

FBL FINANCIAL GROUP INC

Form 10-Q

May 05, 2010

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 March 31, 2010

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: 1-11917

FBL Financial Group, Inc.

(Exact name of registrant as specified in its charter)

Iowa
(State of incorporation)

42-1411715
(I.R.S. Employer Identification No.)

5400 University Avenue, West Des Moines, Iowa
(Address of principal executive offices)

50266-5997
(Zip Code)

(515) 225-5400
(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

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any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☐ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☐

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the last practicable date:

| Title of each class | Outstanding at May 3, 2010 |
|---|----------------------------|
| Class A Common Stock, without par value | 29,586,115 |
| Class B Common Stock, without par value | 1,192,990 |

FBL FINANCIAL GROUP, INC.
FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010
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FBL FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS (Unaudited)
(Dollars in thousands)

| | March 31, 2010 | December 31, 2009 |
|---|-------------------|----------------------|
| Assets | | |
| Investments: | | |
| Fixed maturities - available for sale, at market (amortized cost: 2010 - \$10,525,224; 2009 - \$10,338,670) | \$ 10,306,026 | \$ 9,864,601 |
| Equity securities - available for sale, at market (cost: 2010 - \$70,125; 2009 - \$62,271) | 70,110 | 60,154 |
| Mortgage loans on real estate | 1,286,214 | 1,293,936 |
| Derivative instruments | 60,880 | 44,023 |
| Real estate | 14,748 | 16,563 |
| Policy loans | 168,035 | 168,736 |
| Other long-term investments | 1,875 | 1,882 |
| Short-term investments | 218,243 | 203,142 |
| Total investments | 12,126,131 | 11,653,037 |
| Cash and cash equivalents | 44,686 | 11,690 |
| Securities and indebtedness of related parties | 50,059 | 46,518 |
| Accrued investment income | 143,780 | 131,655 |
| Amounts receivable from affiliates | 2,231 | 8,311 |
| Reinsurance recoverable | 128,317 | 126,918 |
| Deferred policy acquisition costs | 1,006,617 | 1,101,233 |
| Deferred sales inducements | 324,520 | 359,771 |
| Value of insurance in force acquired | 34,410 | 38,781 |
| Property and equipment, less allowances for depreciation of \$61,651 in 2010 and \$62,895 in 2009 | 16,587 | 17,335 |
| Current income taxes recoverable | 6,103 | 16,955 |
| Goodwill | 11,170 | 11,170 |
| Other assets | 56,550 | 33,894 |
| Assets held in separate accounts | 726,825 | 702,073 |

| | | |
|--------------|---------------|---------------|
| Total assets | \$ 14,677,986 | \$ 14,259,341 |
|--------------|---------------|---------------|

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FBL FINANCIAL GROUP, INC.
CONSOLIDATED BALANCE SHEETS (Continued)
(Dollars in thousands)

| | March 31, 2010 | December 31, 2009 |
|--|-------------------|----------------------|
| Liabilities and stockholders' equity | | |
| Liabilities: | | |
| Policy liabilities and accruals: | | |
| Future policy benefits: | | |
| Interest sensitive and index products | \$ 10,367,858 | \$ 10,149,505 |
| Traditional life insurance and accident and health products | 1,330,364 | 1,318,834 |
| Unearned revenue reserve | 26,298 | 27,500 |
| Other policy claims and benefits | 21,456 | 22,185 |
| | 11,745,976 | 11,518,024 |
| Other policyholders' funds: | | |
| Supplementary contracts without life contingencies | 504,205 | 502,553 |
| Advance premiums and other deposits | 172,188 | 169,108 |
| Accrued dividends | 9,854 | 9,656 |
| | 686,247 | 681,317 |
| Amounts payable to affiliates | 252 | 759 |
| Long-term debt payable to affiliates | 100,000 | 100,000 |
| Long-term debt | 271,105 | 271,084 |
| Deferred income taxes | 73,884 | 27,506 |
| Other liabilities | 101,182 | 87,301 |
| Liabilities related to separate accounts | 726,825 | 702,073 |
| Total liabilities | 13,705,471 | 13,388,064 |
| Stockholders' equity: | | |
| FBL Financial Group, Inc. stockholders' equity: | | |
| Preferred stock, without par value, at liquidation value - authorized 10,000,000 shares, issued and outstanding 5,000,000 Series B shares | 3,000 | 3,000 |
| Class A common stock, without par value - authorized 88,500,000 shares, issued and outstanding 29,575,213 shares in 2010 and 29,282,989 shares in 2009 | 111,790 | 109,877 |
| Class B common stock, without par value - authorized 1,500,000 shares, issued and outstanding 1,192,990 shares | 7,522 | 7,522 |
| Accumulated other comprehensive loss | (35,512) | (118,730) |
| Retained earnings | 885,586 | 869,487 |
| Total FBL Financial Group, Inc. stockholders' equity | 972,386 | 871,156 |
| Noncontrolling interest | 129 | 121 |
| Total stockholders' equity | 972,515 | 871,277 |

| | | |
|--|---------------|---------------|
| Total liabilities and stockholders' equity | \$ 14,677,986 | \$ 14,259,341 |
|--|---------------|---------------|

See accompanying notes.

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FBL FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)

| | Three months ended March 31, | |
|---|------------------------------|-------------|
| | 2010 | 2009 |
| Revenues: | | |
| Interest sensitive and index product charges | \$ 30,003 | \$ 41,140 |
| Traditional life insurance premiums | 39,245 | 37,954 |
| Net investment income | 178,089 | 184,069 |
| Derivative income (loss) | 22,336 | (24,601) |
| Net realized capital gains on sales of investments | 4,729 | 1,951 |
| Total other-than-temporary impairment losses | (27,154) | (31,127) |
| Non-credit portion in other comprehensive loss | 19,132 | 9,506 |
| Net impairment loss recognized in earnings | (8,022) | (21,621) |
| Other income | 3,019 | 4,586 |
| Total revenues | 269,399 | 223,478 |
| Benefits and expenses: | | |
| Interest sensitive and index product benefits | 122,184 | 114,436 |
| Change in value of index product embedded derivatives | 26,056 | (8,669) |
| Traditional life insurance benefits | 27,568 | 22,104 |
| Increase in traditional life future policy benefits | 9,741 | 9,718 |
| Distributions to participating policyholders | 4,673 | 4,921 |
| Underwriting, acquisition and insurance expenses | 43,938 | 71,963 |
| Interest expense | 6,118 | 6,932 |
| Other expenses | 4,254 | 4,930 |
| Total benefits and expenses | 244,532 | 226,335 |
| | 24,867 | (2,857) |
| Income taxes | (7,955) | 1,256 |
| Equity income, net of related income taxes | 1,095 | 73 |
| Net income (loss) | 18,007 | (1,528) |
| Net loss attributable to noncontrolling interest | 14 | 38 |
| Net income (loss) attributable to FBL Financial Group, Inc. | \$ 18,021 | \$ (1,490) |
| Earnings (loss) per common share | \$ 0.59 | \$ (0.05) |
| Earnings (loss) per common share - assuming dilution | \$ 0.59 | \$ (0.05) |
| Cash dividends per common share | \$ 0.0625 | \$ 0.1250 |

See accompanying notes.

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FBL FINANCIAL GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)

| | FBL Financial Group, Inc. Stockholders' Equity | | | | | |
|---|--|---|---|----------------------|---------------------------------|----------------------------------|
| | Series B Preferred Stock | Class A and Class B Common Stock (a) | Accumulated Other Comprehensive Loss | Retained Earnings | Non- controlling Interest | Total Stockholders' Equity |
| Balance at January 1, 2009 | \$ 3,000 | \$ 111,612 | \$ (649,758) | \$ 793,511 | \$ 96 | \$ 258,461 |
| Reclassification of non-credit impairment losses from prior periods | — | — | (15,641) | 15,641 | — | — |
| Comprehensive income: | | | | | | |
| Net loss - three months ended March 31, 2009 | — | — | — | (1,490) | (38) | (1,528) |
| Change in net unrealized investment gains/losses | — | — | 22,105 | — | — | 22,105 |
| Non-credit impairment losses | — | — | (5,185) | — | — | (5,185) |
| Change in underfunded status of other postretirement benefit plans | — | — | 10 | — | — | 10 |
| Total comprehensive income (b) | | | | | | 15,402 |
| Stock-based compensation, including the issuance of 196,386 common shares under compensation plans | — | 1,468 | — | — | — | 1,468 |
| Dividends on preferred stock | — | — | — | (38) | — | (38) |
| Dividends on common stock | — | — | — | (3,732) | — | (3,732) |
| Receipts related to noncontrolling interest | — | — | — | — | 41 | 41 |
| Balance at March 31, 2009 | \$ 3,000 | \$ 113,080 | \$ (648,469) | \$ 803,892 | \$ 99 | \$ 271,602 |
| Balance at January 1, 2010 | \$ 3,000 | \$ 117,399 | \$ (118,730) | \$ 869,487 | \$ 121 | \$ 871,277 |
| Comprehensive income: | | | | | | |
| Net income - three months ended March 31, 2010 | — | — | — | 18,021 | (14) | 18,007 |
| Change in net unrealized investment gains/losses | — | — | 91,190 | — | — | 91,190 |
| Non-credit impairment losses | — | — | (8,084) | — | — | (8,084) |
| Change in underfunded status of the other postretirement benefit plans | — | — | 112 | — | — | 112 |

| | | | | | | |
|--|--|------------|--------------|------------|--------|------------|
| Total comprehensive income | | | | | | 101,225 |
| (b) | | | | | | |
| Stock-based compensation, including the issuance of 226,872 common shares under compensation plans | — | 1,913 | — | — | — | 1,913 |
| Dividends on preferred stock | — | — | — | (38 |) — | (38) |
| Dividends on common stock | — | — | — | (1,884 |) — | (1,884) |
| Receipts related to noncontrolling interest | — | — | — | — | 22 | 22 |
| Balance at March 31, 2010 | \$ 3,000 | \$ 119,312 | \$ (35,512) | \$ 885,586 | \$ 129 | \$ 972,515 |
| (a) | All activity for the periods shown relates to Class A Common Stock. | | | | | |
| (b) | Comprehensive income attributable to FBL Financial Group, Inc. aggregated \$101,239 and \$15,440 for the three months ended March 31, 2010 and 2009, respectively. | | | | | |

See accompanying notes.

FBL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
(Dollars in thousands)

| | Three months ended March 31, | |
|---|---------------------------------|-------------|
| | 2010 | 2009 |
| Operating activities | | |
| Net income (loss) | \$ 18,007 | \$ (1,528) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Adjustments related to interest sensitive and index products: | | |
| Interest credited/index credits to account balances, excluding deferred sales inducements | 108,019 | 80,589 |
| Change in fair value of embedded derivatives | 26,056 | (8,669) |
| Charges for mortality, surrenders and administration | (28,221) | (40,014) |
| Deferral of unearned revenues | 629 | 464 |
| Amortization of unearned revenue reserve | (715) | (684) |
| Provision for depreciation and amortization of property and equipment | 1,197 | 1,740 |
| Provision for accretion and amortization of investments | 505 | (1,994) |
| Realized losses on investments | 3,293 | 19,670 |
| Change in fair value of derivatives | (18,113) | 18,029 |
| Increase in traditional life and accident and health benefit accruals | 11,530 | 10,156 |
| Policy acquisition costs deferred | (18,819) | (36,756) |
| Amortization of deferred policy acquisition costs | 20,776 | 47,440 |
| Amortization of deferred sales inducements | 4,392 | 19,387 |
| Amortization of value of insurance in force | 576 | 741 |
| Change in accrued investment income | (12,125) | (6,908) |
| Change in amounts receivable from/payable to affiliates | 5,573 | 7,438 |
| Change in reinsurance recoverable | (1,399) | 394 |
| Change in current income taxes | 10,852 | (10,180) |
| Provision for deferred income taxes | 1,004 | 10,340 |
| Other | (1,836) | 7,609 |
| Net cash provided by operating activities | 131,181 | 117,264 |
| Investing activities | | |
| Sale, maturity or repayment of investments: | | |
| Fixed maturities - available for sale | 175,854 | 231,571 |
| Mortgage loans on real estate | 11,903 | 19,309 |
| Other long-term investments | — | 14 |
| Derivative instruments | 16,678 | 841 |
| Policy loans | 11,014 | 9,732 |
| | 215,449 | 261,467 |

Acquisition of investments:

| | | |
|---------------------------------------|------------|------------|
| Fixed maturities - available for sale | (375,586) | (154,866) |
| Equity securities available for sale | (7,854) | (9,302) |
| Mortgage loans on real estate | (2,700) | (475) |
| Derivative instruments | (13,437) | (21,683) |
| Policy loans | (10,313) | (10,734) |
| Short term investments - net | (15,101) | (120,724) |
| | (424,991) | (317,784) |

FBL FINANCIAL GROUP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)

| | Three months ended March 31, | |
|---|---------------------------------|------------|
| | 2010 | 2009 |
| Investing activities - continued | | |
| Proceeds from disposal, repayments of advances and other distributions of capital from equity investees | \$ 169 | \$ 7 |
| Purchases of property and equipment | (945) | (357) |
| Disposal of property and equipment | 496 | 856 |
| Net cash used in investing activities | (209,822) | (55,811) |
| Financing activities | | |
| Receipts from interest sensitive and index products credited to policyholder account balances | 380,478 | 584,562 |
| Return of policyholder account balances on interest sensitive and index products | (268,284) | (608,988) |
| Repayment of short-term debt | — | (60,000) |
| Receipts related to noncontrolling interests - net | 22 | 41 |
| Excess tax deductions on stock-based compensation | 581 | — |
| Issuance of common stock | 762 | 436 |
| Dividends paid | (1,922) | (3,770) |
| Net cash provided by (used in) financing activities | 111,637 | (87,719) |
| Increase (decrease) in cash and cash equivalents | 32,996 | (26,266) |
| Cash and cash equivalents at beginning of period | 11,690 | 37,710 |
| Cash and cash equivalents at end of period | \$ 44,686 | \$ 11,444 |
| Supplemental disclosures of cash flow information | | |
| Cash paid (received) during the period for: | | |
| Interest | \$ 6,463 | \$ 7,365 |
| Income taxes | (3,893) | (1,377) |
| Non-cash operating activity: | | |
| Deferral of sales inducements | 2,978 | 13,654 |
| Non-cash investing activity: | | |
| Exchange of real estate for mortgage loans | 1,492 | — |
| Exchange of fixed maturities for partnership investment in securities and indebtedness of related parties | 2,087 | — |

See accompanying notes.

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FBL FINANCIAL GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

March 31, 2010

1. Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements of FBL Financial Group, Inc. (we or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (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 notes required by GAAP for complete financial statements. Our financial statements include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position and results of operations.

Operating results for the three-month period ended March 31, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. We encourage you to refer to our consolidated financial statements and notes for the year ended December 31, 2009 included in our Annual Report on Form 10-K for a complete description of our material accounting policies. Also included in the Form 10-K is a description of areas of judgments and estimates and other information necessary to understand our financial position and results of operations.

Accounting Changes

Effective January 1, 2010, we adopted guidance that seeks to improve financial reporting by enterprises involved with variable interest entities. This guidance addresses (1) the effects on certain provisions of GAAP as a result of the elimination of the qualifying special-purpose entity concept, and (2) constituent concerns about the accounting and disclosures that do not always provide timely and useful information about an enterprise's involvement in a variable interest entity. The adoption of this guidance did not have any impact to our consolidated financial statements.

In June 2009, we adopted guidance that establishes general standards of accounting for and disclosing of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In February 2010, the Financial Accounting Standards Board (FASB) issued additional guidance that requires Securities and Exchange Commission (SEC) filers to evaluate subsequent events through the date that the financial statements are issued. For SEC filers, this guidance also removed the disclosure requirement related to disclosing the date through which subsequent events have been evaluated. The adoption of this guidance did not have any impact on our consolidated financial statements.

In January 2010, the FASB issued guidance that requires additional disclosures and clarifies existing disclosure requirements related to fair value measurements. Effective January 1, 2010, we adopted the portion of this guidance related to disclosures for 1) transfers in and out of the Level 1 and 2 categories, 2) the level of disaggregation of assets and liabilities and 3) inputs and valuation techniques. The adoption of this guidance did not have any impact on our consolidated financial statements. The guidance related to expanded disclosure of activity in Level 3 fair value measurements is effective for financial statements for periods that begin after December 15, 2010. We are currently evaluating the impact of adoption, and, other than enhanced disclosures, do not expect it to have any impact to our consolidated financial statements.

In March 2010, the FASB issued guidance that clarifies the type of embedded credit derivative that is exempt from embedded derivative bifurcation requirements. This new guidance requires that the only form of embedded credit derivatives that qualify for the exemption are credit derivatives related to the subordination of one financial instrument

to another. This guidance is effective for financial statements for periods that begin after June 15, 2010. We are currently evaluating the impact of adoption of this guidance.

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March 31, 2010

2. Investment Operations

Fixed Maturities and Equity Securities

Available-For-Sale Fixed Maturity and Equity Securities by Investment Category

| | March 31, 2010 | | | |
|--|------------------------|------------------------------|-----------------------------------|----------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Bonds: | | | | |
| Corporate securities | \$ 5,218,257 | \$ 253,220 | \$ (143,486) | \$ 5,327,991 |
| Residential mortgage-backed securities | 1,952,897 | 32,198 | (129,531) | 1,855,564 |
| Commercial mortgage-backed securities | 771,482 | 33,878 | (67,140) | 738,220 |
| Other asset-backed securities | 373,015 | 1,166 | (83,680) | 290,501 |
| Collateralized debt obligations | 18,000 | — | (14,693) | 3,307 |
| United States Government and agencies | 128,561 | 5,114 | (4,823) | 128,852 |
| State, municipal and other governments | 2,058,012 | 15,074 | (116,278) | 1,956,808 |
| Redeemable preferred stocks | 5,000 | — | (217) | 4,783 |
| Total fixed maturities | \$ 10,525,224 | \$ 340,650 | \$ (559,848) | \$ 10,306,026 |
| Equity securities: | | | | |
| Non-redeemable preferred stocks | \$ 40,649 | \$ 2,690 | \$ (3,062) | \$ 40,277 |
| Common stocks | 29,476 | 358 | (1) | 29,833 |
| Total equity securities | \$ 70,125 | \$ 3,048 | \$ (3,063) | \$ 70,110 |
| | December 31, 2009 | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses (1) | Estimated Fair Value |
| | (Dollars in thousands) | | | |
| Bonds: | | | | |
| Corporate securities | \$ 5,120,925 | \$ 195,581 | \$ (226,617) | \$ 5,089,889 |
| Residential mortgage-backed securities | 1,993,086 | 22,365 | (142,041) | 1,873,410 |
| Commercial mortgage-backed securities | 785,729 | 20,327 | (85,933) | 720,123 |
| Other asset-backed securities | 230,755 | 351 | (98,233) | 132,873 |
| Collateralized debt obligations | 27,541 | — | (14,649) | 12,892 |
| United States Government and agencies | 137,390 | 4,620 | (2,543) | 139,467 |

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| | | | | |
|--|---------------|------------|---------------|--------------|
| State, municipal and other governments | 2,038,244 | 8,509 | (155,500) | 1,891,253 |
| Redeemable preferred stocks | 5,000 | — | (306) | 4,694 |
| Total fixed maturities | \$ 10,338,670 | \$ 251,753 | \$ (725,822) | \$ 9,864,601 |

Equity securities:

| | | | | |
|---------------------------------|-----------|----------|-------------|-----------|
| Non-redeemable preferred stocks | \$ 40,649 | \$ 2,436 | \$ (4,648) | \$ 38,437 |
| Common stocks | 21,622 | 109 | (14) | 21,717 |
| Total equity securities | \$ 62,271 | \$ 2,545 | \$ (4,662) | \$ 60,154 |

Gross unrealized losses include non-credit losses on other-than-temporarily impaired other asset-backed securities (1) totaling \$8.0 million at March 31, 2010 and \$30.2 million at December 31, 2009, and residential mortgage-backed securities totaling \$7.4 million at December 31, 2009.

Short-term investments have been excluded from the above schedules as amortized cost approximates fair value for these securities.

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March 31, 2010

Available-For-Sale Fixed Maturity Securities by Maturity Date

| | March 31, 2010 | |
|--|------------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value |
| | (Dollars in thousands) | |
| Due in one year or less | \$ 92,574 | \$ 94,162 |
| Due after one year through five years | 1,151,691 | 1,208,079 |
| Due after five years through ten years | 2,547,722 | 2,650,800 |
| Due after ten years | 3,630,843 | 3,463,917 |
| | 7,422,830 | 7,416,958 |
| Residential mortgage-backed securities | 1,952,897 | 1,855,564 |
| Commercial mortgage-backed securities | 771,482 | 738,220 |
| Other asset-backed securities | 373,015 | 290,501 |
| Redeemable preferred stocks | 5,000 | 4,783 |
| | \$ 10,525,224 | \$ 10,306,026 |

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Net Unrealized Losses on Investments in Accumulated Other Comprehensive Loss

| | March 31, 2010 | December 31, 2009 |
|--|------------------------|----------------------|
| | (Dollars in thousands) | |
| Unrealized depreciation on: | | |
| Fixed maturities - available for sale | \$ (219,198) | \$ (474,069) |
| Equity securities - available for sale | (15) | (2,117) |
| Interest rate swaps | (303) | (362) |
| | (219,516) | (476,548) |
| Adjustments for assumed changes in amortization pattern of: | | |
| Deferred policy acquisition costs | 103,417 | 196,077 |
| Deferred sales inducements | 62,106 | 95,942 |
| Value of insurance in force acquired | (138) | 3,657 |
| Unearned revenue reserve | (375) | (1,492) |
| Provision for deferred income taxes | 19,085 | 63,837 |
| | (35,421) | (118,527) |
| Proportionate share of net unrealized investment gains of equity investees | (3) | (3) |

| | | |
|----------------------------------|--------------|---------------|
| Net unrealized investment losses | \$ (35,424) | \$ (118,530) |
|----------------------------------|--------------|---------------|

The changes in net unrealized investment gains and losses are recorded net of deferred income taxes and other adjustments for assumed changes in the amortization pattern of deferred policy acquisition costs, deferred sales inducements, value of insurance in force acquired and unearned revenue reserve totaling (\$173.9) million for the three months ended March 31, 2010 and \$39.9 million for the three months ended March 31, 2009. Subsequent changes in fair value of securities for which a previous non-credit other-than-temporary impairment loss was recognized in accumulated other comprehensive loss are reported along with changes in fair value for which no other-than-temporary impairment losses were previously recognized.

We monitor the financial condition and operations of the issuers of securities rated below investment grade and of the issuers of certain investment grade securities on which we have concerns regarding credit quality. In determining whether or not an unrealized loss is other than temporary, we review factors such as:

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March 31, 2010

- historical operating trends;
- business prospects;
- status of the industry in which the company operates;
- analyst ratings on the issuer and sector;
- quality of management;
- size of unrealized loss;
- level of current market interest rates compared to market interest rates when the security was purchased;
- length of time the security has been in an unrealized loss position; and
- our intent to sell and whether it is more likely than not that we would be required to sell prior to recovery.

Fixed Maturity Securities with Unrealized Losses by Length of Time

| Description of Securities | March 31, 2010 | | | | | |
|--|------------------------|-------------------|----------------------|-------------------|----------------------|-------------------|
| | Less than one year | | One year or more | | Total | |
| | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses | Estimated Fair Value | Unrealized Losses |
| | (Dollars in thousands) | | | | | |
| Corporate securities | \$ 322,549 | \$ (10,069) | \$ 1,216,026 | \$ (133,417) | \$ 1,538,575 | \$ (143,486) |
| Residential mortgage-backed securities | 47,032 | (2,567) | 1,004,466 | (126,964) | 1,051,498 | (129,531) |
| Commercial mortgage-backed securities | 20,076 | (25) | 160,700 | (67,115) | 180,776 | (67,140) |
| Other asset-backed securities | 69,624 | (6,124) | 112,701 | (77,556) | 182,325 | (83,680) |
| Collateralized debt obligation | — | — | 3,307 | (14,693) | 3,307 | (14,693) |
| Unites States Government and agencies | 54,620 | (4,668) | 14,682 | (155) | 69,302 | (4,823) |
| State, municipal and other governments | 536,501 | (9,414) | 769,493 | (106,864) | 1,305,994 | (116,278) |
| Redeemable preferred stocks | — | — | 4,783 | (217) | 4,783 | (217) |
| Total fixed maturities | \$ 1,050,402 | \$ (32,867) | \$ 3,286,158 | \$ (526,981) | \$ 4,336,560 | \$ (559,848) |
| December 31, 2009 | | | | | | |
| Description of | Less than one year | | One year or more | | Total | |
| | Estimated | Unrealized | Estimated | Unrealized | Estimated | Unrealized |

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| Securities | Fair Value | Losses | Fair Value | Losses | Fair Value | Losses |
|--|------------------------|--------------|--------------|---------------|--------------|---------------|
| | (Dollars in thousands) | | | | | |
| Corporate securities | \$ 314,304 | \$ (13,717) | \$ 1,577,140 | \$ (212,900) | \$ 1,891,444 | \$ (226,617) |
| Residential mortgage-backed securities | 53,341 | (1,807) | 1,025,010 | (140,234) | 1,078,351 | (142,041) |
| Commercial mortgage-backed securities | 8,110 | (521) | 242,414 | (85,412) | 250,524 | (85,933) |
| Other asset-backed securities | 18,386 | (11,891) | 104,784 | (86,342) | 123,170 | (98,233) |
| Collateralized debt obligation | — | — | 3,351 | (14,649) | 3,351 | (14,649) |
| Unites States Government and agencies | 63,528 | (2,392) | 14,684 | (151) | 78,212 | (2,543) |
| State, municipal and other governments | 762,644 | (21,139) | 777,542 | (134,361) | 1,540,186 | (155,500) |
| Redeemable preferred stocks | — | — | 4,694 | (306) | 4,694 | (306) |
| Total fixed maturities | \$ 1,220,313 | \$ (51,467) | \$ 3,749,619 | \$ (674,355) | \$ 4,969,932 | \$ (725,822) |

Included in the above tables are 795 securities from 553 issuers at March 31, 2010 and 953 securities from 651 issuers at December 31, 2009. The unrealized losses are primarily due to wider spreads between the risk-free and corporate and other bond yields relative to the spreads when the securities were purchased. The following summarizes the more significant unrealized losses by investment category as of March 31, 2010.

Corporate securities: The unrealized losses on corporate securities represent 25.6% of our total unrealized losses. The largest losses remain in the finance sector (\$724.3 million carrying value and \$90.8 million unrealized loss). The largest unrealized losses in the finance sector were in the banking (\$349.4 million carrying value and \$58.0 million unrealized loss), the life insurance (\$95.7 million carrying value and \$13.6 million unrealized loss) and the real estate investment trust (\$206.9 million

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carrying value and \$12.8 million unrealized loss) sub-sectors. The unrealized losses across the finance sector are primarily attributable to a general widening in spread levels relative to the spreads at which we acquired the securities. Finance sector spreads have narrowed but remain historically wide in comparison to the narrowing experienced in the remaining sectors, contributing to the proportionately larger amount of unrealized losses for this sector.

The other sector containing our largest unrealized losses is basic industrial (\$107.1 million carrying value and \$15.3 million unrealized loss). The unrealized loss in this sector is generally due to spread widening attributable to issuers' weaker operating results. The unrealized losses in the remaining corporate sectors are attributable to some spread widening and also increases in yields since the time we acquired the securities. This movement does not necessarily reflect credit concerns, but rather normal volatility in interest rates and credit spreads.

Because we do not intend to sell or believe we will be required to sell these securities before their anticipated recovery of amortized cost, we do not consider these investments to be other-than-temporarily impaired at March 31, 2010.

Residential mortgage-backed securities: The unrealized losses on residential mortgage-backed securities represent 23.1% of our total unrealized losses, and were caused primarily by continued uncertainty regarding mortgage defaults on Alt-A and other risky mortgages. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on mortgages and other assets backing the securities. Because we do not intend to sell or believe we will be required to sell these investments before their anticipated recovery of amortized cost, we do not consider these investments to be other-than-temporarily impaired at March 31, 2010.

Commercial mortgage-backed securities: The unrealized losses on commercial mortgage-backed securities represent 12.0% of our total unrealized losses, and were caused primarily by spread widening and industry concerns regarding the potential for future commercial mortgage defaults. There were also concerns regarding current and future downgrades by the three major rating agencies for tranches below the super senior AAA level. The contractual cash flows of these investments are based on mortgages backing the securities. Because we do not intend to sell or believe we will be required to sell these investments before their anticipated recovery of amortized cost, we do not consider these investments to be other-than-temporarily impaired at March 31, 2010.

Other asset-backed securities: The unrealized losses on other asset-backed securities represent 14.9% of our total unrealized losses, and were caused primarily by concerns regarding mortgage defaults on subprime and home equity loans. There were also downgrades and defaults of monoline bond insurers providing credit protection for underlying securities. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on mortgages and other assets backing the securities. Because we do not intend to sell or believe we will be required to sell these investments before their anticipated recovery of amortized cost, we do not consider these investments to be other-than-temporarily impaired at March 31, 2010.

Collateralized debt obligation: The unrealized loss on collateralized debt obligation represents 2.6% of our total unrealized losses. Our investment in this synthetic collateralized debt obligation is backed by credit default swaps with no home equity exposure. We have stress tested this security and determined that future principal losses are not expected based on reasonably adverse conditions, as we believe the existing subordination is sufficient to maintain the value of our investment. In addition, we do not intend to sell or believe we will be required to sell this investment before its anticipated recovery of amortized cost, and therefore, do not consider it to be other-than-temporarily impaired at March 31, 2010.

State, municipal and other governments: The unrealized losses on state, municipal and other governments represent 20.8% of our total unrealized losses, and were primarily caused by general spread widening, concerns regarding the future of the monoline bond insurers, the lack of printed underlying ratings on insured bonds and the market's uncertainty around the recession's impact on municipalities' income. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on the taxing authority of a municipality or the revenues of a municipal project. We do not consider these investments to be other-than-temporarily impaired at March 31, 2010 because the decline in fair value is primarily attributable to increased spreads and concerns regarding the stability of the monoline bond insurers rather than the underlying issuers. In addition, we do not intend to sell or believe we will be required to sell these investments before their anticipated recovery of amortized cost.

Excluding mortgage and asset-backed securities, no securities from the same issuer had an aggregate unrealized loss in excess of \$14.7 million at March 31, 2010. The \$14.7 million unrealized loss is from one CCC- rated collateralized debt obligation which has been impacted by the actual defaults in the collateral underlying the security. With respect to mortgage and asset-backed securities not backed by the United States Government, no securities from the same issuer had an aggregate unrealized loss in excess of \$28.2 million at March 31, 2010. The \$28.2 million unrealized loss from one issuer relates to nine different

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securities that are backed by different pools of commercial mortgage loans. All but one of the nine securities are rated investment grade and the unrealized loss on the one non-investment grade security totaled \$4.2 million. The largest unrealized loss on any one security is \$6.5 million at March 31, 2010.

We also had \$3.1 million of gross unrealized losses on equity securities with an estimated fair value of \$22.0 million at March 31, 2010. The majority of the unrealized losses are attributable to perpetual preferred securities in the financial sector (\$21.9 million carrying value and \$3.1 million unrealized loss). These equity securities have been in an unrealized loss position for more than one year. These securities are similar to fixed maturities as they provide periodic cash flows, contain call features and are similarly rated and priced like other long-term callable bonds. We do not intend to sell or believe we will be required to sell these investments before their anticipated recovery; therefore we do not consider them to be other-than-temporarily impaired at March 31, 2010.

Realized gains and losses on sales of investments are determined on the basis of specific identification. The carrying values of all our investments are reviewed on an ongoing basis for credit deterioration. When our review indicates a decline in fair value is other than temporary, a specific write down is charged to earnings for the credit loss and a specific charge is recognized in accumulated other comprehensive loss for the non-credit loss component. For fixed maturity securities, the previous amortized cost adjusted by the credit loss becomes the new cost basis for the security. For equity securities, the fair value becomes the new cost basis for the security.

After an other-than-temporary write-down of all equity securities and any fixed maturity securities with a credit only impairment, the cost basis is generally not adjusted for subsequent recoveries in fair value. However, for fixed maturity securities for which we can reasonably estimate future cash flows after a write down, the discount or reduced premium recorded, based on the new cost basis, is amortized over the remaining life of the security. Amortization in this instance is computed using the prospective method and the current estimate of the amount and timing of future cash flows.

Significant assumptions regarding the present value of expected cash flows for each security are used when an other-than-temporary impairment occurs and there is a non-credit portion of the unrealized loss that won't be recognized in earnings. Our assumptions for residential mortgage-backed securities, commercial mortgage-backed securities, other asset-backed securities and collateralized debt obligations include collateral pledged, scheduled principal and interest payments, default levels, delinquency rates and the level of nonperforming assets for the remainder of the investments' expected term. We use a single best estimate of cash flows approach and use the effective yield prior to the date of impairment to calculate the present value of cash flows. Our assumptions for corporate and other fixed maturity securities include scheduled principal and interest payments and an estimated recovery value, generally based on a percentage return of the current market value.

Credit Loss Component of Other-Than-Temporary Impairments on Fixed Maturity Securities

| | Three months ended | |
|---|------------------------|----------------|
| | March 31, 2010 | March 31, 2009 |
| | (Dollars in thousands) | |
| Balance at beginning of period | \$ (98,545) | \$ (106,421) |
| Increases for which an impairment was not previously recognized | (6,548) | (17,186) |
| Increases to previously impaired investments | (1,474) | (3,570) |
| Reductions due to investments sold | 22,894 | 32 |

| | | | | |
|--------------------------|----|-----------|----|------------|
| Balance at end of period | \$ | (83,673) | \$ | (127,145) |
|--------------------------|----|-----------|----|------------|

Sales, Maturities and Principal Repayments on Fixed Maturity Securities

| | Three months ended March 31, 2010 | | | |
|---|-----------------------------------|----------------------------|-----------------------------|------------|
| | Amortized Cost | Gross Realized Gains | Gross Realized Losses | Proceeds |
| | (Dollars in thousands) | | | |
| Scheduled principal repayments and calls - available for sale | \$ 104,308 | \$ — | \$ — | \$ 104,308 |
| Sales - available for sale | 85,254 | 5,057 | (70) | 90,241 |
| Total | \$ 189,562 | \$ 5,057 | \$ (70) | \$ 194,549 |

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| | Three months ended March 31, 2009 | | | |
|---|-----------------------------------|----------------------------|-----------------------------|------------|
| | Amortized Cost | Gross Realized Gains | Gross Realized Losses | Proceeds |
| | (Dollars in thousands) | | | |
| Scheduled principal repayments and calls - available for sale | \$ 96,427 | \$ — | \$ — | \$ 96,427 |
| Sales - available for sale | 133,224 | 2,068 | (148) | 135,144 |
| Total | \$ 229,651 | \$ 2,068 | \$ (148) | \$ 231,571 |

Realized losses on sales were on securities that we did not intend to sell at the prior balance sheet date or on securities that were impaired at the prior quarter end, but decreased in value during the quarter.

Mortgage Loans on Real Estate

Our mortgage loan portfolio consists principally of commercial mortgage loans that we have originated. Our lending policies require that the loans be collateralized by the value of the related property, establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type.

We establish an allowance as needed, consisting of specific reserves, for possible losses against our mortgage loan portfolio. An allowance is needed for loans in which we do not believe we will collect all amounts due according to the contractual terms of the respective loan agreements.

Valuation Allowance on Mortgage Loans

| | Three months ended March 31, 2010 (Dollars in thousands) | March 31, 2009 |
|--------------------------------|--|----------------|
| Balance at beginning of period | \$ 725 | \$ — |
| Allowances established | — | 865 |
| Balance at end of period | \$ 725 | \$ 865 |

3. Derivative Instruments

We have entered into interest rate swaps to manage interest rate risk associated with a portion of our flexible premium deferred annuity contracts. Under the interest rate swaps, we pay a fixed rate of interest and receive a floating rate of interest on a notional amount which totaled \$50.0 million at March 31, 2010 and \$100.0 million at December 31, 2009. These interest rate swaps effectively fix the interest crediting rate on a portion of our flexible premium deferred annuity contract liabilities, thereby hedging our exposure to increases in market interest rates. The interest rate settlements decreased derivative income \$0.7 million for the first quarter of 2010 and \$1.2 million in the 2009 period. The change in unrealized loss on these swaps increased derivative income \$0.3 million for the first quarter of 2010 and \$0.5 million in the 2009 period.

We also have one interest rate swap that we entered into to hedge the variable component of the interest rate on a

\$46.0 million line of credit borrowing. The terms of this instrument provide that we pay a fixed rate of interest and receive a floating rate of interest on a notional amount of \$46.0 million. We closed the line of credit agreement in the first quarter of 2009 and began recording the change in fair value of the underlying swap and interest payments in derivative income (loss). Prior to 2009, the change in fair value of the swap was included in accumulated other comprehensive loss. The interest rate settlements decreased derivative income \$0.5 million for the first quarter of 2010 and \$0.4 million in the 2009 period. The change in unrealized loss on this swap increased derivative income \$0.5 million for the first quarter of 2010. Derivative income (loss) for the the 2009 period includes the unrealized loss on the swap at December 31, 2008 of \$2.7 million which was previously included in accumulated other comprehensive loss, partially offset by the swap's increase in fair value during the period, which totaled \$0.3 million.

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Summary of Swaps

| Maturity Date | Notional Amount | Receive Rate | Pay Rate | Carrying and Fair Value | |
|---------------|-----------------|----------------|----------|-------------------------|-------------------|
| | | | | March 31, 2010 | December 31, 2009 |
| | | | | (Dollars in thousands) | |
| 1/1/2010 | \$ 50,000 | 3 month LIBOR* | 4.858 % | \$ — | \$ (18) |
| 10/7/2010 | 46,000 | 3 month LIBOR* | 4.760 % | (1,066) | (1,521) |
| 6/1/2011 | 50,000 | 1 month LIBOR* | 5.519 % | (2,860) | (3,241) |
| | | | | \$ (3,926) | \$ (4,780) |

* London Interbank Offered Rate

When applicable, we formally document hedging relationships, our risk management objectives and strategies for undertaking these transactions. We also test for hedge ineffectiveness at inception of the hedge and at each reporting period as needed. There were no derivative instruments designated as hedges at March 31, 2010 or December 31, 2009.

We write index annuities directly and assume index annuity business under a coinsurance agreement. Index annuities guarantee the return of principal to the contract holder and credit amounts based on a percentage of the gain in a specified market index. Most of the premium received is invested in investment grade fixed income securities and a portion of the premium received from the contract holder is used to purchase derivatives consisting of one-year or two-year call options on the applicable market indices to fund the index credits due to the index annuity contract holders. On the respective anniversary dates of the index annuity contracts, the market index used to compute the index credits is reset and new call options are purchased to fund the next index credit. Although the call options are designed to be effective hedges from an economic standpoint, they do not meet the requirements for hedge accounting treatment under GAAP. Therefore, the change in fair value of the options is recognized in earnings in the period of change. The cost of the options can be managed through the terms of the index annuities, which permit changes to participation rates, asset fees and/or caps, subject to guaranteed minimums.

We held call options relating to our direct business, net of collateral received for counterparty credit risk, with a fair value of \$60.9 million at March 31, 2010 and \$44.0 million at December 31, 2009. Our share of call options assumed, which is recorded as an embedded derivative in reinsurance recoverable, totaled \$31.7 million at March 31, 2010 and \$29.3 million at December 31, 2009. Derivative income (loss) includes \$23.0 million in the first quarter of 2010 and (\$21.7) million for the 2009 period relating to call option proceeds and changes in fair value.

The reserve for index annuity contracts includes a series of embedded derivatives that represent the contract holder's right to participate in index returns over the expected lives of the applicable contracts. The reserve includes the value of the embedded forward options despite the fact that call options are not purchased for a period longer than the period of time to the next index reset date. The change in the value of this embedded derivative is reported on a separate line in the consolidated statements of operations and totaled \$26.1 million for the first quarter of 2010 and (\$8.7) million for the 2009 period.

We have modified coinsurance agreements where interest on funds withheld is determined by reference to a pool of fixed maturity securities. These arrangements contain embedded derivatives requiring bifurcation. Embedded derivatives in these contracts are recorded at fair value at each balance sheet date and changes in the fair values of the

derivatives are recorded as derivative income or loss. The fair value of the embedded derivatives pertaining to funds withheld on variable business assumed by us totaled \$1.4 million at March 31, 2010 and \$1.6 million at December 31, 2009. The fair value of the embedded derivatives pertaining to funds withheld on business ceded by us was \$0.1 million at March 31, 2010 and \$0.2 million at December 31, 2009. Derivative income (loss) from our modified coinsurance contracts totaled (\$0.3) million for the first quarter of 2010 and \$0.6 million for the 2009 period.

4. Fair Values

GAAP defines fair value, establishes a framework for measuring fair value and requires disclosures about fair value measurements. Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. GAAP also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or those for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. For some investments, little market activity may exist and

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management's determination of fair value is then based on the best information available in the circumstances, and may incorporate management's own assumptions of what a market participant would consider for the fair value, which involves a significant degree of judgment.

Volatile and illiquid market conditions in the early part of 2009 affected pricing for a broad range of asset classes and most fixed-income sectors. Market conditions improved substantially through year-end 2009 and into 2010. However, certain market sectors remain somewhat dislocated, increasing the difficulty in valuing certain instruments, as trading has been less frequent and/or market data less observable. As a result, certain valuations require greater estimation and judgment as well as more complex valuation methods. These values may not ultimately be realizable in a market transaction, and such values may change rapidly as market conditions change and valuation assumptions are modified.

We used the following methods and assumptions in estimating the fair value of our financial instruments.

Fixed maturity securities: Fair values of fixed maturity securities are based on quoted market prices in active markets when available. We have valued these investments using the valuation methodologies described below.

Equity securities: Fair values for equity securities are based on quoted market prices, where available. For equity securities that are not actively traded, estimated fair values are based on values of comparable issues.

Mortgage loans on real estate: Fair values are estimated by discounting expected cash flows of each loan at an interest rate equal to a spread above the U.S. Treasury bond yield that corresponds to the loan's expected life. These spreads are based on overall market pricing of commercial mortgage loans at the time of valuation.

Derivative instruments: Fair values for call options are based on counterparty market prices adjusted for a credit component of the counterparty, net of collateral received. Prices are verified internally using analytical tools.

Policy loans: Fair values are estimated by discounting expected cash flows using a risk-free interest rate based on the U.S. Treasury curve.

Other long-term investments, cash and short-term investments: Amounts are reported at historical cost, adjusted for amortization of premiums, depreciation or accrual of discounts, as applicable, which approximates the fair values due to the nature of these assets.

Reinsurance recoverable: The fair value of our portion of the call options used to fund index credits on the index annuities assumed from a reinsurer is determined using quoted market prices, less an adjustment for credit risk. Fair values for the embedded derivatives in our modified coinsurance contracts under which we cede or assume business are based on the difference between the fair value and the cost basis of the underlying fixed maturity securities. We are not required to estimate fair value for the remainder of the reinsurance recoverable balance.

Assets held in separate accounts: Fair values are based on quoted net asset values of the underlying mutual funds.

Future policy benefits and other policyholders' funds: Fair values of our liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities, deposit administration funds, funding agreements and supplementary contracts) are estimated using one of two methods. For contracts with known maturities (including index annuity embedded derivatives), fair value is determined using discounted cash flow valuation techniques based on current interest rates adjusted to reflect our credit risk and an additional provision for adverse deviation. For deposit liabilities with no defined maturities, fair value is the amount payable on demand. We

are not required to estimate the fair value of our liabilities under other insurance contracts.

Long-term debt: Fair values are estimated using discounted cash flow analysis based on our current incremental borrowing rate for similar types of borrowing arrangements adjusted, as needed, to reflect our credit risk.

Other liabilities: Fair values for interest rate swaps are based on counterparty market prices adjusted for a credit component of the counterparty, net of collateral paid. Prices are verified internally using analytical tools. We are not required to estimate fair values for the remainder of the other liabilities balances.

Liabilities related to separate accounts: Fair values are based on cash surrender value, the cost we would incur to extinguish the liability.

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Fair Values and Carrying Values

| | March 31, 2010 | | December 31, 2009 | |
|--|------------------------|---------------|-------------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| | (Dollars in thousands) | | | |
| Assets | | | | |
| Fixed maturities - available for sale | \$ 10,306,026 | \$ 10,306,026 | \$ 9,864,601 | \$ 9,864,601 |
| Equity securities - available for sale | 70,110 | 70,110 | 60,154 | 60,154 |
| Mortgage loans on real estate | 1,286,214 | 1,268,481 | 1,293,936 | 1,257,980 |
| Derivative instruments | 60,880 | 60,880 | 44,023 | 44,023 |
| Policy loans | 168,035 | 204,062 | 168,736 | 205,453 |
| Other long-term investments | 1,875 | 1,875 | 1,882 | 1,882 |
| Cash and short-term investments | 262,929 | 262,929 | 214,832 | 214,832 |
| Reinsurance recoverable | 33,201 | 33,201 | 31,080 | 31,080 |
| Assets held in separate accounts | 726,825 | 726,825 | 702,073 | 702,073 |
| Liabilities | | | | |
| Future policy benefits | \$ 9,609,642 | \$ 8,778,297 | \$ 9,392,402 | \$ 8,397,026 |
| Other policyholders' funds | 674,987 | 661,700 | 670,653 | 645,995 |
| Long-term debt | 371,105 | 305,471 | 371,084 | 280,828 |
| Other liabilities | 3,926 | 3,926 | 4,780 | 4,780 |
| Liabilities related to separate accounts | 726,825 | 707,380 | 702,073 | 682,438 |

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 - Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments included in Level 1 are listed equities, mutual funds, money market funds, non-interest bearing cash and U.S. Treasury securities. As required by GAAP, we do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2 - Pricing inputs are other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methods. Financial instruments which are generally included in this category include fixed maturity securities (including public and private bonds), less liquid and restricted equity securities and over-the-counter derivatives that are priced by third-party pricing services or internal systems using observable inputs.

Fair values of all Level 2 fixed maturity public securities are obtained primarily from a variety of independent pricing sources, whose results we evaluate internally. We generally obtain one or two prices per security, which are compared to relevant credit information, perceived market movements and sector news. Market indices of similar rated asset class spreads are consulted for valuations and broker indications of similar securities are compared. If the issuer has had trades in similar debt outstanding but not necessarily the same rank in the capital structure, spread information is

used to support fair value. If discrepancies are identified, additional quotes are obtained and the quote that best reflects a fair value exit price at the reporting date is selected. Fair value of most of our private investments are determined using matrix pricing with substantially all observable inputs, such as industry classification, duration and rating.

Level 3 - Pricing inputs are unobservable for the financial instrument and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include non-binding broker and internally priced mortgage or other asset-backed securities and other publicly traded issues, private corporate securities and index annuity embedded derivatives.

Fair values of private investments in Level 3 are determined by reference to public market, private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. For other securities where an exit price based on relevant observable inputs is not obtained, the fair value is determined using an enhanced matrix calculation.

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The matrix pricing we and pricing services perform include a discounted cash flow analysis using a spread, including the specific creditors' credit default swap spread (if available), over U.S. Treasury bond yields, adjusted for the maturity/average life differences. Spread adjustments are intended to reflect an illiquidity premium and take into account a variety of factors including but not limited to: senior unsecured versus secured status, par amount outstanding, number of holders, maturity, average life, composition of lending group and debt rating. These valuation methodologies involve a significant degree of judgment.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

Valuation of our Financial Instruments Reported at Fair Value by Hierarchy Levels

| | March 31, 2010 | | | |
|--|---|---|--|--------------|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | (Dollars in thousands) | | | |
| Assets | | | | |
| Corporate securities | \$ — | \$ 5,142,574 | \$ 185,417 | \$ 5,327,991 |
| Residential mortgage-backed securities | — | 1,849,639 | 5,925 | 1,855,564 |
| Commercial mortgage-backed securities | — | 715,347 | 22,873 | 738,220 |
| Other asset-backed securities | — | 270,988 | 19,513 | 290,501 |
| Collateralized debt obligations | — | — | 3,307 | 3,307 |
| United States Government and agencies | 63,890 | 50,280 | 14,682 | 128,852 |
| State, municipal and other governments | — | 1,835,817 | 120,991 | 1,956,808 |
| Redeemable preferred stocks | — | 4,783 | — | 4,783 |
| Non-redeemable preferred stocks | — | 32,985 | 7,292 | 40,277 |
| Common stocks | 2,947 | 26,886 | — | 29,833 |
| Derivative instruments | — | 60,880 | — | 60,880 |
| Other long-term investments | — | — | 1,875 | 1,875 |
| Cash and short-term investments | 262,929 | — | — | 262,929 |
| Reinsurance recoverable | — | 33,201 | — | 33,201 |
| Assets held in separate accounts | 726,825 | — | — | 726,825 |

Liabilities

| | | | | |
|---|------|-------|------------|------------|
| Future policy benefits - index annuity embedded derivatives | \$ — | \$ — | \$ 538,342 | \$ 538,342 |
| Other liabilities | — | 3,926 | — | 3,926 |

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| | December 31, 2009 | | | |
|---|---|---|--|--------------|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | (Dollars in thousands) | | | |
| Assets | | | | |
| Corporate securities | \$ — | \$ 4,901,409 | \$ 188,480 | \$ 5,089,889 |
| Residential mortgage-backed securities | — | 1,873,410 | — | 1,873,410 |
| Commercial mortgage-backed securities | — | 688,636 | 31,487 | 720,123 |
| Other asset-backed securities | — | 109,925 | 22,948 | 132,873 |
| Collateralized debt obligations | — | — | 12,892 | 12,892 |
| United States Government and agencies | 69,527 | 55,257 | 14,683 | 139,467 |
| State, municipal and other governments | — | 1,780,546 | 110,707 | 1,891,253 |
| Redeemable preferred stocks | — | 4,694 | — | 4,694 |
| Non-redeemable preferred stocks | — | 31,038 | 7,399 | 38,437 |
| Common stocks | 2,685 | 19,032 | — | 21,717 |
| Derivative instruments | — | 44,023 | — | 44,023 |
| Other long-term investments | — | — | 1,882 | 1,882 |
| Cash and short-term investments | 214,832 | — | — | 214,832 |
| Reinsurance recoverable | — | 31,080 | — | 31,080 |
| Assets held in separate accounts | 702,073 | — | — | 702,073 |
| Liabilities | | | | |
| Future policy benefits - index annuity embedded derivatives | \$ — | \$ — | \$ 502,067 | \$ 502,067 |
| Other liabilities | — | 4,780 | — | 4,780 |

Approximately 3.6% of the total fixed maturities are included in the Level 3 group at March 31, 2010 and 3.9% at December 31, 2009. The fair value of the assets and liabilities above include the financial instruments' nonperformance risk. Nonperformance risk is the risk that the instrument will not be fulfilled and affects the value at which the instrument could be transferred in an orderly transaction. The nonperformance risk for our assets reported at fair value totaled \$0.3 million at March 31, 2010 and December 31, 2009. Our nonperformance risk decreased the fair value of our reported liabilities \$97.2 million at March 31, 2010 and \$108.5 million at December 31, 2009.

Level 3 Fixed Maturity Securities by Valuation Source

| | March 31, 2010 | | | | | |
|--|------------------------|---------|-------------------|--------|-------|---------|
| | Third-party vendors | | Priced internally | | Total | |
| | (Dollars in thousands) | | | | | |
| Corporate securities | \$ | 128,379 | \$ | 57,038 | \$ | 185,417 |
| Residential mortgage-backed securities | | 5,925 | | — | | 5,925 |
| Commercial mortgage-backed securities | | 18,507 | | 4,366 | | 22,873 |
| Other asset-backed securities | | 19,513 | | — | | 19,513 |
| Collateralized debt obligations | | 3,307 | | — | | 3,307 |
| United States Government and agencies | | — | | 14,682 | | 14,682 |
| State, municipal and other governments | | 120,991 | | — | | 120,991 |
| Total | \$ | 296,622 | \$ | 76,086 | \$ | 372,708 |
| Percent of total | | 79.6 | % | 20.4 | % | 100.0 |
| | | | | | | % |

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March 31, 2010

| | December 31, 2009 | | | | | | |
|--|------------------------|---------|-------------------|--------|-------|---------|---|
| | Third-party vendors | | Priced internally | | Total | | |
| | (Dollars in thousands) | | | | | | |
| Corporate securities | \$ | 151,056 | \$ | 37,424 | \$ | 188,480 | |
| Commercial mortgage-backed securities | | 26,761 | | 4,726 | | 31,487 | |
| Other asset-backed securities | | 22,948 | | — | | 22,948 | |
| Collateralized debt obligations | | 12,892 | | — | | 12,892 | |
| United States Government and agencies | | 14,683 | | — | | 14,683 | |
| State, municipal and other governments | | 110,707 | | — | | 110,707 | |
| Total | \$ | 339,047 | \$ | 42,150 | \$ | 381,197 | |
| Percent of total | | 88.9 | % | 11.1 | % | 100 | % |

Level 3 Financial Instruments Changes in Fair Value - Assets

| | March 31, 2010 | | | | | |
|--|----------------------------------|----------------------------------|---|--|---|-------------------------------|
| | Balance, December 31, 2009 | Purchases (disposals), net | Realized and unrealized gains (losses), net | Net transfers in (out) of Level 3 (1) | Included in earnings (amort- ization) | Balance, March 31, 2010 |
| | (Dollars in thousands) | | | | | |
| Corporate securities | \$ 188,480 | \$ (1,751) | \$ 6,998 | \$ (8,350) | \$ 40 | \$ 185,417 |
| Residential mortgage-backed securities | — | 5,925 | — | — | — | 5,925 |
| Commercial mortgage-backed securities | 31,487 | (324) | 1,295 | (9,500) | (85) | 22,873 |
| Other asset-backed securities | 22,948 | (377) | 1,068 | (4,322) | 196 | 19,513 |
| Collateralized debt obligations | 12,892 | (10,200) | 615 | — | — | 3,307 |
| United States Government and agencies | 14,683 | — | (4) | — | 3 | 14,682 |
| State, municipal and other governments | 110,707 | 4,879 | 5,412 | — | (7) | 120,991 |
| Non-redeemable preferred stocks | 7,399 | — | (107) | — | — | 7,292 |
| Other long-term investments | 1,882 | — | — | — | (7) | 1,875 |
| Total | \$ 390,478 | \$ (1,848) | \$ 15,277 | \$ (22,172) | \$ 140 | \$ 381,875 |

March 31, 2009

| | Balance, December | Purchases (disposals), | Realized and | Net transfers in (out) of | Included in | Balance, March 31, |
|--|----------------------|---------------------------|-----------------|------------------------------|----------------|-----------------------|
|--|----------------------|---------------------------|-----------------|------------------------------|----------------|-----------------------|

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| | 31, 2008 | net | unrealized gains (losses), net | Level 3 (1) | earnings (amort- ization) | 2009 |
|--|------------------------|--------------|--------------------------------------|---------------|---------------------------------|------------|
| | (Dollars in thousands) | | | | | |
| Corporate securities | \$ 642,234 | \$ (10,811) | \$ (3,474) | \$ (455,128) | \$ (34) | \$ 172,787 |
| Residential mortgage-backed securities | 70,003 | — | 9,049 | 9,224 | 16 | 88,292 |
| Commercial mortgage-backed securities | 24,122 | (301) | 1,067 | (5,590) | (3) | 19,295 |
| Other asset-backed securities | 17,201 | (637) | (2,572) | 2,231 | 3 | 16,226 |
| Collateralized debt obligations | 7,414 | — | (1,976) | — | (1) | 5,437 |
| United States Government and agencies | 1,928 | — | — | — | — | 1,928 |
| State, municipal and other governments | 140,189 | (54) | (4,287) | (19,999) | (5) | 115,844 |
| Redeemable preferred stocks | 4,526 | — | — | — | — | 4,526 |
| Non-redeemable preferred stocks | — | — | — | — | — | — |
| Other long-term investments | 1,527 | — | — | — | 54 | 1,581 |
| Total | \$ 909,144 | \$ (11,803) | \$ (2,193) | \$ (469,262) | \$ 30 | \$ 425,916 |

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March 31, 2010

- For the 2010 period, the net transfers in (out) line above includes \$22.2 million of securities that were priced using a broker only quote at December 31, 2009 and transferred to a pricing service that uses observable market data in the prices at March 31, 2010. For the 2009 period, net transfers in (out) includes \$535.4 million of securities that were priced using a broker only quote at December 31, 2008 but transferred to a pricing service that uses observable market data in the prices. The 2009 period also includes \$66.1 million that were transferred into Level 3 but did not have enough observable data to include in Level 2 at December 31, 2009.

The change in unrealized gains/losses on Level 3 investments was \$18.6 million for the three months ended March 31, 2010 and (\$2.2) million for the three months ended March 31, 2009.

Level 3 Financial Instruments Changes in Fair Value - Future Policy Benefits

| | Three months ended March 31 | |
|--|-----------------------------|------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Index Product Embedded Derivatives | | |
| Balance, beginning of period | \$ 502,067 | \$ 523,515 |
| Premiums less benefits, net | (8,869) | (20,558) |
| Impact of unrealized gains (losses), net | 45,144 | (55,734) |
| Balance, end of period | \$ 538,342 | \$ 447,223 |

Change in unrealized gains/losses on embedded derivatives held at end of period (1) \$ 45,144 \$ (55,734)

- (1) Excludes host accretion and the timing of posting index credits, which are included with the change in value of index product embedded derivatives in the consolidated statements of operations.

5. Defined Benefit Plan

We participate with several affiliates and an unaffiliated organization in various multiemployer defined benefit plans. Our share of net periodic pension cost for the plans recorded as expense in our consolidated statements of operations totaled \$1.4 million for the three months ended March 31, 2010 and \$2.0 million for the three months ended March 31, 2009. Pension cost is lower than 2009 primarily due to improved asset returns and the impact of certain cost savings measures implemented in 2009.

Components of Net Periodic Pension Cost for all Employers in the Multiemployer Plans

| | Three months ended March 31, | |
|------------------------------------|------------------------------|----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Service cost | \$ 1,828 | \$ 1,860 |
| Interest cost | 3,558 | 3,890 |
| Expected return on assets | (3,166) | (2,997) |
| Amortization of prior service cost | 182 | 185 |

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| | | | |
|---|-------|-------|----------|
| Amortization of actuarial loss | 1,741 | | 2,216 |
| Settlement expense | (148 |) | 96 |
| Net periodic pension cost - all employees | \$ | 3,995 | \$ 5,250 |

6. Commitments and Contingencies

Legal Proceedings

In the normal course of business, we may be involved in litigation where damages are alleged that are substantially in excess of contractual policy benefits or certain other agreements. In recent years, companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We are currently a defendant in two purported class action lawsuits against EquiTrust Life Insurance Company (EquiTrust Life) alleging claims as described below. We believe that many of the asserted claims will be defeated by dispositive motions. We remain optimistic that class certification will also be defeated in these actions. However, the court has a great deal of discretion in deciding whether to certify a class, and it is impossible to accurately predict how the court will rule on such a

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motion. Other theories of potential liability may develop as these cases progress. This is especially true as plaintiffs continue to alter their theories of liability during discovery. Given these uncertainties, we are unable to make a reliable evaluation of the likelihood of an unfavorable outcome or an estimate of the amount or range of potential loss to the extent the matters proceed through litigation.

The first case is *Tabares v. EquiTrust Life Insurance Company, et al*, filed in Los Angeles Superior Court on May 5, 2008, Case No. BC390195. *Tabares* is a purported California class action on behalf of all persons who purchased certain deferred annuities from EquiTrust Life. The complaint asserts a sub-class of purchasers that were age 60 or older at the time of purchasing those annuities from EquiTrust Life. Plaintiffs seek injunctive relief on behalf of all class members under California Business & Professions Code Section 17200 et seq., compensatory damages for breach of contract and punitive damages under a common law cause of action for fraud.

The second case is *Eller v. EquiTrust Life Insurance Company, et al*, filed in United States District Court, District of Arizona, on January 12, 2009, Case No. 4:09-cv-00029 DCB. This purported national class action includes all persons who purchased EquiTrust Life index annuities, with one sub-class for all persons age 65 and older that purchased an EquiTrust Life index annuity contract with a maturity date beyond the annuitant's actuarial life expectancy; and a 17-state sub-class under various consumer protection and unfair insurance practices statutes. This case seeks rescission and injunctive relief including restitution and disgorgement of profits on behalf of all class members, compensatory damages, unjust enrichment and punitive damages.

In 2008, the jury from a trial in Federal District Court in Utah involving an agency matter awarded Farm Bureau Life Insurance Company (Farm Bureau Life) and Farm Bureau Property & Casualty Insurance Company (Farm Bureau Property & Casualty) actual damages totaling \$3.6 million and punitive damages totaling \$62.7 million. Approximately 25% of the award is allocable to Farm Bureau Life with the remaining 75% allocable to Farm Bureau Property & Casualty. In 2009, the court ruled on various post trial motions, upholding the actual damages, but reducing the punitive damages to \$3.6 million. The defendants have appealed this decision and Farm Bureau Life and Farm Bureau Property & Casualty have cross-appealed. All briefs were submitted to the 10th Circuit Court of Appeals and oral arguments were held on May 4, 2010. Recoveries from third parties are required to be accounted for as gain contingencies and are not recorded in our financial statements until the lawsuit is resolved.

In 2006, we incurred a pre-tax charge of \$4.9 million relating to the settlement of a lawsuit with a husband and wife who had applied for life insurance policies. The settlement ended litigation, which was filed in the Federal District Court in Wyoming, regarding the process we followed in denying insurance coverage for medical reasons. Insurance claims have been filed under our professional liability and general liability insurance policies for reimbursement of the settlement amount, but coverage has been denied, and we have made a claim against an insurance broker for breach of contractual duties. We have filed lawsuits in the Polk County District Court of Iowa against the insurer and the insurance broker to recover those damages. We received an adverse ruling in the case against the insurer at the district court level, which was subsequently affirmed by the Iowa Supreme Court in April 2010. We retain our cause of action against the broker for failure to provide timely notice of our claim to said insurers and believe the claim is valid. Any recoveries will be recorded in net income in the period the recovery is received.

Other

In the normal course of business, we seek to limit our exposure to loss on any single insured or event and to recover a portion of benefits paid by ceding a portion of our exposure to other insurance enterprises or reinsurers. Reinsurance contracts do not relieve us of our obligations to policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, our insurance subsidiaries would be liable for these obligations, and

payment of these obligations could result in losses. To limit the possibility of such losses, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk. No allowance for uncollectible amounts has been established against our asset for reinsurance recoverable since none of our receivables are deemed to be uncollectible.

We self-insure our employee health and dental claims. However, claims in excess of our self-insurance levels are fully insured. We fund insurance claims through a self-insurance trust. Deposits to the trust are made at an amount equal to our best estimate of claims incurred during the period and a liability is established at each balance sheet date for unpaid claims. Adjustments, if any, resulting in changes in the estimate of claims incurred will be reflected in operations in the periods in which such adjustments are known.

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7. Earnings (Loss) per Share

Computation of Earnings (Loss) per Common Share

| | Three months ended March 31, | |
|--|--|-------------|
| | 2010 | 2009 |
| | (Dollars in thousands, except per share data) | |
| Numerator: | | |
| Net income (loss) attributable to FBL Financial Group, Inc. | \$ 18,021 | \$ (1,490) |
| Dividends on Series B preferred stock | (38) | (38) |
| Numerator for earnings (loss) per common share - income available to common stockholders | \$ 17,983 | \$ (1,528) |
| Denominator: | | |
| Weighted average shares | 30,104,281 | 29,850,768 |
| Deferred common stock units relating to deferred compensation plans | 174,796 | 107,035 |
| Denominator for earnings (loss) per common share - weighted average shares | 30,279,077 | 29,957,803 |
| Effect of dilutive securities - stock-based compensation | 252,509 | — |
| Denominator for dilutive earnings (loss) per common share - adjusted weighted-average shares | 30,531,586 | 29,957,803 |
| | | |
| Earnings (loss) per common share | \$ 0.59 | \$ (0.05) |
| Earnings (loss) per common share - assuming dilution | \$ 0.59 | \$ (0.05) |

Stock options totaling 2,033,294 for the three-month period ended March 31, 2010 and 3,060,758 for the 2009 period were excluded from the earnings (loss) per share computation as these stock options were anti-dilutive.

8. Segment Information

We analyze operations by reviewing financial information regarding products that are aggregated into four product segments. The product segments are: (1) Traditional Annuity - Exclusive Distribution ("Exclusive Annuity"), (2) Traditional Annuity - Independent Distribution ("Independent Annuity"), (3) Traditional and Universal Life Insurance and (4) Variable. We also have various support operations and corporate capital that are aggregated into a Corporate and Other segment.

We analyze our segment results based on pre-tax operating income (loss). Accordingly, income taxes are not allocated to the segments. In addition, operating results are generally reported net of any transactions between the segments. Operating income (loss) for 2010 and 2009 represents net income (loss) excluding, as applicable, the impact of realized and unrealized gains and losses on investments and changes in net unrealized gains and losses on derivatives.

We use operating income (loss), in addition to net income (loss), to measure our performance since realized and unrealized gains and losses on investments and the change in net unrealized gains and losses on derivatives can fluctuate greatly from quarter to quarter. These fluctuations make it difficult to analyze core operating trends. In

addition, for derivatives not designated as hedges, there is a mismatch between the valuation of the asset and liability when deriving net income (loss). Specifically, call options relating to our index business are one or two-year assets while the embedded derivative in the index contracts represents the rights of the contract holder to receive index credits over the entire period the index annuities are expected to be in force. For our other embedded derivatives and interest rate swaps, the derivatives are marked to market, but the associated liabilities are not marked to market. A view of our operating performance without the impact of these mismatches and nonrecurring items enhances the analysis of our results. We use operating income for goal setting, determining company-wide short-term incentive compensation and evaluating performance on a basis comparable to that used by many in the investment community.

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Financial Information Concerning our Operating Segments

| | Three months ended March 31, | |
|--|------------------------------|-------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Operating revenues: | | |
| Traditional Annuity - Exclusive Distribution | \$ 40,774 | \$ 36,660 |
| Traditional Annuity - Independent Distribution | 112,263 | 91,133 |
| Traditional and Universal Life Insurance | 83,547 | 86,132 |
| Variable | 16,915 | 16,145 |
| Corporate and Other | 4,999 | 5,598 |
| | 258,498 | 235,668 |
| Realized gains (losses) on investments (A) | (3,291) | (19,680) |
| Change in net unrealized gains/losses on derivatives (A) | 14,192 | 7,490 |
| Consolidated revenues | \$ 269,399 | \$ 223,478 |
| Pre-tax operating income (loss): | | |
| Traditional Annuity - Exclusive Distribution | \$ 11,890 | \$ 6,826 |
| Traditional Annuity - Independent Distribution | 7,643 | (127) |
| Traditional and Universal Life Insurance | 11,111 | 15,443 |
| Variable | 3,540 | (3,825) |
| Corporate and Other | (4,116) | (6,628) |
| | 30,068 | 11,689 |
| Income taxes on operating income | (9,770) | (3,821) |
| Realized gains/losses on investments (A) | (1,319) | (11,040) |
| Change in net unrealized gains/losses on derivatives (A) | (958) | 1,682 |
| Consolidated net income (loss) attributable to FBL Financial Group, Inc. | \$ 18,021 | \$ (1,490) |

(A) Amounts are net of adjustments, as applicable, to amortization of unearned revenue reserves, deferred policy acquisition costs, deferred sales inducements, value of insurance in force acquired and income taxes attributable to these items.

Our investment in equity method investees, the related equity income and interest expense are attributable to the Corporate and Other segment. Expenditures for long-lived assets were not significant during the periods presented above. Goodwill at March 31, 2010 and December 31, 2009 is allocated among the segments as follows: Exclusive Annuity (\$3.9 million), Traditional and Universal Life Insurance (\$6.1 million) and Corporate (\$1.2 million).

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

This section includes a summary of FBL Financial Group, Inc.'s consolidated results of operations, financial condition and where appropriate, factors that management believes may affect future performance. Unless noted otherwise, all references to FBL Financial Group, Inc. (we or the Company) include all of its direct and indirect subsidiaries, including its primary life insurance subsidiaries, Farm Bureau Life Insurance Company (Farm Bureau Life) and EquiTrust Life Insurance Company (EquiTrust Life) (collectively, the Life Companies). Please read this discussion in conjunction with the accompanying consolidated financial statements and related notes. In addition, we encourage you to refer to our 2009 Form 10-K for a complete description of our significant accounting policies and estimates. Familiarity with this information is important in understanding our financial position and results of operations.

This Form 10-Q includes statements relating to anticipated financial performance, business prospects, new products, and similar matters. These statements and others, which include words such as "expect", "anticipate", "believe", "intend" and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. See Part 1A, Risk Factors, of our 2009 Annual Report on Form 10-K for additional information on the risks and uncertainties that may affect the operations, performance, development and results of our business.

Impact of Recent Business Environment

The improvement in the financial markets that began in the latter half of 2009 continued into 2010, although at a more modest pace. The overall stock market continued to rise through the first quarter of 2010, while fixed income credit spreads narrowed further. Interest rates remain relatively low, with the Federal Reserve currently setting short-term rates near 0.0% and the 10-year Treasury yielding less than 4.0%.

U.S. Gross Domestic Product (GDP) grew 2.2% and 5.6% annualized for the third and fourth quarter of 2009, respectively. Economists currently expect GDP to grow approximately 3.0% in both 2010 and 2011. The economy recorded job growth in March and should continue to support job growth in the near future. The level of unemployment remains high and the pace and extent of job growth will determine how robust the overall economic recovery will be. The housing market experienced a slowdown in the recent winter months but will likely remain supported by government tax credits, relatively low mortgage rates and overall high affordability.

Our business generally benefits from moderate to strong economic expansion. Conversely, a lackluster economic recovery characterized by higher unemployment, lower family income, lower consumer spending, muted corporate earnings growth and lower business investment could adversely impact the demand for our products in the future. We also may experience a higher incidence of claims, lapses or surrenders of policies. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations, cash flows or financial condition.

The fixed-income markets continued to improve modestly in the first quarter of 2010 following the strong recovery experienced throughout 2009. Liquidity remains favorable as investors rapidly acquire new issues across both investment grade and high yield bond segments. Within the corporate credit sector, defaults and downgrades have begun to decline, suggesting an improvement in credit conditions. Investor demand and improving fundamentals have caused substantial spread tightening across most fixed-income sectors, including the asset-backed and commercial mortgage-backed securities markets.

The carrying value of our investments improved throughout the quarter as a result of the continued narrowing in spreads. However, unrealized losses remain in many asset sectors. Additionally, certain sectors remain somewhat dislocated, making it difficult to value some securities. As a result, certain valuations require greater estimation and judgment, as well as valuation methods that are more complex. These values may not ultimately be realizable in a market transaction, and such values may change rapidly as market conditions change and valuation assumptions are modified. See Note 2 to our consolidated financial statements for details on the nature of our unrealized loss position and Note 4 for discussion of our valuation methods.

Our fixed annuity products contain features that allow contract holders to surrender a policy. To encourage persistency, we impose a surrender charge against the account balance for early termination of a contract within a specified period after its effective date. Most of the fixed annuity products sold by the EquiTrust Life independent channel offered a market value adjustment (MVA) feature based on U.S. Treasury rates. This feature provides us interest rate protection when U.S. Treasury interest rates are greater than the rates in effect when a contract is issued and provides a benefit to contract holders when U.S.

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Treasury interest rates are less than the rates in effect when a contract is issued. The unprecedented low U.S. Treasury yields in early 2009 provided an environment where contract holders were able to surrender with smaller net charges, which significantly increased the level of surrender activity. Surrender activity began declining toward the end of the first quarter of 2009 and continued declining throughout the remainder of 2009 to expected levels in the fourth quarter of 2009. Surrender activity during the first quarter of 2010 continued at or below expected levels.

We maintain capital levels in accordance with certain statutory and rating agency requirements. Fixed annuity products generally place a strain on statutory capital when sold and add to capital in subsequent years. As a result of the significant growth of the EquiTrust Life independent distribution channel business, our need for capital has increased in recent years. In addition, our capital levels were negatively impacted during 2008 and 2009 as a result of the increased surrender activity and realized and unrealized losses on our investments. During 2008 and 2009, we took rate and other actions to reduce sales of new annuity contracts at EquiTrust Life and modified contract terms on many products and implemented a new commission structure to preserve our capital position. In addition, we took other actions to restore our capital levels during 2009, such as the sale of a block of coinsured business in the fourth quarter. In 2010, we are continuing to monitor and take actions to further strengthen our capital position. See the "Liquidity and Capital Resources" section below for additional details regarding our capital position.

Results of Operations for the Periods Ended March 31, 2010 and 2009

| | Three months ended March 31, | |
|---|---|-------------|
| | 2010 | 2009 |
| | (Dollars in thousands, except per share data) | |
| Revenues | \$ 269,399 | \$ 223,478 |
| Benefits and expenses | 244,532 | 226,335 |
| | 24,867 | (2,857) |
| Income taxes | (7,955) | 1,256 |
| Equity income | 1,095 | 73 |
| Net income (loss) | 18,007 | (1,528) |
| Net loss attributable to noncontrolling interest | 14 | 38 |
| Net income (loss) attributable to FBL Financial Group, Inc. | \$ 18,021 | \$ (1,490) |
| Earnings (loss) per common share | \$ 0.59 | \$ (0.05) |
| Earnings (loss) per common share - assuming dilution | \$ 0.59 | \$ (0.05) |
| Other data | | |
| Direct premiums collected, net of reinsurance ceded: | | |
| Traditional Annuity - Exclusive Distribution | \$ 78,684 | \$ 96,368 |
| Traditional Annuity - Independent Distribution | 47,336 | 324,699 |
| Traditional and Universal Life Insurance | 52,051 | 49,860 |
| Variable Annuity and Variable Universal Life (1) | 30,450 | 26,180 |

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| | | | | |
|--|---|---|------------|---|
| Reinsurance assumed and other | 390 | | 2,936 | |
| Total | \$ 208,911 | | \$ 500,043 | |
| Direct life insurance in force, end of quarter (in millions) | \$ 46,582 | | \$ 43,993 | |
| Life insurance lapse rates | 6.9 | % | 7.1 | % |
| Withdrawal rates - individual traditional annuity: | | | | |
| Exclusive Distribution | 4.1 | % | 4.9 | % |
| Independent Distribution | 6.8 | % | 20.8 | % |
| (1) | Amounts are net of portion ceded to and include amounts assumed from alliance partners. | | | |

Premiums collected is not a measure used in financial statements prepared in accordance with GAAP. There is no comparable GAAP financial measure. We use premiums collected to measure the productivity of our exclusive and independent agents.

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Direct Traditional Annuity - Exclusive Distribution premiums collected segment decreased for the three-month period in 2010 primarily due to the strong recovery of the fixed-income markets throughout 2009, making other competing investment options relatively more attractive to our customers than they were in 2009. Direct premiums collected in the Traditional Annuity - Independent Distribution segment decreased in 2010 as a result of the continuing impact of rate and other actions taken to preserve capital. Variable premiums collected tend to vary with volatility, performance of and confidence level in the equity markets as well as crediting and interest rates on competing products, including fixed rate annuities and bank-offered certificates of deposit.

The withdrawal rate for the Traditional Annuity - Independent Distribution segment increased in 2009 primarily due to the impact of low U.S. Treasury yields on the MVA feature for our direct fixed annuity products, which provided an environment where contract holders could surrender with smaller net surrender charges. Additional details on this feature are discussed above in the "Impact of Recent Business Environment" section.

Net Income (Loss) Attributable to FBL Financial Group, Inc.

Net income (loss) attributable to FBL Financial Group, Inc. (FBL Net Income (Loss)) was \$18.0 million in the first quarter of 2010 compared to (\$1.5) million for the 2009 period. As discussed in detail below, the increase in the first quarter was primarily due to a decrease in impairment losses on investments, the impact of reduced surrender activity from our EquiTrust Life independent distribution and improved spreads earned. In addition, results for the first quarter of 2010 benefited from lower expenses and an increase in the volume of Farm Bureau Life's business in force. The increase in volume of business in force is quantified by summarizing the face amount of insurance in force for traditional life products or account values of contracts in force for interest sensitive products. The face amount of life insurance in force represents the gross death benefit payable to policyholders and account value represents the value of the contract to the contract holder before application of surrender charges or reduction for any policy loans outstanding. The following discussion provides additional details on the items impacting FBL Net Income (Loss).

Spreads Earned on our Universal Life and Individual Annuity Products

| | Three months ended March 31, | | | |
|---|------------------------------|---|------|---|
| | 2010 | | 2009 | |
| Weighted average yield on cash and invested assets | 6.09 | % | 6.15 | % |
| Weighted average interest crediting rate/index cost | 3.72 | % | 3.98 | % |
| Spread | 2.37 | % | 2.17 | % |

The weighted average yield on cash and invested assets represents the yield on cash and investments backing the universal life and individual traditional annuity products net of investment expenses. The yield also includes gains or losses relating to our interest rate swap program for certain individual traditional annuities. With respect to our index annuities, index costs represent the expenses we incur to fund the annual index credits through the purchase of options and minimum guaranteed interest credited on the index business. The weighted average crediting rate/index cost and spread are computed excluding the impact of the amortization of deferred sales inducements. See the "Segment Information" section that follows for a discussion of our spreads.

Impact of Operating Adjustments on FBL Net Income (Loss)

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Three months ended March 31,
2010 2009

(Dollars in thousands)

| | | |
|--|-------------|--------------|
| Realized losses on investments | \$ (3,293) | \$ (19,670) |
| Change in net unrealized gains/losses on derivatives | (11,864) | 16,159 |
| Change in amortization of: | | |
| Deferred policy acquisition costs | 6,680 | (6,850) |
| Deferred sales inducements | 4,996 | (4,031) |
| Value of insurance in force acquired | (24) | 5 |
| Unearned revenue reserve | 2 | (10) |
| Income tax offset | 1,226 | 5,039 |
| Net impact of operating income adjustments | \$ (2,277) | \$ (9,358) |

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March 31, 2010

| | Three months ended March 31, | |
|--|------------------------------|--------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Summary of adjustments noted above after offsets and income taxes: | | |
| Realized gains/losses on investments | \$ (1,319) | \$ (11,040) |
| Change in net unrealized gains/losses on derivatives | (958) | 1,682 |
| Net impact of operating income adjustments | \$ (2,277) | \$ (9,358) |
| Net impact per share - basic | \$ (0.08) | \$ (0.31) |
| Net impact per share - assuming dilution | \$ (0.07) | \$ (0.31) |

As noted in the "Segment Information" section that follows, we use both net income (loss) and operating income (loss) to measure our operating results. Operating income for the periods covered by this report equals net income (loss), excluding the impact of realized gains and losses on investments and the change in net unrealized gains and losses on derivatives. Our rationale for excluding these items from operating income is also explained in Note 8 to our consolidated financial statements.

Changes in FBL Net Income (Loss)

| | Three months ended March 31, 2010 vs. 2009 (Dollars in thousands) |
|---|--|
| Premiums and product charges | \$ (9,846) |
| Net investment income | (5,980) |
| Derivative income (loss) | 46,937 |
| Realized gains (losses) on investments | 16,377 |
| Other income and other expenses | (891) |
| Interest sensitive and index products benefits and change in value of index product embedded derivative | (42,473) |
| Traditional life insurance policy benefits | (5,239) |
| Underwriting, acquisition and insurance expenses | 28,025 |
| Interest expense | 814 |
| Income taxes | (9,211) |
| Noncontrolling interest and equity income | 998 |
| Total change in FBL Net Income (Loss) | \$ 19,511 |

A detailed discussion of changes in FBL Net Income (Loss) follows.

Premiums and Product Charges

| | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Premiums and product charges: | | |
| Interest sensitive and index product charges | \$ 30,003 | \$ 41,140 |
| Traditional life insurance premiums | 39,245 | 37,954 |
| Total | \$ 69,248 | \$ 79,094 |

Premiums and product charges decreased 12.4% in the first quarter of 2010 to \$69.2 million primarily due to a reduction in surrender charges on annuity products. In addition, premium and product charges declined as a result of the sale of a block of coinsured business in the fourth quarter of 2009. Surrender charges totaled \$7.0 million in the three months ended March 31, 2010 and \$17.9 million in the 2009 period. Net surrender charges decreased on certain products sold by our EquiTrust Life independent distribution as noted in the "Impact of Recent Business Environment" section above.

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Surrender Charges on EquiTrust Life Direct Fixed Annuity Contracts

| | Three months ended March 31, 2010 | 2009 |
|--------------------------|--------------------------------------|-----------|
| | (Dollars in thousands) | |
| Surrender charges: | | |
| Gross surrender charges | \$ 6,637 | \$ 64,609 |
| Market value adjustments | (1,759) | (49,771) |
| Net surrender charges | \$ 4,878 | \$ 14,838 |

Traditional life insurance premiums increased due to an increase in the volume of business in force. The increase in the business in force is primarily attributable to sales of traditional life products by our Farm Bureau Life agency force exceeding the loss of in force amounts through deaths, lapses and surrenders. Our average aggregate traditional life insurance in force, net of reinsurance ceded, totaled \$25,245.7 million for the three-month period in 2010 and \$23,203.4 million for the three-month period in 2009. The change in life insurance in force is not proportional to the change in premium income due to a shift in the composition of our traditional life block of business from whole life policies to term policies. The premium for a term policy per \$1,000 face amount is less than that for a whole life policy.

Net Investment Income

Net investment income, which excludes investment income on separate account assets relating to variable products, decreased 3.2% in the first quarter of 2010 to \$178.1 million. The decrease for the quarter is primarily due to the decrease in average invested assets and a decrease in short-term interest rates. Average invested assets in the three-month period of 2010 decreased 2.1% to \$12,186.8 million (based on securities at amortized cost) from \$12,446.5 million in the 2009 period, principally due to the net cash outflows from EquiTrust Life, partially offset by net cash inflows from Farm Bureau Life during the fifteen-month period ended March 31, 2010. EquiTrust Life had net cash outflows in 2009 due to the reduction in sales to preserve capital, increased surrender activity from the independent distribution channel and assets transferred in connection with the sale of a block of coinsured business. The annualized yield earned on average invested assets decreased to 6.02% in the three months ended March 31, 2010 from 6.09% in the respective 2009 period. The decrease in yield is primarily due to holding higher cash and short-term investment balances and a reduction in short-term interest rates. The yield on our primary short-term investment account was less than 0.01% at March 31, 2010 compared to 0.19% at March 31, 2009.

Fee income from bond calls, tender offers and mortgage loan prepayments totaled \$0.4 million in the three months ended March 31, 2010 compared to \$0.1 million in the respective 2009 period. Net investment income also includes less than \$0.1 million in the three months ended March 31, 2010 compared to \$1.3 million in the 2009 respective period representing the change of net discount accretion on mortgage and asset-backed securities resulting from changing prepayment speed assumptions at the end of each respective period. See the "Financial Condition - Investments" section that follows for a description of how changes in prepayment speeds impact net investment income.

Derivative Income (Loss)

| | Three months ended March 31, | |
|--|---------------------------------|--------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Derivative income (loss): | | |
| Components of derivative income (loss) from call options: | | |
| Gains received at expiration | \$ 31,304 | \$ 227 |
| Change in the difference between fair value and remaining option cost at beginning and end of period | 13,733 | 8,804 |
| Cost of money for call options | (22,018) | (30,742) |
| | 23,019 | (21,711) |
| Other | (683) | (2,890) |
| Total | \$ 22,336 | \$ (24,601) |

Gains received at expiration increased in the first quarter of 2010 as a result of increases in the S&P 500 Index® (upon which the majority of our options are based). These gains are used to fund index credits on index annuities, which also increased in 2010, as discussed below under "Interest Sensitive and Index Product Benefits." The change in the difference between fair

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value and remaining option cost at beginning and end of period increased derivative income in 2010 primarily due to the change in the S&P 500 Index compared to the strike price of the outstanding options.

The cost of money for call options decreased primarily due to a decrease in the volume of business in force, a decrease in the cost of hedging programs on our direct and assumed business and a decrease in the overhedged position on our direct business. The average aggregate account value of index annuities in force, which has decreased due to increased surrender activity from the independent distribution channel and run-off of assumed business, totaled \$4,095.4 million for the first quarter of 2010 compared to \$4,686.6 million for the respective 2009 period.

Other derivative income (loss) is comprised of income or loss from the embedded derivatives included in our modified coinsurance contracts and interest rate swaps relating to certain deferred annuity contracts. Derivative income (loss) also includes unrealized gains (losses) on the interest rate swap that previously hedged our line of credit, which totaled \$0.5 million for the first quarter of 2010 and (\$2.4) million for the 2009 period. Derivative income (loss) will fluctuate based on market conditions. See Note 3 to our consolidated financial statements for additional details on our derivatives.

Realized Gains (Losses) on Investments

| | Three months ended March 31, | |
|--|------------------------------|--------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Realized gains (losses) on investments: | | |
| Realized gains on sales | \$ 5,073 | \$ 2,099 |
| Realized losses on sales | (344) | (148) |
| Total other-than-temporary impairment charges | (27,154) | (31,127) |
| Net realized investment losses | (22,425) | (29,176) |
| Non-credit losses included in accumulated other comprehensive loss | 19,132 | 9,506 |
| Total reported in statements of operations | \$ (3,293) | \$ (19,670) |

The level of realized gains (losses) is subject to fluctuation from period to period depending on the prevailing interest rate and economic environment and the timing of the sale of investments. See "Financial Condition - Investments" for details regarding our unrealized gains and losses on available-for-sale securities at March 31, 2010 and December 31, 2009.

We monitor the financial condition and operations of the issuers of securities rated below investment grade and of the issuers of certain investment grade securities on which we have concerns regarding credit quality. If we determine that an unrealized loss is other than temporary, the security is written down to its fair value and a portion of the write-down attributable to non-credit factors is recognized in accumulated other comprehensive loss. See additional details regarding the non-credit portion of the write-downs and our methodology for evaluating investments for other-than-temporary impairment in Note 2 to our consolidated financial statements.

Investment Impairments Recognized in FBL Net Income (Loss) Individually Exceeding \$0.5 Million

| General Description | Impairment Loss (Dollars in thousands) | Circumstance |
|------------------------------------|---|--|
| Three months ended March 31, 2010: | | |
| Other asset-backed securities | \$ 5,438 | Projected losses indicate a shortfall could occur in the near future and the underlying insurance that was expected to absorb losses was deemed to be less valuable during the period. |
| Other asset-backed security | 1,110 | The monoline insurer discontinued supporting this issue ending insurance payments that were absorbing losses on the security. |
| Collateralized bond obligation | 663 | Defaults of the underlying collateral supporting this issue increased and the present value of future cash flows decreased. |
| Other asset-backed security | 591 | Rating declines occurred, defaults of the underlying collateral supporting this issue increased and the present value of future cash flows decreased. |

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March 31, 2010

Three months ended March 31, 2009:

| | | |
|-------------------------------------|----------|---|
| Major paper manufacturing company | \$ 6,630 | Issuer filed for bankruptcy after unsuccessful attempts to obtain financial assistance. This reduced estimates on potential recovery. |
| Real estate investment trust | 6,299 | Issuer filed for bankruptcy after unsuccessful attempts to obtain financial assistance. This reduced estimates on potential recovery. |
| Major printing & publishing company | 4,764 | Rating declines occurred due to expected revenue declines which could result in a future covenant violation. |
| Other asset-backed securities | 1,095 | Rating declines occurred on the monoline insurer supporting these issues. Financial recoveries are fully dependent on the insurer. |
| Collateralized bond obligation | 636 | Rating declines occurred and defaults of the underlying collateral supporting this issue increased. |
| Reinsurance carrier | 586 | Rating declines occurred and near term solvency became a concern. |
| Other asset-backed security | 550 | Rating declines occurred, delinquencies increased and credit support from the lower tranches stopped increasing. |

Negative trends in the industries listed above were considered in our analysis, which is done on an issue-by-issue basis. No additional write-downs were deemed necessary for other material investments in those industries.

Other Income and Other Expenses

Other income and other expenses include revenues and expenses, respectively, relating primarily to our non-insurance operations. Our non-insurance operations include management, advisory, marketing and distribution services and leasing activities. Fluctuations in these financial statement line items are generally attributable to fluctuations in the level of these services provided during the periods.

Interest Sensitive and Index Product Benefits and Change in Value of Index Product Embedded Derivatives

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Interest sensitive and index product benefits: | | |
| Interest credited | \$ 75,557 | \$ 79,160 |
| Index credits | 32,566 | 1,345 |
| Amortization of deferred sales inducements | 4,338 | 19,336 |
| Interest sensitive death benefits | 9,723 | 14,595 |
| | 122,184 | 114,436 |
| Change in value of index product embedded derivatives | 26,056 | (8,669) |
| Total | \$ 148,240 | \$ 105,767 |

Interest sensitive and index product benefits and change in value of index product embedded derivatives increased 40.2% in the first quarter of 2010 to \$148.2 million, primarily due to the impact of the change in value of

index product embedded derivatives and market appreciation of the indices backing the index annuities, partially offset by the impact of operating adjustments and a reduction in the weighted average interest crediting rate/index cost. Interest sensitive and index product benefits tend to fluctuate from period to period primarily as a result of changes in mortality experience and the impact of changes in the equity markets on index credits, amortization of deferred sales inducements and the value of the embedded derivatives in our index annuities.

The weighted average interest crediting rate/index cost for universal life and individual traditional annuity products, excluding the impact of the amortization of deferred sales inducements, was 3.72% for the three-month period in 2010 period and 3.98% for the 2009 period. See the "Segment Information" section that follows for additional details on our spreads.

As discussed above under "Derivative Income (Loss)" above, the change in the amount of index credits is impacted by the volume of index annuities in force and the amount of appreciation/depreciation in the underlying market indices on which our options are based. The change in the value of the embedded derivatives is impacted by the change in expected index credits on the next policy anniversary dates, which is related to the change in the fair value of the options acquired to fund these index credits. The value of the embedded derivatives is also impacted by the timing of the posting of index credits and changes in

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reserve discount rates and assumptions used in estimating future call option costs.

The decrease in amortization of deferred sales inducements is primarily due to the impact of unrealized gains/losses on derivatives, as described above in the "Impact of Operating Adjustments on FBL Net Income (Loss)," and the impact of decreased surrender activity from the EquiTrust Life independent distribution channel. Amortization of deferred sales inducements on interest sensitive and index products, excluding the impact of operating adjustments, totaled \$9.3 million for the first quarter of 2010 and \$15.3 million for the first quarter of 2009.

Traditional Life Insurance Policy Benefits

| | Three months ended March 31, | |
|---|------------------------------|-----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Traditional life insurance policy benefits: | | |
| Traditional life insurance benefits | \$ 27,568 | \$ 22,104 |
| Increase in traditional life future policy benefits | 9,741 | 9,718 |
| Distributions to participating policyholders | 4,673 | 4,921 |
| Total | \$ 41,982 | \$ 36,743 |

Traditional life insurance benefits increased 14.3% in the first quarter of 2010 to \$42.0 million. The increase in 2010 is primarily due to an increase in death benefits, which totaled \$17.8 million in the first quarter of 2010, compared to \$12.7 million in the 2009 period. The increase in traditional life insurance benefits is partially offset by a decrease in interest sensitive death benefits noted above. In total, mortality experience was comparable quarter to quarter.

Traditional life insurance benefits can fluctuate from period to period primarily as a result of changes in mortality experience. The change in traditional life future policy benefits may not be proportional to the change in traditional premiums and benefits as reserves on term policies are generally less than reserves on whole life policies.

Underwriting, Acquisition and Insurance Expenses

| | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Underwriting, acquisition and insurance expenses: | | |
| Commission expense, net of deferrals | \$ 3,767 | \$ 3,573 |
| Amortization of deferred policy acquisition costs | 20,776 | 47,440 |
| Amortization of value of insurance in force acquired | 576 | 741 |
| Other underwriting, acquisition and insurance expenses, net of deferrals | 18,819 | 20,209 |
| Total | \$ 43,938 | \$ 71,963 |

Underwriting, acquisition and insurance expenses decreased 38.9% in the first quarter of 2010 to \$43.9 million. Amortization of deferred policy acquisition costs in the first quarter decreased primarily due the net impact of operating adjustments as detailed under "Impact of Operating Adjustments on FBL Net Income," the impact of

surrender activity from the EquiTrust Life independent distribution channel and improved market performance in separate accounts. Amortization of deferred policy acquisition costs on our EquiTrust Life distribution channel, excluding the impact of operating adjustments, totaled \$12.0 million in the first quarter of 2010, compared to \$20.6 million in the first quarter of 2009.

Other underwriting, acquisition and insurance expenses decreased for the first quarter of 2010 primarily due to implementation of cost saving measures as announced in the first quarter of 2009. During the first quarter 2009, we incurred \$1.7 million of one-time charges associated with the implementation of these initiatives.

Interest Expense

Interest expense decreased 11.7% to \$6.1 million in the first quarter of 2010, primarily due to a decrease in our average debt outstanding. The average debt outstanding decreased to \$371.1 million for the three months ended March 31, 2010 from \$400.9 million for the 2009 period due to the pay-off of our \$60.0 million revolving line of credit borrowings in February 2009.

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Income Taxes

Income tax expense (benefit) totaled \$8.0 million in the first quarter of 2010 and (\$1.3) million for the 2009 period. The effective tax rate was 32.0% for the first quarter of 2010 and 44.0% for the 2009 period. The effective tax rates differ from the federal statutory rate of 35% primarily due to the impact of tax-exempt interest and tax-exempt dividend income. The permanent differences between book and tax income increase the effective rate when there is a net loss and decrease the effective rate when there is a net gain. Permanent differences had a greater impact on the effective rates in 2009 due to realized losses on investments reducing the size of the income or loss for the period relative to the size of the permanent differences.

Equity Income, Net of Related Income Taxes

Equity income, net of related income taxes, totaled \$1.1 million for the first quarter of 2010 and \$0.1 million for the 2009 period. Equity income includes our proportionate share of gains and losses attributable to our ownership interest in partnerships, joint ventures and certain companies where we exhibit some control but have a minority ownership interest. Given the timing of availability of financial information from our equity investees, we will consistently use information that is as much as three months in arrears for certain of these entities. Several of these entities are investment companies whose operating results are derived primarily from unrealized and realized gains and losses generated by their investment portfolios. As is normal with these types of entities, the level of these gains and losses is subject to fluctuation from period to period depending on the prevailing economic environment, changes in prices of equity securities held by the investment partnerships, timing and success of initial public offerings and other exit strategies, and the timing of the sale of investments held by the partnerships and joint ventures.

Segment Information

We analyze operations by reviewing financial information regarding products that are aggregated into four product segments. The product segments are: (1) Traditional Annuity - Exclusive Distribution ("Exclusive Annuity"), (2) Traditional Annuity - Independent Distribution ("Independent Annuity"), (3) Traditional and Universal Life Insurance and (4) Variable. We also have various support operations and corporate capital that are aggregated into a Corporate and Other segment.

We analyze our segment results based on pre-tax operating income (loss). Accordingly, income taxes are not allocated to the segments. In addition, operating results are generally reported net of any transactions between the segments. Operating income (loss) for the periods ended March 31, 2010 and 2009 represents net income excluding the impact of realized gains and losses on investments and changes in net unrealized gains and losses on derivatives.

The impact of realized gains and losses on investments and unrealized gains and losses on derivatives also includes adjustments for taxes and that portion of amortization of deferred policy acquisition costs, deferred sales inducements, unearned revenue reserve and value of insurance in force acquired attributable to such gains or losses. Our rationale for using operating income (loss), in addition to net income (loss), to measure our performance is summarized in Note 9 to the consolidated financial statements.

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Reconciliation of Net Income (Loss) to Pre-tax Operating Income

| | Three months ended March 31, | |
|---|------------------------------|-------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Net income (loss) attributable to FBL Financial Group, Inc. | \$ 18,021 | \$ (1,490) |
| Net impact of operating income adjustments (1) | 2,277 | 9,358 |
| Income taxes on operating income | 9,770 | 3,821 |
| Pre-tax operating income | \$ 30,068 | \$ 11,689 |
| Pre-tax operating income (loss) by segment: | | |
| Traditional Annuity - Exclusive Distribution | \$ 11,890 | \$ 6,826 |
| Traditional Annuity - Independent Distribution | 7,643 | (127) |
| Traditional and Universal Life Insurance | 11,111 | 15,443 |
| Variable | 3,540 | (3,825) |
| Corporate and Other | (4,116) | (6,628) |
| | \$ 30,068 | \$ 11,689 |

(1) See "Net Income (Loss) Attributable to FBL Financial Group, Inc." above for additional details on our operating income adjustments.

A discussion of our operating results, by segment, follows:

Traditional Annuity - Exclusive Distribution Segment

| | Three months ended March 31, | |
|--|------------------------------|-----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Pre-tax operating income | | |
| Operating revenues: | | |
| Interest sensitive and index product charges and other | \$ 125 | \$ 248 |
| Net investment income | 41,151 | 37,669 |
| Derivative loss | (502) | (1,257) |
| | 40,774 | 36,660 |
| Benefits and expenses | 28,884 | 29,834 |
| Pre-tax operating income | \$ 11,890 | \$ 6,826 |
| Other data | | |
| Annuity premiums collected, direct | \$ 78,684 | \$ 96,368 |

| | | |
|--|-----------|-----------|
| Policy liabilities and accruals, end of period | 2,763,681 | 2,408,797 |
|--|-----------|-----------|

Individual deferred annuity spread:

| | | | | |
|--|------|---|------|---|
| Weighted average yield on cash and invested assets | 6.26 | % | 6.11 | % |
| Weighted average interest crediting rate/index costs | 3.69 | % | 3.98 | % |
| Spread | 2.57 | % | 2.13 | % |

| | | | | |
|--|-----|---|-----|---|
| Individual traditional annuity withdrawal rate | 4.1 | % | 4.9 | % |
|--|-----|---|-----|---|

Pre-tax operating income for the Exclusive Annuity segment increased 74.2% in the first quarter of 2010 to \$11.9 million

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primarily due to increases in spreads earned and the volume of business in force. The average aggregate account value for annuity contracts in force in the Exclusive Annuity segment totaled \$1,876.7 million for the three months ended March 31, 2010 and \$1,670.2 million for the 2009 period.

Benefits and expenses decreased due to a \$1.6 million decrease in amortization of deferred policy acquisition costs primarily due to changes in earned rates and expected profits on the underlying business.

Premiums collected decreased 18.4% in the three months ended March 31, 2010 to \$78.7 million. The amount of traditional annuity premiums collected is highly dependent upon the relationship between the current crediting rate and perceived security of our products compared to competing products. We believe the decrease in annuity premiums for the three-month period is due to the strong recovery of the fixed-income markets throughout 2009, making other competing investment options relatively more attractive to our customers than they were in 2009.

The increase in the weighted average yield on cash and invested assets is primarily attributable to a decrease in the cost of our interest rate swap program which totaled (\$0.7) million for the three-months in 2010 compared to (\$1.2) million for the 2009 period. See Note 3 to our consolidated financial statements for additional details on our interest rate swaps. The weighted average interest crediting rate decreased due to decreases in the interest crediting rates on a significant portion of our annuity portfolio during 2009.

Traditional Annuity - Independent Distribution Segment

| | Three months ended March 31, | |
|---|------------------------------|------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Pre-tax operating income (loss) | | |
| Operating revenues: | | |
| Interest sensitive and index product charges | \$ 6,267 | \$ 16,892 |
| Net investment income | 96,831 | 104,705 |
| Derivative income (loss) | 9,165 | (30,464) |
| | 112,263 | 91,133 |
| Benefits and expenses | 104,620 | 91,260 |
| Pre-tax operating income (loss) | \$ 7,643 | \$ (127) |
| Other data | | |
| Annuity premiums collected, independent channel | | |
| Fixed rate annuities | \$ 18,648 | \$ 213,332 |
| Index annuities | 28,688 | 111,367 |
| Total annuity premiums collected, independent channel | 47,336 | 324,699 |
| Annuity premiums collected, assumed | 320 | 358 |
| Policy liabilities and accruals, end of period | 7,260,128 | 7,638,876 |

Individual deferred annuity spread:

| | | | | |
|---|------|---|------|---|
| Weighted average yield on cash and invested assets | 5.97 | % | 6.10 | % |
| Weighted average interest crediting rate/index cost | 3.67 | % | 3.93 | % |
| Spread | 2.30 | % | 2.17 | % |

| | | | | |
|--|-----|---|------|---|
| Individual traditional annuity withdrawal rate | 6.8 | % | 20.8 | % |
|--|-----|---|------|---|

Pre-tax operating income (loss) for the Independent Annuity segment increased in the first quarter of 2010 to \$7.6 million. This increase is primarily due to a decrease in surrender activity from the EquiTrust Life independent distribution channel, partially offset by the impact of a reduction in the average volume of business in force. The average aggregate account value for annuity contracts in force in the Independent Annuity segment totaled \$7,030.9 million for the three months ended March 31, 2010 and

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\$7,623.3 million for the 2009 period due to increased surrender activity from the EquiTrust Life independent distribution channel in 2009 and a reduction in coinsured business.

The decrease in interest sensitive and index product charges is due to a decrease in surrender charges, which totaled \$6.1 million for the first quarter of 2010 compared to \$16.9 million in the 2009 period. Surrender charges are reported net of MVAs. See the "Impact of Recent Business Environment" and "Premium and Product Charges" sections above for discussion on the impact of MVAs on our direct fixed annuity products in 2009.

The change in derivative income (loss) is primarily due to increased proceeds from call option settlements and lower cost of money for call options as discussed under "Derivative Income (Loss)" above.

Benefits and expenses for the 2010 period increased primarily due to market appreciation of the indices backing the index annuities causing index credits to increase to \$32.3 million for the three month period in 2010, compared to \$1.3 million in the 2009 period. This increase was partially offset by a \$15.2 million decrease in amortization of deferred policy acquisition costs and deferred sales inducements primarily due to the decreased surrender activity.

Premiums collected from the Independent channel decreased in 2010 as a result of crediting rate and other actions taken to preserve capital. The reduction in crediting rates, combined with improved results from hedging activities, resulted in a decrease to our weighted average crediting rate/index cost and increase in spread. The weighted average yield decreased primarily due to investment repositioning actions to increase the amount of liquidity in the portfolio, which included assets earning lower yields.

Traditional and Universal Life Insurance Segment

| | Three months ended March 31, | |
|---|------------------------------|-----------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Pre-tax operating income | | |
| Operating revenues: | | |
| Interest sensitive product charges | \$ 11,413 | \$ 12,126 |
| Traditional life insurance premiums and other income | 39,271 | 38,015 |
| Net investment income | 32,863 | 35,991 |
| | 83,547 | 86,132 |
| Benefits and expenses | 72,436 | 70,689 |
| Pre-tax operating income | \$ 11,111 | \$ 15,443 |
| Other data | | |
| Life premiums collected, net of reinsurance | \$ 52,051 | \$ 52,367 |
| Policy liabilities and accruals, end of period | 2,076,628 | 2,237,867 |
| Direct life insurance in force, end of period (in millions) | 39,312 | 36,378 |

Interest sensitive life insurance spread:

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| | | | | |
|--|------|---|------|---|
| Weighted average yield on cash and invested assets | 6.59 | % | 6.65 | % |
| Weighted average interest crediting rate | 4.26 | % | 4.39 | % |
| Spread | 2.33 | % | 2.26 | % |

Pre-tax operating income for the Traditional and Universal Life Insurance segment decreased 28.1% in the first quarter of 2010 to \$11.1 million. These decreases are primarily due to an increase in death benefits and the impact of the sale of a block of coinsured business during the fourth quarter of 2009.

Death benefits incurred for the first quarter of 2010 increased 8.0% to \$23.8 million, due to an increase in traditional life death claims reported and lower reinsurance recoveries. Traditional life insurance benefits can fluctuate from period to period primarily as a result of changes in mortality experience.

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Policy liabilities and accruals decreased primarily due to the sale of a block of coinsured business including traditional and universal life products that contributed \$1.6 million in pre-tax operating income in the first quarter of 2009. Excluding the impact of reinsurance, our direct traditional and universal life insurance in force increased 8.1% to \$39,312.2 million.

The increase in spreads is primarily due to decreases in the weighted average interest crediting rate due to rate changes on our universal life products in 2010 and 2009. The decrease in the weighted average yield on cash and invested assets is primarily due to a reduction in investment income from changes in the net discount accretion on mortgage and asset-backed securities.

Variable Segment

| | Three months ended March 31, | |
|---|------------------------------|-------------|
| | 2010 | 2009 |
| | (Dollars in thousands) | |
| Pre-tax operating income (loss) | | |
| Operating revenues: | | |
| Interest sensitive product charges | \$ 12,196 | \$ 11,928 |
| Net investment income | 4,026 | 3,891 |
| Other income | 693 | 326 |
| | 16,915 | 16,145 |
| Benefits and expenses | 13,375 | 19,970 |
| Pre-tax operating income (loss) | \$ 3,540 | \$ (3,825) |
| Other data | | |
| Variable premiums collected, net of reinsurance | \$ 30,450 | \$ 26,180 |
| Policy liabilities and accruals, end of period | 268,630 | 262,758 |
| Separate account assets, end of period | 726,825 | 522,591 |
| Direct life insurance in force, end of period (in millions) | 7,270 | 7,614 |

Pre-tax operating income (loss) for the Variable segment increased to \$3.5 million in the first quarter of 2010. This increase is primarily due to the impact of market performance on amortization of deferred acquisition cost, improved mortality experience and a reduction in expenses allocated to the segment.

Benefits and expenses decreased 33.0% to \$13.4 million in the first quarter of 2010 primarily due to a \$3.1 million decrease in deferred policy acquisition cost amortization primarily resulting from the impact of positive separate account performance and a \$2.3 million decrease in death benefits due to fewer claims. In addition, other underwriting expense decreased \$1.3 million due to the impact of cost saving initiatives in 2009 and changes in expense allocations between segments.

Variable premiums tend to vary with the volatility, performance of and confidence level in the equity markets as well as crediting and interest rates on competing products, including fixed rate annuities and bank-offered certificates of

deposit.

During the second quarter of 2010, we will discontinue underwriting new sales of variable products and terminate new sales with our variable alliance partners. We will begin selling through our Farm Bureau Life distribution channel variable products underwritten by a large well-known insurance company with variable product expertise. We will earn fees from the sale of brokered products, a portion of which will be passed on to the agents as commissions for the underlying sales. The decision to discontinue underwriting variable products was made because we lack the scale necessary to generate acceptable returns and be competitive in this product line over time. The existing in force business remains on our books and we will continue to administer this business. The decision to discontinue new sales is not expected to have a material impact to our financial statements.

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Corporate and Other Segment

| | Three months ended March 31, 2010 | 2009 |
|-----------------------------|--------------------------------------|-------------|
| | (Dollars in thousands) | |
| Pre-tax operating loss | | |
| Operating revenues: | | |
| Net investment income | \$ 3,218 | \$ 1,813 |
| Derivative loss | (519) | (370) |
| Other income | 2,300 | 4,155 |
| | 4,999 | 5,598 |
| Interest expense | 6,118 | 6,932 |
| Benefits and other expenses | 4,695 | 5,443 |
| | (5,814) | (6,777) |
| Noncontrolling interest | 14 | 38 |
| Equity income, before tax | 1,684 | 111 |
| Pre-tax operating loss | \$ (4,116) | \$ (6,628) |

Pre-tax operating loss decreased 37.9% to \$4.1 million for the first quarter of 2010 primarily due an increase in equity income and net investment income and a decrease in interest expense, partially offset by a decrease in operating results of our non-insurance subsidiaries.

The changes in equity income are discussed in the "Equity Income" section above. Net investment income increased primarily due to an increase in invested assets and the impact of being more fully invested. Interest expense decreased in the 2010 period due to a decrease in our average debt outstanding as discussed in the "Interest Expense" section above.

Other income and expense primarily relate to operating results of our non-insurance subsidiaries. Profitability from these operations decreased \$1.1 million in 2010, primarily due to a reduction in leasing activities.

Financial Condition

Investments

Our total investment portfolio increased 4.1% to \$12,126.1 million at March 31, 2010 compared to \$11,653.0 million at December 31, 2009. This increase is primarily the result of a \$254.9 million decrease in the net unrealized depreciation of fixed maturity securities during 2010 to a net unrealized loss of \$219.2 million at March 31, 2010. This decrease is principally due to the tightening of credit spreads and continued improvements in overall market conditions during the quarter. Volatile and illiquid market conditions in the early part of 2009 led to wide credit spreads and resulted in significant unrealized losses for our portfolio. Moderately wide credit spreads in certain sectors continue to impact our investment portfolio. However, as discussed in the "Impact of Recent Business Environment" section above, financial market conditions and our unrealized loss position improved for most sectors throughout 2009 and into 2010. Details regarding investment impairments are discussed above in the "Realized Gains (Losses) on

Investments" section under "Results of Operations." Additional details regarding securities in an unrealized loss position at March 31, 2010 are included in the discussion that follows and in Note 2 to our consolidated financial statements.

We manage our investment portfolio with a strategy designed to achieve superior risk-adjusted returns consistent with the investment philosophy of maintaining a largely investment grade portfolio and providing adequate liquidity for obligations to policyholders and other requirements.

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March 31, 2010

Investment Portfolio Summary

| | March 31, 2010 | | December 31, 2009 | |
|---|------------------------|---------|-------------------|---------|
| | Carrying Value | Percent | Carrying Value | Percent |
| | (Dollars in thousands) | | | |
| Fixed maturities - available for sale: | | | | |
| Public | \$ 8,375,550 | 69.1 % | \$ 8,103,381 | 69.6 % |
| 144A private placement | 1,444,092 | 11.9 | 1,291,840 | 11.1 |
| Private placement | 486,384 | 4.0 | 469,380 | 4.0 |
| Total fixed maturities - available for sale | 10,306,026 | 85.0 | 9,864,601 | 84.7 |
| Equity securities | 70,110 | 0.6 | 60,154 | 0.5 |
| Mortgage loans on real estate | 1,286,214 | 10.6 | 1,293,936 | 11.1 |
| Derivative instruments | 60,880 | 0.5 | 44,023 | 0.4 |
| Real estate | 14,748 | 0.1 | 16,563 | 0.1 |
| Policy loans | 168,035 | 1.4 | 168,736 | 1.5 |
| Other long-term investments | 1,875 | — | 1,882 | — |
| Short-term investments | 218,243 | 1.8 | 203,142 | 1.7 |
| Total investments | \$ 12,126,131 | 100.0 % | \$ 11,653,037 | 100.0 % |

As of March 31, 2010, 94.3% (based on carrying value) of the available-for-sale fixed maturity securities were investment grade debt securities, defined as being in the highest two National Association of Insurance Commissioners (NAIC) designations. Non-investment grade debt securities generally provide higher yields and involve greater risks than investment grade debt securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment grade issuers. In addition, the trading market for these securities is usually more limited than for investment grade debt securities. We regularly review the percentage of our portfolio that is invested in non-investment grade debt securities (NAIC designations 3 through 6). As of March 31, 2010, the investment in non-investment grade debt was 5.7% of available-for-sale fixed maturity securities. At that time, no single non-investment grade holding exceeded 0.2% of total investments.

Credit Quality by NAIC Designation and Equivalent Rating

| | | March 31, 2010 | | December 31, 2009 | |
|------------------|------------------------|------------------------|---------|-------------------|---------|
| NAIC Designation | Equivalent Rating (1) | Carrying Value | Percent | Carrying Value | Percent |
| | | (Dollars in thousands) | | | |
| 1 | AAA, AA, A | \$ 6,217,763 | 60.3 % | \$ 5,915,387 | 60.0 % |
| 2 | BBB | 3,499,832 | 34.0 | 3,397,424 | 34.4 |
| | Total investment grade | 9,717,595 | 94.3 | 9,312,811 | 94.4 |
| 3 | BB | 441,936 | 4.3 | 402,047 | 4.1 |
| 4 | B | 85,722 | 0.8 | 86,311 | 0.9 |

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| | | | | | |
|---|---|---------------|---------|--------------|---------|
| 5 | CCC | 35,870 | 0.4 | 30,451 | 0.3 |
| 6 | In or near default | 24,903 | 0.2 | 32,981 | 0.3 |
| | Total below investment grade | 588,431 | 5.7 | 551,790 | 5.6 |
| | Total fixed maturities - available for sale | \$ 10,306,026 | 100.0 % | \$ 9,864,601 | 100.0 % |

Equivalent ratings are generally based on those provided by nationally recognized rating agencies with some (1) exceptions for certain residential mortgage and asset-backed securities where they are based on the expected loss of the security rather than the probability of default.

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March 31, 2010

Gross Unrealized Gains and Gross Unrealized Losses by Internal Industry Classification

| March 31, 2010 | | | | | |
|--|----------------------|--|------------------------|---|-------------------------|
| | Total Carrying Value | Carrying Value of Securities with Gross Unrealized Gains | Gross Unrealized Gains | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| (Dollars in thousands) | | | | | |
| Corporate securities: | | | | | |
| Basic industrial | \$ 424,509 | \$ 317,408 | \$ 23,976 | \$ 107,101 | \$ (15,333) |
| Capital goods | 336,768 | 281,241 | 20,406 | 55,527 | (5,315) |
| Communications | 215,858 | 184,196 | 12,117 | 31,662 | (1,030) |
| Consumer cyclical | 305,601 | 253,823 | 17,185 | 51,778 | (6,194) |
| Consumer noncyclical | 412,966 | 384,034 | 26,515 | 28,932 | (560) |
| Energy | 637,426 | 438,438 | 34,351 | 198,988 | (8,355) |
| Finance | 1,491,463 | 759,054 | 32,918 | 732,409 | (105,714) |
| Transportation | 174,949 | 138,650 | 10,436 | 36,299 | (1,611) |
| Utilities | 1,194,332 | 910,888 | 65,320 | 283,444 | (11,348) |
| Other | 142,209 | 121,684 | 9,996 | 20,525 | (2,936) |
| Total corporate securities | 5,336,081 | 3,789,416 | 253,220 | 1,546,665 | (158,396) |
| Mortgage and asset-backed securities | 2,884,285 | 1,469,686 | 67,242 | 1,414,599 | (280,351) |
| United States Government and agencies | 128,852 | 59,550 | 5,114 | 69,302 | (4,823) |
| State, municipal and other governments | 1,956,808 | 650,814 | 15,074 | 1,305,994 | (116,278) |
| Total | \$ 10,306,026 | \$ 5,969,466 | \$ 340,650 | \$ 4,336,560 | \$ (559,848) |
| December 31, 2009 | | | | | |
| | Total Carrying Value | Carrying Value of Securities with Gross Unrealized Gains | Gross Unrealized Gains | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| (Dollars in thousands) | | | | | |
| Corporate securities: | | | | | |
| Basic industrial | \$ 406,541 | \$ 270,886 | \$ 19,254 | \$ 135,655 | \$ (20,000) |
| Capital goods | 320,176 | 256,139 | 16,844 | 64,037 | (7,902) |

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| | | | | | |
|--|--------------|--------------|------------|--------------|---------------|
| Communications | 190,423 | 164,464 | 9,739 | 25,959 | (1,241) |
| Consumer cyclical | 309,927 | 249,996 | 13,793 | 59,931 | (9,512) |
| Consumer noncyclical | 388,805 | 355,954 | 21,727 | 32,851 | (954) |
| Energy | 571,587 | 379,842 | 25,998 | 191,745 | (11,407) |
| Finance | 1,437,932 | 435,019 | 17,674 | 1,002,913 | (167,168) |
| Transportation | 166,789 | 115,727 | 7,256 | 51,062 | (3,037) |
| Utilities | 1,169,778 | 859,918 | 54,533 | 309,860 | (17,389) |
| Other | 145,517 | 120,041 | 8,763 | 25,476 | (2,962) |
| Total corporate securities | 5,107,475 | 3,207,986 | 195,581 | 1,899,489 | (241,572) |
| Mortgage and asset-backed securities | 2,726,406 | 1,274,361 | 43,043 | 1,452,045 | (326,207) |
| United States Government and agencies | 139,467 | 61,255 | 4,620 | 78,212 | (2,543) |
| State, municipal and other governments | 1,891,253 | 351,067 | 8,509 | 1,540,186 | (155,500) |
| Total | \$ 9,864,601 | \$ 4,894,669 | \$ 251,753 | \$ 4,969,932 | \$ (725,822) |

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Credit Quality of Available-for-Sale Fixed Maturity Securities with Unrealized Losses

| | | March 31, 2010 | | | | |
|------------------|------------------------------|--|---------------------|---|-------------------------------|---------------------|
| NAIC Designation | Equivalent Rating | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total | | Gross Unrealized Losses | Percent of Total |
| | | (Dollars in thousands) | | | | |
| 1 | AAA, AA, A | \$ 2,943,679 | 67.9 | % | \$ (287,465) | 51.4 % |
| 2 | BBB | 957,302 | 22.1 | | (121,190) | 21.6 |
| | Total investment grade | 3,900,981 | 90.0 | | (408,655) | 73.0 |
| 3 | BB | 305,799 | 7.0 | | (49,446) | 8.8 |
| 4 | B | 73,248 | 1.7 | | (35,368) | 6.3 |
| 5 | CCC | 32,419 | 0.7 | | (35,755) | 6.4 |
| 6 | In or near default | 24,113 | 0.6 | | (30,624) | 5.5 |
| | Total below investment grade | 435,579 | 10.0 | | (151,193) | 27.0 |
| | Total | \$ 4,336,560 | 100.0 | % | \$ (559,848) | 100.0 % |

| | | December 31, 2009 | | | | |
|------------------|------------------------------|--|---------------------|---|-------------------------------|---------------------|
| NAIC Designation | Equivalent Rating | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total | | Gross Unrealized Losses | Percent of Total |
| | | (Dollars in thousands) | | | | |
| 1 | AAA, AA, A | \$ 3,189,335 | 64.2 | % | \$ (355,516) | 49.0 % |
| 2 | BBB | 1,335,973 | 26.9 | | (180,763) | 24.9 |
| | Total investment grade | 4,525,308 | 91.1 | | (536,279) | 73.9 |
| 3 | BB | 315,603 | 6.3 | | (56,456) | 7.8 |
| 4 | B | 78,226 | 1.6 | | (55,791) | 7.7 |
| 5 | CCC | 27,357 | 0.5 | | (42,419) | 5.8 |
| 6 | In or near default | 23,438 | 0.5 | | (34,877) | 4.8 |
| | Total below investment grade | 444,624 | 8.9 | | (189,543) | 26.1 |
| | Total | \$ 4,969,932 | 100.0 | % | \$ (725,822) | 100.0 % |

Available-For-Sale Fixed Maturity Securities with Unrealized Losses by Length of Time

| | March 31, 2010 | | Gross Unrealized Losses | | |
|---|-------------------|---|--|---------------------------------------|--|
| | Number of Issuers | Amortized Cost Market Value is Less than 75% of Cost | Market Value is 75% or Greater than Cost | Market Value is Less than 75% of Cost | Market Value is 75% or Greater than Cost |
| | | (Dollars in thousands) | | | |
| Three months or less | 37 | \$ — | \$ 280,459 | \$ — | \$ (3,212) |
| Greater than three months to six months | 121 | — | 736,380 | — | (17,460) |
| Greater than six months to nine months | 4 | — | 9,589 | — | (165) |
| Greater than nine months to twelve months | 12 | 11,724 | 45,117 | (6,573) | (5,457) |
| Greater than twelve months | 408 | 624,379 | 3,188,760 | (258,940) | (268,041) |
| Total | | \$ 636,103 | \$ 4,260,305 | \$ (265,513) | \$ (294,335) |

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March 31, 2010

| December 31, 2009 | | | | | |
|---|------------------------|---------------------------------------|--|---------------------------------------|--|
| | | Amortized Cost | | Gross Unrealized Losses | |
| | Number of Issuers | Market Value is Less than 75% of Cost | Market Value is 75% or Greater than Cost | Market Value is Less than 75% of Cost | Market Value is 75% or Greater than Cost |
| | (Dollars in thousands) | | | | |
| Three months or less | 188 | \$ — | \$ 1,166,486 | \$ — | \$ (30,057) |
| Greater than three months to six months | 4 | 42 | 9,906 | (15) | (421) |
| Greater than six months to nine months | 13 | 16,958 | 36,174 | (9,226) | (3,236) |
| Greater than nine months to twelve months | 12 | 17,539 | 24,675 | (6,960) | (1,552) |
| Greater than twelve months | 463 | 844,621 | 3,579,353 | (350,096) | (324,259) |
| Total | | \$ 879,160 | \$ 4,816,594 | \$ (366,297 | |