICO decreased \$0.4 million in the second quarter of 2002 compared

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to the second quarter of 2001 and increased \$9.1 million in the year-to-date period of 2002 as compared to the same period in 2001. The adoption of SFAS 133 in the first quarter of 2001 had a one-time cumulative effect of reducing net income by \$8.2 million. Exclusive of ILICO and the SFAS 133 impact, net income decreased \$15.5 million and \$20.0 million in the second quarter and year-to-date periods, respectively, primarily due to the realized and unrealized losses on open block investments

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partially offset by the fair value changes in options within our equity-indexed products and our total return strategy fixed annuity contracts. Those non-operating results offset the growth in earnings from our protection products and accumulation products segments.

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.

We intend to rely primarily on dividends and interest income from our life insurance subsidiaries in order to make dividend payments to our shareholders. The payment of dividends by our life insurance subsidiaries is regulated under various state laws. Generally, under the various state statutes, our life insurance subsidiaries dividends may be paid only from the earned surplus arising from their respective businesses and must receive the prior approval of the respective state regulator to pay any dividend that would exceed certain statutory limitations. The current statutes generally limit any dividend, together with dividends paid out within the preceding 12 months, to the greater of (i) 10% of the respective company's policyowners' surplus as of the preceding year end or (ii) the net gain from operations for the previous calendar year. Generally, the various state laws give the state regulators discretion to approve or disapprove requests for dividends in excess of these limits. Based on these limitations and 2001 results, our life insurance subsidiaries could pay us an estimated \$80.5 million in dividends in 2002 without obtaining regulatory approval. Our subsidiaries paid us \$10 million in the first six months of 2002.

We have a \$175 million revolving credit facility with a syndicate of lenders (which we refer to as the Revolving Credit Agreement). As of June 30, 2002, there was a \$70.0 million outstanding loan balance under the facility. The Revolving Credit Agreement provides for typical events of default and covenants with respect to the conduct of business and requires the maintenance of various financial levels and ratios. Among other covenants, we (a) cannot have a leverage ratio greater than 0.35:1.0, (b) cannot have an interest coverage ratio less than 2.50:1.0, (c) are prohibited from paying cash dividends on common stock in excess of an amount equal to 3% of consolidated net worth as of the last day of the preceding fiscal year, and (d) must cause our life insurance subsidiaries to maintain certain levels of risk-based capital.

On March 6, 2002, the Company issued and sold in a private placement \$185 million aggregate original principal amount of OCEANs. The OCEANs are senior subordinated debt and were issued and sold in an original principal

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amount of \$1,000 per OCEAN, with a principal amount at maturity of \$1,270 per OCEAN. The maturity date of the OCEANs is March 6, 2032. The OCEANs will have aggregate principal amount at maturity of \$234,950,000. The notes are convertible into shares of the Company's common stock at an initial conversion price (subject to adjustment) of \$37.60 per share only if the sale price of the common stock exceeds \$47.85 per share for at least 20 trading days in a 30-day trading period or in certain other limited circumstances.

Proceeds from the OCEANs were used to repay borrowings on the Company's Revolving Credit Agreement and to purchase approximately 1.7 million shares amounting to \$59 million of the Company's common stock. The OCEANs are senior subordinated debt, subordinated in right of payment to all existing and future senior debt and senior to all existing and future junior subordinated debt.

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We previously had warrants outstanding to purchase shares of common stock. The warrants were exercisable at \$24.42 and expired in April 2002. Proceeds from the warrants amounted to \$2.7 million and resulted in the issuance of approximately 110,000 shares of common stock in April 2002.

Our Board of Directors approved a stock purchase program effective August 9, 2002, under which we may purchase up to three million shares of our common stock at such times and under such conditions, as we deem advisable. The purchases may be made in the open market or by such other means as we determine to be appropriate, including privately negotiated purchases. The purchase program supercedes all prior purchase programs. We plan to fund the purchase program from a combination of our internal sources, dividends from insurance subsidiaries and Revolving Credit Agreement. We have repurchased shares in the first six months of 2002 under prior purchase programs. During the first quarter of 2002, 1.7 million shares were repurchased and were primarily funded by approximately \$59 million from the OCEANs offering. During the second quarter of 2002, approximately 0.8 million shares were repurchased and were primarily funded by approximately \$30 million from the Revolving Credit Agreement.

INSURANCE SUBSIDIARIES

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

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

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Matching the investment portfolio maturities to the cash flow demands of the type of insurance being provided is an important consideration for each type of life insurance product and annuity. 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, maturities of fixed maturity investments and principal payments on mortgage-backed securities, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations. There can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since withdrawal and surrender levels are influenced by such factors as the interest rate environment and the claims-paying and financial strength ratings of the life 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

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underlying assets. The following table summarizes liabilities for interest-sensitive life products and annuities by their contractual withdrawal provisions at June 30, 2002 (including liabilities in the closed blocks and the general account):

| | (\$ in millions) |
|---------------------------------------------------------|------------------|
| | ----- |
| Not subject to discretionary withdrawal | \$ 478.1 |
| Subject to discretionary withdrawal with adjustments: | |
| Specified surrender charges (A) | 6,677.5 |
| Market value adjustments | 3,121.7 |
| | ----- |
| Subtotal | 9,799.2 |
| | ----- |
| Subject to discretionary withdrawal without adjustments | 1,975.5 |
| | ----- |
| Total | \$ 12,252.8 |
| | ===== |

(A) Includes \$1,263.7 million of statutory liabilities with a contractual surrender charge of less than five percent of the account balance.

ALIC is a party to a \$250 million fixed rate funding agreement. Under the agreement, a five-year floating rate insurance contract is issued to a commercial paper conduit. During the first six months of 2002, ALIC placed additional funding agreements totaling \$350 million in six to ten year fixed

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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 ALIC. The funding agreements are further backed by the general account assets of ALIC. The segregated assets and liabilities are included with general account assets in the financial statements. The funding agreements may not be cancelled unless there is a default under the agreement, but ALIC may terminate the agreement at any time.

In addition, there are 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 \$284 million at June 30, 2002. Separate account contractholders have no claim against the assets of the general account. The operations of the separate accounts are not included in the accompanying consolidated financial statements.

Through their respective memberships in the Federal Home Loan Banks (FHLB) of Des Moines and Topeka, ALIC and American Investors Life Insurance Company, Inc. are eligible to borrow under variable-rate short term fed funds arrangements to provide additional liquidity. These borrowings are secured and interest is payable at the current rate at the time of each advance. There were no borrowings under these arrangements outstanding at June 30, 2002. In addition, ALIC has long-term fixed rate advances from FHLB outstanding of \$14.1 million at June 30, 2002.

The insurance subsidiaries may also obtain liquidity through sales of investments. The investment portfolio as of June 30, 2002 had a carrying value of \$15.6 billion, including closed block investments.

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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.

At June 30, 2002, the statutory surplus of the insurance subsidiaries was approximately \$610 million. Management believes that each life 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 would obtain their required capital from AmerUs Group Co.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The main objectives in managing our investment portfolios and our insurance subsidiaries are to maximize investment income and total investment returns while minimizing credit and asset/liability 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

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financial instruments primarily relate to the investment portfolio, which exposes us to risks related to interest rates and, to a lesser extent, credit quality and prepayment variation. Analytical tools and monitoring systems are in place to assess each of these elements of market risk.

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 payout pattern of our liabilities, primarily surrenders and lapses, to determine duration, which is the present value of the fixed income investment portfolios after consideration of the duration of these liabilities and other factors, which management believes mitigates the overall effect of interest rate risk.

For variable and equity-indexed products, profitability on the portion of the policyholder's account balance invested in the fixed general account option, if any, is also affected by the spreads between interest yields on investments and rates credited to the 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 equity-indexed products, we purchase 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 equity-indexed products tied to market indices is significantly impacted by the spread on 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 equity-indexed annuities 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 only 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 equity-indexed 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 table below provides information about our fixed maturity investments and mortgage loans for both our trading and other than trading portfolios at June 30, 2002. The table presents cash flows of principal amounts and related weighted average interest rates by expected maturity dates. The cash flows are based on the earlier of the call date or the maturity date or, for mortgage-backed securities, expected payment patterns. Actual cash flows could differ from the expected amounts.

June 30, 2002

| Amortized ----- | Expected Cash Flows | | | | | | |
|---------------------------|---------------------|------|------|------|------|------|------------|
| | 6 months 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | Thereafter |
| ----- | | | | | | | |
| (\$ in millions) | | | | | | | |
| Fixed maturity securities | | | | | | | |

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| | | | | | | | |
|---------------------------|--------|----------|---------|---------|---------|---------|-------|
| available-for-sale | \$ 399 | \$ 1,174 | \$1,154 | \$1,372 | \$1,215 | \$ 917 | \$ 5, |
| Average interest rate | 7.7% | 6.7% | 6.4% | 6.8% | 6.6% | 7.7% | |
| Fixed maturity securities | | | | | | | |
| held for trading purposes | \$ 61 | \$ 131 | \$ 224 | \$ 286 | \$ 158 | \$ 125 | \$ |
| Average interest rate | 1.6% | 4.6% | 4.3% | 2.7% | 3.7% | 3.4% | |
| Mortgage loans | \$ 24 | \$ 54 | \$ 69 | \$ 68 | \$ 67 | \$ 65 | \$ |
| Average interest rate | 6.8% | 8.1% | 8.1% | 8.0% | 8.0% | 8.0% | |
| Total | \$ 484 | \$ 1,359 | \$1,447 | \$1,726 | \$1,440 | \$1,107 | \$ 6, |
| ===== | | | | | | | |

We have consistently invested in high quality marketable securities. As a result, management believes that there is minimal credit quality risk. Fixed maturity securities are comprised of U.S. Treasury, government agency, mortgage-backed and corporate securities. Approximately 64% of fixed maturity securities are issued by the U.S. Treasury or U.S. government agencies or are rated A or better by Moody's, Standard and Poor's, or the NAIC. Less than 8% of the bond portfolio is below investment grade. Fixed maturity securities have an average maturity of approximately 7.03 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 are less subject to prepayment risk.

Our use of derivatives is generally limited to hedging purposes and has principally consisted of using interest rate swaps and options. 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.

Equity price risk is the potential loss arising from changes in the value of equity securities. In general, equities have more year-to-year price variability than intermediate term grade bonds. However, returns over longer time frames have been consistently higher. Our equity securities are readily marketable.

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

In recent years, the life insurance industry, including the Company and

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its subsidiaries, have been subject to an increase in litigation pursued on behalf of purported classes of insurance purchasers, questioning the conduct of insurers in the marketing of their products. The Company is involved in litigation, including class actions, reinsurance claims and regulatory proceedings, arising in the ordinary course of its business. Some of these claims and legal actions are in jurisdictions where juries are given substantial latitude in assessing damages, including punitive damages. Although no assurances can be given and no determinations can be made at this time, the Company believes that the ultimate liability, if any, with respect to these other claims and legal actions, would have no material effect on our results of operations and financial position.

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

At the annual meeting of the Company's shareholders on May 9, 2002, a majority of the Company's shareholders approved (1) the reelection of John R. Albers, Alecia A. DeCoudreaux, Thomas F. Gaffney, Andrew J. Paine, Jr. and Jack C. Pester and (2) the ratification of the appointment by the Board of Directors of the Company of Ernst & Young LLP as the Company's independent auditors. The result of the vote is as follows:

Election of John R. Albers

| | |
|-----------|------------|
| For: | 24,105,183 |
| Withheld: | 283,057 |

Election of Alecia A. DeCoudreaux

| | |
|-----------|------------|
| For: | 24,093,434 |
| Withheld: | 294,806 |

Election of Thomas F. Gaffney

| | |
|-----------|------------|
| For: | 24,111,759 |
| Withheld: | 276,481 |

Election of Andrew J. Paine, Jr.

| | |
|-----------|------------|
| For: | 24,098,592 |
| Withheld: | 289,648 |

Election of Jack C. Pester

| | |
|-----------|------------|
| For: | 24,097,757 |
| Withheld: | 290,483 |

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Ratification of Ernst & Young LLP

| | |
|----------|------------|
| For: | 23,640,343 |
| Against: | 568,363 |

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Abstaining:

179,534

The term of the following other directors of the Company continued after the meeting: Roger K. Brooks; Malcolm Candlish; Ralph W. Laster, Jr.; John W. Norris, Jr.; John A. Wing; and F.A.Wittern, Jr.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

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

(b) The following report on Form 8-K was filed during the quarter ended June 30, 2002:

Form 8-K dated May 7, 2002 announcing the release of first quarter 2002 earnings. Supplemental financial information of AmerUs Group Co. was attached.

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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.

DATED: August 12, 2002

AMERUS GROUP CO.

By /s/ Melinda S. Urion

Executive Vice President and
Chief Financial Officer
(Principal Financial Officer)

By /s/ Brenda J. Cushing

Senior Vice President and Controller
(Principal Accounting Officer)

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AMERUS GROUP CO. AND SUBSIDIARIES

INDEX TO EXHIBITS

Exhibit

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| No. ----- | Description ----- |
|--------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2.1 | Plan of Reorganization dated October 27, 1995, filed as Exhibit 2.1 to the Registration Statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference. |
| 2.2 | Amended and Restated Agreement and Plan of Merger, dated as of September 19, 1997 and as amended and restated as of October 8, 1997, by and among AmerUs Life Holdings, Inc., AFC Corp. and AmVestors Financial Corporation ("AmVestors"), filed as Exhibit 2.2 to the Registration Statement of AmerUs Life Holdings, Inc. on Form S-4, Registration Number 333-40065 is hereby incorporated by reference. |
| 2.3 | Agreement and Plan of Merger, dated as of August 13, 1997 and as amended as of September 5, 1997, among AmerUs Life Holdings, Inc., a wholly owned subsidiary of AmerUs Life Holdings, Inc. and Delta Life Corporation, filed as Exhibit 2.2 to Form 8-K of AmerUs Life Holdings, Inc. dated October 8, 1997, is hereby incorporated by reference. |
| 2.4 | Combination and Investment Agreement, dated February 18, 2000, among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., filed as Exhibit 2.1 to AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, is hereby incorporated by reference. |
| 2.5 | Purchase Agreement, dated as of February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.5 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. |
| 2.6 | Agreement and Plan of Merger, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.6 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. |
| 2.7 | Amendment No. 1 to Agreement and Plan of Merger, dated February 18, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.7 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. |
| 2.8 | Letter Agreement, dated December 17, 1999, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.8 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. |
| 2.9 | Notification Agreement, dated as of February 18, 2000, by and among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Bankers Trust Company, filed as Exhibit 2.9 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference. |
| 2.10 | Amendment No. 2 to Agreement and Plan of Merger, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.10 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. |
| 2.11 | Amendment No. 1 to the Purchase Agreement, dated April 3, 2000, by and between American Mutual Holding Company and AmerUs Life Holdings, Inc., filed as Exhibit 2.11 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference. |
| 2.12 | Amendment to Combination and Investment Agreement dated February 18, 2000 among American Mutual Holding Company, AmerUs Life Holdings, Inc., Indianapolis Life Insurance Company and The Indianapolis Life Group of Companies, Inc., dated September 18, 2000, filed as Exhibit 2.2 to Form 8-K12G3 of the Registrant dated September 21, 2000, is hereby incorporated by reference. |
| 2.13* | Stock Purchase Agreement, dated January 1, 2002, by and among AmerUs Annuity Group Co., and the Stockholders of Family First Advanced |

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estate Planning and Family First Insurance Services.

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- 3.1 Amended and Restated Articles of Incorporation of the Registrant filed as Exhibit 3.1 on Form 10-Q, dated November 14, 2000 is hereby incorporated by reference.
- 3.2 Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.2 on Form 10-K, dated March 15, 2002, 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 Common Stock Purchase Warrant, filed as Exhibit (10)(v) to Form 10-Q of AmVestors Financial Corporation dated May 13, 1992, is hereby incorporated by reference.
- 4.5 Amended and Restated Declaration of Trust of AmerUs Capital II, dated as of July 27, 1998, among AmerUs Life Holdings, Inc., First Union Trust Company and the administrative trustees named therein, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.5 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.6 Certificate of Trust of AmerUs Capital III filed as Exhibit 4.7 to the registration statement of AmerUs Life Holdings, Inc., AmerUs Capital II and AmerUs Capital III, on Form S-3 (No. 333-50249), is hereby incorporated by reference.
- 4.7 Common Trust Securities Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.7 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.8 QUIPS Guarantee Agreement, dated as of July 27, 1998, by AmerUs Life Holdings, Inc., relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.8 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.9 Master Unit Agreement, dated as of July 27, 1998, between AmerUs Life Holdings, Inc. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.9 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.10 Call Option Agreement, dated as of July 27, 1998, between Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.10 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.11 Pledge Agreement, dated as of July 27, 1998, among AmerUs Life

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- Holdings, Inc., Goldman, Sachs & Co. and First Union National Bank relating to AmerUs Life Holdings, Inc.'s 7.0% ACES Units, filed as Exhibit 4.11 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.12 Senior Indenture, dated as of June 16, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to the AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, filed as Exhibit 4.14 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
- 4.13 Subordinated Indenture, dated as of July 27, 1998, by and between AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, filed as Exhibit 4.15 on Form 10-Q, dated August 13, 1998, is hereby incorporated by reference.
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- 4.14 First Supplement to Indenture dated February 3, 1997 among American Mutual Holding Company, AmerUs Life Holdings, Inc. and Wilmington Trust Company as Trustee, relating to the Company's 8.85% Junior Subordinated Debentures, Series A, dated September 20, 2000, filed as Exhibit 4.14 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference.
- 4.15 Assignment and Assumption Agreement to Amended and Restated Trust Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.15 on Form 10-Q dated November 14, 2000, is hereby incorporated by reference.
- 4.16 Assignment and Assumption to Guaranty Agreement, dated February 3, 1997 between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.16 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.17 First Supplement to Subordinated Indenture, dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 6.86% Junior Subordinated Deferrable Interest Debentures, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Indenture Trustee, dated September 20, 2000, filed as Exhibit 4.17 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.18 First Supplement to Master Unit Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and First Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.18 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.19 Assignment and Assumption Agreement to the QUIPS Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.19 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.20 Assignment and Assumption Agreement to the Common Trust Securities Guarantee Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, between American Mutual Holding Company and AmerUs Life Holdings, Inc., dated September 20, 2000, filed as Exhibit 4.20 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.

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- 4.21 First Supplement to Purchase Contracts between American Mutual Holding Company and Holders, as specified, dated September 20, 2000, filed as Exhibit 4.21 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.22 First Supplement to the Pledge Agreement dated July 27, 1998, relating to AmerUs Life Holdings, Inc.'s 7.0% ACES units, among American Mutual Holding Company, Goldman Sachs & Co., as Call Option Holder, the Chase Manhattan Bank, as Collateral Agent and First Union National Bank, as Unit Agent, dated September 20, 2000, filed as Exhibit 4.22 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.23 First Supplement to Senior Indenture dated June 16, 1998, relating to AmerUs Life Holdings, Inc.'s 6.95% Senior Notes, among American Mutual Holding Company, AmerUs Life Holdings, Inc. and First Union National Bank, as Trustee, dated September 20, 2000, filed as Exhibit 4.23 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 4.24 Indenture dated as of March 6, 2002 between AmerUs Group Co. and BNY Midwest Trust Company, as Trustee, filed as Exhibit 4.1 on form 8-K/A, dated February 28, 2002, is hereby incorporated by reference.
- 4.25 Registration Rights Agreement dated as of March 6, 2002 between AmerUs Group Co. and Credit Suisse First Boston Corporation, filed as Exhibit 4.2 on Form 8-K/A, dated February 28, 2002, 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.

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- 10.2 Management and Administration Service Agreement, dated as of April 1, 1996, among American Mutual Life Insurance Company, Ameritas Variable Life Insurance Company and Ameritas Life Insurance Corp., filed as Exhibit 10.3 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.3 AmerUs Life Holdings, Inc. Executive Stock Purchase Plan, dated November 13, 1998, filed as Exhibit 4.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-8, Registration Number 333-72237, is hereby incorporated by reference.
- 10.4 All* AmerUs Supplemental Executive Retirement Plan, effective January 1, 1996, filed as Exhibit 10.6 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.5 Management Incentive Plan, filed as Exhibit 10.9 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.6 AmerUs Life Insurance Company Performance Share Plan, filed as Exhibit 10.10 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.7 AmerUs Life Stock Incentive Plan, filed as Exhibit 10.11 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.8 AmerUs Life Non-Employee Director Stock Plan, filed as Exhibit 10.13 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.

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- 10.9 Form of Indemnification Agreement executed with directors and certain officers, filed as Exhibit 10.33 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.10 Tax Allocation Agreement dated as of November 4, 1996, filed as Exhibit 10.68 to the registration statement of AmerUs Life Holdings, Inc. on Form S-1, Registration Number 333-12239, is hereby incorporated by reference.
- 10.11 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.
- 10.12 AmerUs Group Co. Amended and Restated MIP Deferral Plan dated as of May 10, 2001 filed as Exhibit 10.12 on Form 10-K dated March 15, 2002, is hereby incorporated by reference.
- 10.13 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.
- 10.14 Facility and Guaranty Agreement, dated February 12, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.39 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.15 Form of Reimbursement Agreement, dated February 15, 1999, among AmerUs Life Holdings, Inc. and Roger K. Brooks, Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky, Marcia S. Hanson, Mark V. Heitz and Gary R. McPhail, filed as Exhibit 10.40 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.16 Amendment No. 1 to Facility Agreement, dated March 23, 1999, among The First National Bank of Chicago and AmerUs Life Holdings, Inc., filed as Exhibit 10.41 on Form 10-Q dated May 14, 1999, is hereby incorporated by reference.
- 10.17 1999 Non-Employee Stock Option Plan, dated April 19, 1999, filed on Form S-3, Registration Number 333-72643, is hereby incorporated by reference.
- 10.18 Amendment No. 2 to Facility Agreement, dated January 25, 2000, among The First National Bank of Chicago and the Registrant, filed as Exhibit 10.44 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.
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- 10.19 Amendment No. 3 to Facility Agreement dated December 12, 2001, among the First National Bank of Chicago and the Registrant filed as Exhibit 10.19 on Form 10-K dated March 15, 2002, is hereby incorporated by reference.
- 10.20 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.
- 10.21 Investment Advisory Agreements, dated as of February 18, 2000, by and between Indianapolis Life Insurance Company, Bankers Life Insurance Company of New York, IL Annuity and Insurance Company, Western Security Life Insurance Company and AmerUs Capital Management Group, Inc. filed as Exhibits 10.1,10.3, 10.4 and 10.2, respectively, to AmerUs Life Holdings, Inc.'s report on Form 8-K/A on March 6, 2000, are hereby incorporated by reference.
- 10.22 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,

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- dated May 15, 2000, is hereby incorporated by reference.
- 10.23 Institutional Custody Agreement, dated April 12, 2000, by and between the Federal Home Loan Bank of Topeka and American Investors Life Insurance Company, Inc., filed as Exhibit 10.49 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.24 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.
- 10.25 Stock Purchase Agreement, dated February 1, 2000, by and among AmVestors Financial Corporation, Creative Marketing International Corporation and the Stockholders of Creative Marketing International Corporation, filed as Exhibit 10.51 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.26 Stock Purchase Agreement, dated February 23, 2000, by and among American Investors Sales Group, Inc., Community Bank Marketing, Inc. and Community Financial Services, Inc., filed as Exhibit 10.52 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.27 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.
- 10.28 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.
- 10.29 Agreement and Plan of Merger, dated September 30, 1998, by and among AmVestors Financial Corporation, Senior Benefit Services of Kansas, Inc., Senior Benefit Services Insurance Agency, Inc., National Senior Benefit Services, Inc. and Richard McCarter, filed as Exhibit 10.55 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 10.30 Affirmation Agreement to Facility and Guaranty Agreement dated February 12, 1999 by American Mutual Holding Company, survivor of a merger with AmerUs Life Holdings, Inc. in favor of the Agent and the Lenders, dated September 20, 2000, filed as Exhibit 10.58 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.31 Amendment to Facility and Guaranty Agreement dated February 12, 1999 among The First National Bank of Chicago and AmerUs Group Co., dated September 20, 2000, filed as Exhibit 10.59 on Form 10-Q, dated November 14, 2000, is hereby incorporated by reference.
- 10.32 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.
- 10.33 Employment Agreement between Indianapolis Life Insurance Company and Larry R. Prible dated May 11, 2000, filed as Exhibit 10.44 on Form 10-Q, dated November 13, 2001, is hereby incorporated by reference.
- 10.34 Credit Agreement dated December 12, 2001, among AmerUs Group Co., Various Lending Institutions, the Bank of New York, Mellon Bank N.A., and Fleet National Bank as Co-Arrangers and J P Morgan Chase Bank as Administrative Agent and Co-Arranger filed as Exhibit 10.35 on Form 10-K dated March 15, 2002, is hereby incorporated by reference.
- 10.35 First Amendment to Credit Agreement dated as of February 22, 2002, among AmerUs Group Co., the lending institutions party hereto, The

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- Bank of New York, Mellon Bank N.A. and fleet National Bank as Co-Arrangers and JPMorgan Chase Bank as Administrative Agent and Co-Arranger, filed as Exhibit 10.35 on Form 10-Q dated May 14, 2002, is hereby incorporated by reference.
- 10.36 Consent dated as of March 15, 2002, among AmerUs Group Co., the lending institutions party hereto, The Bank of New York, Mellon Bank N.A. and fleet National Bank as Co-arrangers and JPMorgan Chase Bank as Administrative Agent and Co-Arranger, filed as Exhibit 10.36 on Form 10-Q dated May 14, 2002, is hereby incorporated by reference.
- 10.37* Amendment No. 1 to Joint Venture Agreement, dated April 1, 2002, by and between Ameritas Life Insurance Corp. and AmerUs Life Insurance Company.
- 10.38* Distribution Commitment Agreement for Variable Business, dated April 1, 2002, by and between AmerUs Group Co. and Ameritas Variable Life Insurance Company.
- 10.39* Amendment No. 4 to Facility Agreement dated February 12, 1999 by and among AmerUs Group Co. and Bank One, NA (f/k/a The First National Bank of Chicago), dated June 30, 2002.
- 11* Statement Re: Computation of Earnings Per Share.
- 12* Computation of Ratios of Earnings to Fixed Charges.
- 99.1 Retirement Agreement, dated March 14, 2000, by and between Victor N. Daley and AmerUs Life Holdings, Inc., filed as Exhibit 99.8 on Form 10-Q, dated May 15, 2000, is hereby incorporated by reference.
- 99.2 First Amendment to Employment Agreement, dated as of April 15, 1999, to the Employment Agreement dated as of September 19, 1997, among Mark V. Heitz, AmVestors Financial Corporation, American Investors Life Insurance Company, Inc., AmVestors Investment Group, Inc., American Investors Sales Group, Inc., and AmerUs Life Holdings, Inc., filed as Exhibit 99.4 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.3 Supplemental Benefit Agreement, dated as of April 15, 1999, among Roger K. Brooks and AmerUs Life Holdings, Inc., filed as Exhibit 99.5 on 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.4 Form of Supplemental Benefit Agreement, dated as of April 15, 1999, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.6 on Form 10-Q dated August 13, 1999, is hereby incorporated by reference.
- 99.5 Form of Supplemental Benefit Agreement, dated as of February 7, 2000, among AmerUs Life Holdings, Inc. and Victor N. Daley, Michael G. Fraizer, Thomas C. Godlasky and Gary R. McPhail, filed as Exhibit 99.7 on Form 10-K, dated March 8, 2000, is hereby incorporated by reference.

* Included herein