

Mutual of Omaha Insurance Company and Subsidiaries

Consolidated Financial Statements as of
December 31, 2008 and 2007, and
Independent Auditors' Report



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mutual of Omaha Insurance Company
Omaha, Nebraska

We have audited the accompanying consolidated balance sheets of Mutual of Omaha Insurance Company and Subsidiaries (the "Company") as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company changed its method of accounting for deferred acquisition costs on internal replacements of insurance and investment contracts and accounting for defined benefit pension and other postretirement plans in 2007.

March 25, 2009

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

(In thousands)

	2008	2007
ASSETS		
INVESTMENTS:		
Fixed maturities — available-for-sale — at fair value	\$11,977,225	\$12,343,495
Fixed maturities — trading — at fair value	91,887	-
Equity securities — available-for-sale — at fair value	17,306	47,142
Equity securities — trading — at fair value	23,484	14,493
Equity securities — at cost	40,906	11,053
Loans — net	3,415,089	2,033,057
Real estate	153,970	52,400
Limited partnerships	503,071	372,310
Other invested assets	29,626	3,951
Policy loans	184,485	176,126
Short-term investments	668,316	106,865
Total investments	17,105,365	15,160,892
Cash and cash equivalents	88,507	80,220
Accrued investment income	130,451	117,219
Premiums and other receivables	110,896	94,895
Deferred policy acquisition costs	1,705,701	1,558,624
Reinsurance recoverable	354,026	424,004
Current income taxes receivable	6,929	-
Deferred income taxes receivable	3,772	-
Goodwill and intangible assets	220,723	79,038
Other assets	361,740	334,933
Separate account assets	1,157,484	1,596,922
	<u>\$21,245,594</u>	<u>\$19,446,747</u>
LIABILITIES AND EQUITY		
LIABILITIES:		
Future policy benefits	\$ 5,370,445	\$ 5,132,407
Policyholder account balances	5,657,948	5,658,547
Unpaid claims	1,216,357	1,192,993
Unearned premiums	284,196	273,716
Deposits	2,842,551	518,666
Current income taxes payable	-	14,760
Deferred income taxes payable	-	207,538
Borrowings	569,524	583,873
Other liabilities	982,816	708,629
Separate account liabilities	1,157,484	1,596,922
Total liabilities	18,081,321	15,888,051
COMMITMENTS AND CONTINGENCIES (NOTE 10)		
EQUITY:		
Retained earnings	3,611,096	3,564,641
Accumulated other comprehensive loss	(446,823)	(5,945)
Total equity	3,164,273	3,558,696
	<u>\$21,245,594</u>	<u>\$19,446,747</u>

The accompanying notes are an integral part of these consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In thousands)

	2008	2007
REVENUES:		
Health and accident	\$1,908,333	\$2,023,712
Life and annuity	1,322,571	1,171,163
Net investment income	909,689	867,129
Net realized investment gains (losses)	(133,714)	17,145
Other	<u>65,911</u>	<u>162,528</u>
Total revenues	<u>4,072,790</u>	<u>4,241,677</u>
BENEFITS AND EXPENSES:		
Health and accident benefits	1,370,210	1,553,351
Life and annuity benefits	1,211,119	1,057,004
Interest credited	265,330	250,202
Policy acquisition costs	483,768	461,066
General insurance and bank expenses	586,006	522,907
Other	<u>64,341</u>	<u>64,404</u>
Total benefits and expenses	<u>3,980,774</u>	<u>3,908,934</u>
INCOME BEFORE INCOME TAXES	92,016	332,743
INCOME TAXES	<u>44,968</u>	<u>115,716</u>
NET INCOME	<u>\$ 47,048</u>	<u>\$ 217,027</u>

The accompanying notes are an integral part of these consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
		Net Unrealized Investment Gains (Losses)	Benefit Plans Adjustments	
BALANCE — January 1, 2007	\$3,347,614	\$ 82,413	\$ -	\$3,430,027
Comprehensive income (loss):				
Net income	217,027	-	-	217,027
Other comprehensive income:				
Unrealized holding losses arising during the year (net of taxes of \$8,293)	-	(15,402)	-	(15,402)
Reclassification adjustments for realized holding losses (net of taxes of \$7,823)	-	14,528	-	14,528
Comprehensive income				216,153
Adjustment to adopt SFAS No. 158 (net of taxes of \$47,107)	-	-	(87,484)	(87,484)
BALANCE — December 31, 2007	3,564,641	81,539	(87,484)	3,558,696
Cumulative effect of adoption of EITF 06-10 and FAS 159 (net of taxes of \$320)	(593)	-	-	(593)
BALANCE — January 1, 2008	3,564,048	81,539	(87,484)	3,558,103
Comprehensive income (loss):				
Net income	47,048	-	-	47,048
Other comprehensive income:				
Unrealized holding losses arising during the year (net of taxes of \$225,618)	-	(419,004)	-	(419,004)
Reclassification adjustments for realized holding losses (net of taxes of \$53,078)	-	98,573	-	98,573
Unrecognized post-retirement benefit costs arising during the year (net of taxes of \$64,550)	-	-	(119,878)	(119,878)
Amortization of unrecognized post-retirement benefit costs (net of taxes of \$306)	-	-	(569)	(569)
Comprehensive loss				(393,830)
BALANCE — December 31, 2008	<u>\$3,611,096</u>	<u>\$(238,892)</u>	<u>\$(207,931)</u>	<u>\$3,164,273</u>

The accompanying notes are an integral part of these consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2008 AND 2007

(In thousands)

	2008	2007
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net income	\$ 47,048	\$ 217,027
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	31,496	31,942
Amortization of bond premium and discount	(20,034)	(12,162)
Change in fair value of derivatives	(5,011)	-
Amortization of deferred policy acquisition costs	305,452	284,245
Amortization of intangible assets	3,319	-
Decrease in cash surrender value of COLI	11,916	-
Net gain from business disposition	-	(69,524)
Net realized investment (gains) losses	133,714	(17,145)
Realized software losses	23,500	-
Deferred tax provision	26,315	50,763
Interest credited	223,889	247,067
Policy charges and fee income	(210,863)	(210,393)
Proceeds from loans sold	67,244	15,278
Origination of loans held for sale	(72,420)	(18,731)
Change in:		
Accrued investment income	(12,628)	1,249
Premiums and other receivables	(15,700)	89,483
Reinsurance recoverable	69,978	(1,702)
Trading securities	(15,887)	-
Other assets	(37,198)	8,354
Insurance liabilities	269,607	285,021
Current income taxes	(21,689)	26,732
Other liabilities	31,907	8,198
Capitalization of deferred policy acquisition costs	(417,048)	(369,652)
Other — net	(1,195)	(251)
Cash flows from operating activities	<u>415,712</u>	<u>565,799</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sales or maturities of fixed maturities	1,638,721	1,847,968
Proceeds from payments of mortgage loans	88,986	130,328
Proceeds from equity securities and other invested assets	405	2,922
Proceeds from limited partnerships	64,382	128,212
Proceeds from sales of property and equipment	4,932	6,093
Proceeds from disposal of business — net of cash transferred	-	103,159
Purchases of fixed maturities	(1,975,067)	(1,525,794)
Purchases of mortgage loans	(459,784)	(421,905)
Purchases of equity securities and other invested assets	(30,289)	(44,954)
Purchases of limited partnerships	(170,362)	(164,008)
Purchases of property and equipment	(138,971)	(57,640)
Business acquisitions, net of cash received	2,751,173	(114,244)
Loans acquired	(446,510)	-
Net change in loans from banking activities	(482,026)	(78,536)
Net change in policy loans	(8,359)	(5,395)
Net change in short-term investments	(584,822)	(6,309)
Cash flows from (used for) investing activities	<u>252,409</u>	<u>(200,103)</u>

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2008 AND 2007 (In thousands)

	2008	2007
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Policyholder account balances deposits	\$ 908,441	\$ 496,988
Issuance of FHLB advances	69,400	9,000
Withdrawals from policyholder account balances	(922,066)	(961,171)
Net change in deposits	(655,109)	24,571
Net change in short-term borrowings	<u>(60,500)</u>	<u>(45,130)</u>
Cash flows used for financing activities	<u>(659,834)</u>	<u>(475,742)</u>
CHANGE IN CASH AND CASH EQUIVALENTS	8,287	(110,046)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>80,220</u>	<u>190,266</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 88,507</u>	<u>\$ 80,220</u>
SUPPLEMENTAL CASH FLOW INFORMATION:		
Net cash paid during the year for:		
Interest	<u>\$ 67,584</u>	<u>\$ 23,949</u>
Income taxes	<u>\$ 36,863</u>	<u>\$ 33,523</u>
Noncash transactions during the year:		
Property additions accrued, not paid	<u>\$ 25,704</u>	<u>\$ 5,518</u>
Change in securities lending	<u>\$ 23,371</u>	<u>\$ 185,204</u>
Business acquisitions:		
Noncash assets acquired	<u>\$ 256,426</u>	<u>\$ 656,515</u>
Liabilities assumed	<u>\$ 383,002</u>	<u>\$ 539,771</u>
Business dispositions:		
Noncash assets transferred	<u>\$ -</u>	<u>\$ 31,295</u>
Liabilities transferred	<u>\$ -</u>	<u>\$ 1,910</u>

The accompanying notes are an integral part of these consolidated financial statements.

(Concluded)

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements include the accounts of Mutual of Omaha Insurance Company (“Mutual”), a mutual insurance company domiciled in the state of Nebraska, and its subsidiaries (the “Company”). The primary subsidiary companies are United of Omaha Life Insurance Company (“United”); Companion Life Insurance Company (“Companion”); United World Life Insurance Company; East Campus Realty, LLC (“ECR”), a real estate development company; and Mutual of Omaha Bank (the “Bank”), a wholly owned subsidiary of Omaha Financial Holdings, Inc. (“OFHI”). The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. Significant intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations — The Company provides a wide array of financial products and services to a broad range of institutional and individual customers in the United States. Principal products and services provided include individual and group health insurance, life insurance, annuities, retirement plans and banking services.

Use of Estimates — The preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. The most significant estimates and assumptions include those used in determining investment valuation and impairments, deferred policy acquisition costs, goodwill and related impairments, the liability for future policy benefits, and the liability for unpaid claims. Actual results could differ from those estimates.

Fixed Maturities and Equity Securities — With the exception of the Company’s trading securities and Federal Home Loan Bank of Topeka equity securities, all of the Company’s fixed maturities and equity securities are classified as available-for-sale and are reported at their estimated fair values, which are based upon quotations published by applicable stock exchanges or received from other reliable sources when available. For securities for which market values were not readily available, fair values were estimated by the Company using projected future cash flows, current market rates, credit quality, and maturity date. See Note 3, Fair Value, for further discussion on the inputs and assumptions used to estimate fair value for these securities. Unrealized gains and losses on available-for-sale securities are recorded as a separate component of accumulated other comprehensive income (loss), net of policyholder related amounts and deferred income taxes. At December 31, 2008, trading securities include certain investments for which the fair value option was elected. At December 31, 2007, trading securities included principally mutual fund investments supporting Companion’s separate account investment strategies that involve the active and frequent purchase and sale of securities. The Company no longer holds these securities at December 31, 2008. The Company’s trading securities are recorded at fair value with changes in fair value recorded in net realized investment gains (losses). See Note 3, Fair Value, for further discussion of these investments. The Company’s Federal Home Loan Bank of Topeka equity securities are carried at cost, which approximates fair value due to the redemption provisions. The Company adjusts the cost of available-for-sale securities for declines in value that are other-than-temporary and reports those adjustments as net realized investment losses in the consolidated statements

of operations. Interest income is recognized on an accrual basis and reflects amortization of premiums and accrual of discounts on an effective-yield basis, based upon expected cash flows. Net realized investment gains or losses are determined using the specific identification basis. All publicly traded security and stock transactions are recorded on a trade-date basis. All private placement security transactions are recorded on a settlement-date basis.

For mortgage-backed securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income in the consolidated statements of operations.

The process of determining the fair value of fixed maturity investments and whether or not an investment is recoverable relies on projections of future cash flows, investment operating results and market conditions. Projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company's investment valuations are susceptible to the risk inherent in making such projections.

Mortgage Loans — Mortgage loans are carried at the aggregate unpaid principal balance adjusted for any charge-offs, unamortized premium or discount, deferred fees or expenses, less an allowance for estimated uncollectible amounts, except impaired loans that are carried at the fair value of the collateral. Interest income is accrued on the unpaid principal balance based on the loan's contractual interest rate.

An allowance for loan losses is established through the provision for loan losses included in general insurance and bank expenses. Loan losses are charged against the allowance for loan losses when the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to income or the allowance for loans losses depending on the financial instrument. The allowance for loan losses is evaluated on a monthly basis and is based upon management's periodic review of the collectibility of the loans in light of historical experience, the nature, and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Loans are considered impaired when, based on current information and events; it is probable that the Company will be unable to collect principal or interest according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate. However, interest ceases to be accrued for loans on which interest is generally more than 90 days past due and/or where the collection of interest is not considered probable.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value, determined using an aggregate basis. Write-downs to fair value are recognized as a charge to income at the time the decline in value occurs and are included in other income. Forward commitments

to sell mortgage loans are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale and fees paid to investors to ensure the ultimate sale of such mortgage loans are recognized as income or expense when the loans are sold or when it becomes evident that the commitment will not be used.

Loan Servicing — Mortgage and other secured and unsecured loans serviced for others (primarily without recourse) are not included in the consolidated balance sheets. The approximate unpaid principal balances of loans serviced by the Bank at December 31, 2008 and 2007 are \$332,736,000 and \$300,759,000, respectively. Custodial escrow balances of \$9,580,000 and \$6,821,000 are maintained in connection with the foregoing loan servicing and are included in deposits at December 31, 2008 and 2007, respectively.

Real Estate — Real estate includes development properties owned by ECR which are carried at cost, less accumulated depreciation of \$656,000 at December 31, 2008. There was no accumulated depreciation at December 31, 2007.

Limited Partnerships — The carrying value of limited partnerships is determined using the equity method. Equity in earnings are included in net investment income for partnerships that invest primarily in fixed maturities and in net realized investment gains for partnerships that invest primarily in equity securities. The Company owns 80% of Fulcrum Growth Partners, L.L.C. and, effective January 1, 2007, 80% of Fulcrum Growth Partners III, L.L.C. (collectively “Fulcrum”). Both Fulcrum entities were established for the purpose of investing in nontraditional assets including private equities, public equities, special situation real estate equities, and mezzanine debt. Fulcrum is capitalized through the contributions of the Company and one other owner with significant participation in Fulcrum’s operations. In 2008 and 2007, the Company recognized net realized investment gains related to Fulcrum of \$17,848,000 and \$16,926,000, respectively. At December 31, 2008 and 2007, the Company’s investment in Fulcrum was \$112,017,000 and \$71,578,000, respectively. The Company reports its investment in Fulcrum and other limited partnerships on a quarter lag. However, the Company records all capital contributions, cash distributions, and impairment charges, as necessary, on a current basis. As of and for the nine months ended September 30, 2008 and 2007, Fulcrum reported assets of \$185,712,000 and \$94,896,000, liabilities of \$49,946,000 and \$1,750,000, and results of operations of \$16,584,000 and \$20,635,000, respectively.

Policy Loans — Policy loans are stated at the aggregate unpaid balance. Policy loans are an integral component of insurance contracts and have no maturity dates.

Other Invested Assets — Other invested assets primarily include derivatives of \$22,873,000 and \$40,000 carried at fair value and real estate held for sale of \$6,753,000 and \$3,911,000 carried at the lower of cost or market at December 31, 2008 and 2007, respectively.

Derivatives — The Company uses derivatives to reduce exposure to market volatility associated with assets held or liabilities incurred and to change the characteristics of the Company’s asset/liability mix, consistent with the Company’s risk management activities. At December 31, 2008, derivatives included foreign currency swaps on bonds and interest rate swaps on bonds and mortgage and commercial loans with a notional amount of \$286,577,000. At December 31, 2007, derivatives included foreign currency swaps on bonds and interest rate swaps on mortgage loans with a notional amount of \$168,130,000.

The Company designates certain of its interest rate swaps as fair value hedges when they are highly effective in offsetting the risk of changes in the fair value of the hedged item. The Company designates certain of its foreign currency swaps as cash flow hedges when they are highly effective in offsetting the exposure of variations in cash flows for the hedged item. The hedged item may be either all or a specific portion of a recognized asset or liability attributable to foreign currency and interest rate risk.

For foreign currency and interest rate swaps to qualify for hedge accounting treatment, they must be highly effective in mitigating the designated changes in value or cash flow of the foreign currency on bonds and interest rates on mortgage loans. Senior management monitors the Company's derivatives and at inception of the hedge, the Company formally documents the hedging relationship and risk management objective and strategy. The Company also formally assesses, on an ongoing basis, whether the derivatives used in hedging transactions have been and are expected to continue to be highly effective in offsetting changes in fair value or cash flows of hedged items. Risk arises from changes in the fair value of the underlying derivatives and, with respect to over-the-counter transactions, from the possible inability of counterparties to meet the terms of the transactions. The Company's risk of loss is typically limited to the fair value of its derivatives with positive fair values and not to the notional or contractual amounts. Losses on derivatives due to the underlying prices and indexes are expected to be offset by gains in the hedged items, to the extent that the hedges are effective. The Company measures the hedge's effectiveness and records any ineffectiveness in net investment income in the consolidated statements of operations. During 2008 and 2007, the ineffectiveness was not significant. The Company has strict policies regarding the financial stability and credit standing of its counterparties. The Company attempts to limit its credit risk by dealing with creditworthy counterparties and obtaining collateral where appropriate.

Derivatives are reported at estimated fair value based upon quotations obtained from external pricing services and vendors or other reliable sources. Credit quality of the Company and the derivative counterparties has been considered in the valuation of the derivatives. Changes in fair value for foreign currency swaps are included in other comprehensive income, changes in fair value for interest rate swaps, that are considered non-hedge derivatives, are included in net investment income in the consolidated statements of operations. Changes in fair value for interest rate swaps that are considered hedge derivatives are included in net investment income along with the offsetting changes to the associated hedge items to the extent that the hedge is effective. For the years ended December 31, 2008 and 2007, fair value changes of \$13,602,000 and (\$2,032,000), respectively, were included in other comprehensive income and changes of \$4,337,000 and (\$126,000), respectively, were included in net investment income. In 2008 and 2007, derivatives of \$22,873,000 and \$40,000, respectively, were included in other invested assets. In 2008 and 2007, derivatives of \$13,764,000 and \$7,654,000, respectively, were included in other liabilities.

Short-Term Investments — Short-term investments include certificates of deposit and fixed maturities purchased with an original maturity of one year or less and are stated at amortized cost. The carrying value of short-term investments approximates fair value due to the short-term maturities of these investments.

Other-Than-Temporary Declines in Fair Value — The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether or not a decline in fair value is other-than-temporary include the Company's ability and intent to retain the investment for a period of time sufficient to allow for a recovery in value, the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due and the duration and severity of the decline.

Cash Equivalents — Cash equivalents include money market accounts and all highly-liquid debt securities purchased with an original maturity of less than three months. The carrying amounts for these securities approximate their fair value.

Deferred Policy Acquisition Costs — The costs of acquiring new insurance business, principally commissions, medical examinations, underwriting, policy issue and other expenses, all of which vary with and are primarily related to the production of new business, are deferred to the extent such costs are deemed recoverable from future premiums or profits. Deferred policy acquisition costs are subject to recoverability testing at the time of policy issue and to loss recognition testing at the end of each accounting period. Deferred policy acquisition costs for interest-sensitive life contracts are adjusted for the impact of unrealized investment gains and losses on certain investments, as if these gains and losses had been realized, with the corresponding credits or charges reported in other comprehensive income, net of tax. Unamortized policy acquisition costs related to internal replacements of policyholder contracts that cause the contract to be substantially changed are charged to income when modified.

For health and disability insurance, policy acquisition costs are amortized over a period of time expected to encompass the majority of the revenue recognized on the contracts based on premiums earned, policies in force, or the contract period. Depending on product type, the period can range from one year to the entire premium-paying period of the related contracts.

For universal life, annuity, and other investment contract products, such costs are generally amortized in proportion to the estimated gross profits from investment margins, mortality margins, expense margins and surrender charges. For other life insurance products, such costs are amortized over the estimated premium-paying period of the related policies in proportion to premium revenues recognized, using assumptions consistent with those used in computing policy reserves.

Goodwill and Intangible Assets — Goodwill is the excess of cost over the fair value of net assets acquired in a merger or acquisition transaction. Goodwill is not amortized but is tested for impairment at least annually, more frequently if events or circumstances, such as adverse changes in the business climate, indicate that there may be justification for conducting an interim test. Impairment testing is performed using the fair value approach, which requires the use of estimates and judgment. Absent any impairment indicators, the Company tests goodwill at the end of each fiscal year.

Intangible assets include primarily core deposit intangibles, which represent the present value of core deposits acquired in a merger or acquisition transaction. Intangible assets are amortized on a straight-line basis over the estimated economic life of two to eight years and are reviewed periodically for indicators of impairment. If facts and circumstances suggest impairment, the sum of the estimated undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value.

Company-Owned Life Insurance — Company-Owned life insurance (“COLI”) represents individual life insurance policies on the lives of certain key officers who have provided positive consent allowing the Company to be the beneficiary of such policies. The Company utilizes COLI as financing for the benefit obligations of certain employees and intends to hold the policies until the death of the insured participants. The cash surrender value of the policies was \$38,084,000 at December 31, 2008 and is included in other assets. The loss of surrender value of \$11,916,000 for the year ended December 31, 2008 associated with the policies is included in other revenues.

Property and Equipment — Property and equipment, which are included in other assets, are carried at cost less accumulated depreciation. The Company provides for depreciation of property and equipment and software development costs using the straight-line method over the estimated useful lives of the assets. Total real estate property, primarily land and buildings used in operations, cost at December 31, 2008 and 2007, was \$245,328,000 and \$223,813,000, respectively. Accumulated depreciation at December 31, 2008 and 2007, was \$115,167,000 and \$109,144,000, respectively. Total furniture and equipment cost at December 31, 2008 and 2007, was \$153,599,000 and \$152,439,000, respectively. Accumulated depreciation at December 31, 2008 and 2007, was \$115,690,000 and \$104,873,000, respectively. Total software cost at December 31, 2008 and 2007, was \$159,700,000 and \$139,858,000, respectively. Accumulated depreciation at December 31, 2008 and 2007, was \$116,005,000 and \$102,459,000, respectively.

During 2008, charges to income of \$23,500,000 were recorded in general insurance and bank expenses for system projects based on revised expected cash flows from the implementation and use of the software. There were no charges to income in 2007.

Future Policy Benefits, Policyholder Account Balances and Unpaid Claims — Future policy benefits include reserves for term and permanent life insurance, health coverages where premiums are assumed at issue to be level or step-rated and annuities in payout status. Reserves for term, non-interest-sensitive permanent life contracts, and certain health coverages are calculated using the net level premium method. Mortality, morbidity, and persistency assumptions are generally based on the Company's experience modified to provide for possible unfavorable deviations. The reserves for annuities in payout status are calculated as the present value of expected future payments with mortality assumptions based on the Company's experience. Interest rates used in establishing such liabilities during 2008 range from 3.00% to 7.00% for term and non-interest sensitive permanent-life contracts, 3.00% to 6.29% for certain health coverages, and from 1.00% to 12.25% for annuities in payout status.

Policyholder account balances for individual interest-sensitive life and investment-type contracts are equal to policy account values. The policy account values represent an accumulation of gross premium payments plus credited interest less withdrawals, expense charges, and mortality charges. Interest rates credited to policyholder account balances during 2008 ranged from 3.00% to 5.75% for individual interest-sensitive life and deferred annuity contracts and from 0.91% to 7.18% for group annuities and guaranteed investment contracts.

Due to the length of annuity and life insurance contracts and the risks involved, the process of estimating deferred policy acquisition costs and reserves for future policy benefits is inherently uncertain. Deferred policy acquisition costs and reserves for future policy benefits are estimated using a variety of factors including, but not limited to, expected mortality, interest, and withdrawal rates. Actual mortality, interest, and withdrawal rates are likely to differ from expected rates. Accordingly, the timing and amount of actual cash flows for any given period may differ materially from the timing and amount of expected cash flows.

The liability for unpaid claims represents the amounts estimated for claims that have been reported but not settled and estimates for claims incurred but not reported. Liabilities for unpaid claims are estimated based upon the Company's historical experience and other actuarial assumptions that consider the effects of current developments, anticipated trends and risk management programs. Revisions of these estimates are reflected in operations in the year they are made. Claim adjustment expenses are accrued and included in other liabilities.

Deposits — Deposits of the Bank, including interest and non-interest demand, savings and money-market accounts, and fixed and variable rate certificates of deposit, are carried at the amount payable on demand.

Reinsurance — In the normal course of business, the Company assumes and cedes insurance business in order to limit its maximum loss, provide greater diversification of risk, and minimize exposures on larger risks. Reinsurance premiums, expenses, recoveries and reserves related to reinsured business are accounted for on a basis consistent with that used in accounting for the original policies issued and the terms of the reinsurance contracts.

Federal Income Taxes — The provision for income taxes includes amounts currently receivable and deferred income taxes resulting from the cumulative differences in assets and liabilities determined on a tax return and financial statement basis at current tax rates.

Insurance Revenue and Expense Recognition — Health and accident premiums are recognized as income over the terms of the policies. Unearned premiums represent the pro rata portion of health premiums written which are applicable to the unexpired terms of policies in force.

Premiums for traditional life and annuity policies with life contingencies are generally recognized as income when due. Benefits and expenses, other than deferred policy acquisition costs, are recognized when incurred. Generally, receipts for universal life, deferred annuities, and other investment contracts are classified as deposits to policyholders' account balances. Policy fees from these contracts, which include mortality charges, surrender charges, and earned policy service fees, are recognized as income when due and included in life and annuity revenues. Expenses related to these products, which include interest credited to policyholders' account balances and benefit amounts in excess of account balances, are charged to expense when incurred.

Separate Accounts — The Company operates separate accounts on which investment gains or losses accrue exclusively to policyholders. Investments held in the separate accounts (primarily common collective trusts, common stocks and mutual funds) and liabilities of the separate accounts are reported separately as assets and liabilities. Investments held in separate accounts are stated at fair value. Net investment income and realized and unrealized investment gains (losses) of the separate accounts are reflected net of amounts credited to policyholders in the consolidated statements of operations. Mortality, policy administration, and surrender charges from all separate accounts are included in life and annuity revenues.

Reclassifications — Certain reclassifications have been made to the 2007 balances to conform to the 2008 presentation. Actuarially determined health benefit reserves of \$841,392,000 at December 31, 2007 have been reclassified from Unpaid Claims to Future Policy Benefits in order to conform to the current year presentation. The method of determining these amounts more closely matches those used in determining future policy benefits. The reclassification had no impact on total liabilities or other subtotals in the consolidated financial statements for the year ended December 31, 2007.

Adoption of New Accounting Pronouncements — On December 31, 2008, the Company adopted Financial Accounting Standards Board ("FASB") Staff Position ("FSP") Emerging Issues Task Force ("EITF") 99-20-1, *Amendments to the Impairment and Interest Income Measurement Guidance of EITF Issue No. 99-20* ("FSP EITF 99-20-1"), which aligns the other-than-temporary impairment guidance for beneficial interests in securitized financial assets within the scope of EITF Issue No. 99-20 with the guidance in paragraph 16 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. FSP EITF 99-20-1 retains fair value as the measurement attribute for other-than-temporary impairment but removes the market participant notion from EITF Issue No. 99-20 and

requires a probability assessment for adverse changes in cash flows to allow for consideration of the probability of losses given the current dislocated market. The adoption of FSP EITF 99-20-1 did not have a material impact on the Company's consolidated financial statements.

On January 1, 2008, the Company adopted EITF Issue No. 06-10, *Accounting for Collateral Assignment Split-Dollar Life Insurance Arrangements* ("EITF 06-10"). EITF 06-10 requires the recognition of an asset for obligations due to the Company under collateral assignment split-dollar life insurance arrangements and a liability for death benefits provided under the arrangement. The cumulative effect of adopting EITF 06-10 as of January 1, 2008 was to decrease retained earnings by \$703,000, net of taxes of \$379,000.

On January 1, 2008, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115* ("SFAS 159"), which provides reporting entities an option to report selected financial assets, including investment securities designated as available for sale, and liabilities, including most insurance contracts, at fair value. SFAS 159 establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. The standard also requires additional information to aid financial statement users' understanding of a reporting entity's choice to use fair value on its earnings and also requires entities to display on the face of the balance sheet the fair value of those assets and liabilities for which the reporting entity has chosen to measure at fair value. The cumulative effect of adopting SFAS 159 as of January 1, 2008 was to increase retained earnings by \$110,000, net of taxes of \$59,000.

On January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value and establishes a framework for measuring fair value. SFAS 157 does not require new fair value measurements. SFAS 157 clarifies a number of considerations with respect to fair value measurement objectives for financial reporting and expands disclosure about the use of fair value measurements, with particular emphasis on the inputs used to measure fair value. The disclosures required by SFAS 157 are intended to provide users of the financial statements the ability to assess the reliability of an entity's fair value measurements. On February 12, 2008, the FASB issued FASB Staff Position ("FSP") FAS 157-2, *Effective Date of Statement No. 157*, to defer the effective date of the standard for one year for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value on a nonrecurring basis. On October 10, 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset is Not Active*, to clarify the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The adoption of SFAS 157 and the related FSPs did not materially change the approach or methods utilized for determining fair value measurement and did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2008, the Company adopted SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133") Implementation Issue E-23, *Clarification of the Application of the Shortcut Method* ("Issue E-23"). Issue E-23 amended SFAS 133 by permitting interest rate swaps to have a non-zero fair value at inception when applying the shortcut method of assessing hedge effectiveness, as long as the difference between the transaction price (zero) and the fair value (exit price), as defined by SFAS 157, is solely attributable to a bid-ask spread. In addition, entities are not precluded from applying the shortcut method of assessing hedge effectiveness in a hedging relationship of interest rate risk involving an interest bearing asset or liability in situations where the hedged item is not recognized for accounting purposes until settlement date as long as the period between trade date and settlement date of the hedged item is consistent with generally established conventions in the marketplace. The adoption of Issue E-23 did not have a material impact on the Company's consolidated financial statements.

Effective January 1, 2007, the Company adopted American Institute of Certified Public Accountants (“AICPA”) Statement of Position 05-1, *Accounting by Insurance Enterprises for Deferred Acquisition Costs (“DAC”) in Connection with Modifications or Exchanges of Insurance Contracts*, (“SOP 05-1”). SOP 05-1 provides guidance on accounting by insurance enterprises for DAC on internal replacements of insurance and investment contracts. An internal replacement is a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract should be accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract must be charged to income. Modifications that result in a contract that is substantially unchanged from the replaced contract should be accounted for as a continuation of the replaced contract. The cumulative effect of adopting SOP 05-1 as of January 1, 2007 was to decrease the opening balance of retained earnings by \$9,597,000, net of taxes of \$5,168,000.

In 2007, the Company adopted FASB SFAS No. 158, *Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans — an amendment of FASB Statements No. 87, 88, 106, and SFAS No. 132(r)* (“SFAS 158”). The pronouncement revises financial reporting standards for defined benefit pension and other postretirement plans by requiring (i) recognition in the statement of financial position of the funded status measured as the difference between the fair value of plan assets and the benefit obligation, which shall be the projected benefit obligation for pension plans and the accumulated postretirement benefit obligation for other postretirement plans; (ii) recognition as an adjustment to accumulated other comprehensive income (loss), net of income taxes, of those amounts of actuarial gains and losses, prior service costs and credits, and transition obligations that have not yet been included in net periodic benefit costs as of the end of the year of adoption; (iii) recognition of subsequent changes in funded status as a component of other comprehensive income; (iv) measurement of benefit plan assets and obligations as of the date of the statement of financial position; and (v) disclosure of additional information about the effects of this statement on the employer’s statement of financial position. The adoption of SFAS 158 resulted in the following adjustments to the December 31, 2007 consolidated balance sheet: a decrease in other assets of \$128,698,000, a decrease in deferred income taxes payable of \$47,107,000, an increase in other liabilities of \$5,893,000 and a decrease in accumulated other comprehensive income of \$87,484,000. The adoption of SFAS No. 158 had no impact on the consolidated statements of operations. As the Company’s measurement date for its pension and other postretirement benefit plans is already December 31, there is no impact of changes in measurement date.

Future Adoption of New Accounting Pronouncements — In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), which supplements SFAS 109, *Accounting for Income Taxes* (“SFAS 109”), by defining the confidence level that a tax position must meet in order to be recognized in the financial statements. FIN 48 requires that the effects of a tax position be recognized only if it is “more-likely-than-not” to be sustained based solely on its technical merits as of the reporting date. The more-likely-than-not threshold represents a positive assertion by management that a company is entitled to the economic benefits of a tax position. If a tax position is not considered more-likely-than-not to be sustained based solely on its technical merits, no effects of the position are to be recognized. Moreover, the more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of the effects. The effects of the tax position are measured as the amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. At adoption, companies must adjust their financial statements to reflect only the effects of those tax positions that are more-likely-than-not to be sustained as of the adoption date. Any necessary adjustment would be recorded directly to retained earnings in the period of adoption and reported as a change in accounting principle. On February 1, 2008, the FASB issued FSP No. FIN 48-2, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which defers the

effective date of the Interpretation for certain nonpublic enterprises to annual periods beginning after December 15, 2007. In December 2008, the FASB issued FSP No. FIN 48-3, *Effective Date of FASB Interpretation No. 48 for Certain Nonpublic Enterprises*, which further defers the effective date of the Interpretation for certain nonpublic enterprises to annual periods beginning after December 15, 2008 and requires disclosure of the Company's accounting policy for evaluating uncertain tax positions. The Company has elected to adopt FSP No. FIN 48-3 and is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements. New disclosure requirements are included in Note 7 to the consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141(R), *Business Combinations* ("SFAS 141R"), which replaces SFAS No. 141, *Business Combinations* ("SFAS 141") and is broader in scope than SFAS 141. SFAS 141R requires an acquirer, defined as the entity that obtains control of one or more businesses in the business combination, to recognize the assets acquired and liabilities assumed, including contractual contingencies, and any noncontrolling interest in an acquiree at the acquisition date, at fair value as of that date. The standard also requires that any negative goodwill resulting from an acquisition be recognized in earnings as a gain attributable to the acquirer. The standard amends SFAS No. 109 by requiring that an acquirer recognize changes in the amount of its deferred tax benefits recognizable because of a business combination in income from continuing operations or directly in contributed capital. Under the standard, acquisition costs are required to be expensed. SFAS 141R is effective for business combinations for which the acquisition date is on or after the beginning of the fiscal year beginning on or after December 15, 2008. Accordingly, SFAS 141R will be applied by the Company to business combinations occurring on or after January 1, 2009.

In December 2008, the FASB issued FSP No. FAS 132(R)-1, *Employers' Disclosures About Pensions and Other Postretirement Benefits* ("FSP No. FAS 132(R)-1"), which amends SFAS No. 132(R), *Employers' Disclosures About Pensions and Other Postretirement Benefits – an Amendment of FASB Statements No. 87, 88, and 106* to require more detailed disclosures about plan assets for defined benefit pension and other postretirement plans. Disclosures include investment strategies, major categories of plan assets, concentrations of risk with plan assets, and valuation techniques used to measure the fair value of plan assets. Fair value measurement disclosures are similar to the disclosure requirements for financial assets defined in SFAS 157. FSP No. FAS 132(R)-1 is effective for financial statements issued for fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of FSP No. FAS 132(R)-1 on the disclosures in the Company's consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures About Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* ("SFAS 161"). This Statement requires (1) qualitative disclosures about objectives and strategies for using derivatives, (2) quantitative disclosures about fair value amounts of gains and losses on derivative instruments and related hedged items and (3) disclosures about credit-risk-related contingent features in derivative instruments. The disclosures are intended to provide users of financial statements with an enhanced understanding of how and why derivative instruments are used, how they are accounted for, and the impact on the financial statements. SFAS 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of SFAS 161 on the disclosures in the Company's consolidated financial statements.

2. INVESTMENTS

Available-for-Sale Securities — The amortized cost and fair value of investments in securities by type were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2008				
(In thousands)				
Fixed maturities:				
U.S. Government	\$ 142,494	\$ 11,879	\$ -	\$ 154,373
States and political subdivisions	21,779	136	(1,649)	20,266
Corporate	5,806,643	134,269	(276,334)	5,664,578
Mortgage-backed securities	5,302,692	170,388	(274,448)	5,198,632
Asset-backed securities	<u>1,113,020</u>	<u>6,397</u>	<u>(180,041)</u>	<u>939,376</u>
Total fixed maturities	<u>\$12,386,628</u>	<u>\$ 323,069</u>	<u>\$(732,472)</u>	<u>\$11,977,225</u>
Equity securities	<u>\$ 16,531</u>	<u>\$ 775</u>	<u>\$ -</u>	<u>\$ 17,306</u>
At December 31, 2007				
(In thousands)				
Fixed maturities:				
U.S. Government	\$ 211,790	\$ 5,946	\$ (13)	\$ 217,723
States and political subdivisions	19,545	869	(36)	20,378
Corporate	5,754,789	186,894	(57,972)	5,883,711
Mortgage-backed securities	4,858,499	106,106	(93,067)	4,871,538
Asset-backed securities	<u>1,364,956</u>	<u>11,888</u>	<u>(26,699)</u>	<u>1,350,145</u>
Total fixed maturities	<u>\$12,209,579</u>	<u>\$ 311,703</u>	<u>\$(177,787)</u>	<u>\$12,343,495</u>
Equity securities	<u>\$ 45,812</u>	<u>\$ 1,334</u>	<u>\$ (4)</u>	<u>\$ 47,142</u>

In 2008, the global financial markets experienced unprecedented disruption, adversely affecting the business environment in general, as well as financial services companies in particular. Public equity markets declined and credit spreads widened across asset sectors worldwide. These deteriorating market conditions continue to impact the market value of the investment portfolio, resulting in increased unrealized and realized losses.

The Company's fixed maturities portfolio is primarily comprised of investment grade securities. Based on ratings by the National Association of Insurance Commissioners ("NAIC"), investment grade securities comprised 95.4% and 96.9% of the Company's total fixed maturities portfolio at December 31, 2008 and 2007, respectively.

The amortized cost and fair value of fixed maturities at December 31, 2008, by contractual maturity, are shown below. Actual maturities may differ as a result of prepayments by the issuer. Mortgage-backed and asset-backed securities provide for periodic payments throughout their lives so they are listed in a separate category.

	Amortized Cost	Fair Value
	(In thousands)	
Due in one year or less	\$ 516,558	\$ 516,030
Due after one year through five years	1,796,962	1,766,059
Due after five years through ten years	2,118,932	2,011,544
Due after ten years	<u>1,538,464</u>	<u>1,545,584</u>
	5,970,916	5,839,217
Mortgage-backed and asset-backed securities	<u>6,415,712</u>	<u>6,138,008</u>
	<u>\$12,386,628</u>	<u>\$11,977,225</u>

An aging of gross unrealized losses on the Company's investments in fixed maturities at December 31, 2008 and 2007, was as follows:

	December 31, 2008					
	Less Than One Year		One Year or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
States and political subdivisions	\$ 11,327	\$ (1,649)	\$ -	\$ -	\$ 11,327	\$ (1,649)
Corporate	2,751,153	(173,299)	825,887	(103,035)	3,577,040	(276,334)
Mortgage-backed securities	1,021,865	(161,594)	661,654	(112,854)	1,683,519	(274,448)
Asset-backed securities	<u>520,879</u>	<u>(70,686)</u>	<u>236,726</u>	<u>(109,355)</u>	<u>757,605</u>	<u>(180,041)</u>
	<u>\$4,305,224</u>	<u>\$(407,228)</u>	<u>\$1,724,267</u>	<u>\$(325,244)</u>	<u>\$6,029,491</u>	<u>\$(732,472)</u>
	December 31, 2007					
	Less Than One Year		One Year or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(In thousands)					
U.S. Government	\$ 300	\$ (5)	\$ 25,966	\$ (8)	\$ 26,266	\$ (13)
States and political subdivisions	326	-	4,160	(36)	4,486	(36)
Corporate	1,248,827	(27,091)	990,415	(30,881)	2,239,242	(57,972)
Mortgage-backed securities	674,012	(19,620)	1,774,510	(73,447)	2,448,522	(93,067)
Asset-backed securities	<u>710,121</u>	<u>(22,909)</u>	<u>130,292</u>	<u>(3,790)</u>	<u>840,413</u>	<u>(26,699)</u>
	<u>\$2,633,586</u>	<u>\$(69,625)</u>	<u>\$2,925,343</u>	<u>\$(108,162)</u>	<u>\$5,558,929</u>	<u>\$(177,787)</u>

As described in Note 1, the Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary including, but not limited to, the Company's intent and ability to hold to recovery and the credit ratings of the issuers. Net realized investment gains (losses) for the years ended December 31, 2008 and 2007 include losses of \$122,711,000 and \$27,848,000, respectively, resulting from other-than-temporary declines in the fair value of investments and due to changes in the intent to hold impaired securities which are not included in the table above. Other-than-temporary realized losses for the years ended December 31, 2008 and 2007 included 40% and 70% corporate fixed maturities; and 50% and 7% ABS, respectively.

A discussion of the fixed maturity securities, included in the table above and accumulated other comprehensive income, for which the Company has concluded that the declines in the fair values are temporary, follows.

At December 31, 2008, there were 670 securities in an unrealized loss position for less than twelve months with a fair value of \$4,305,224,000, unrealized losses of \$407,228,000, and an average price of 90. Of these securities, 93.5% were investment grade based on NAIC ratings, with associated unrealized losses of \$385,121,000. At December 31, 2008, there were 291 securities that had indicated unrealized losses for twelve months or more. A description of the events contributing to the unrealized loss positions for the various security types and the factors considered in determining that recording an other-than-temporary impairment was not warranted are outlined below.

At December 31, 2008, the unrealized losses relating to states and political subdivisions securities were attributed to changes in interest rates. Corporate fixed maturities in an unrealized loss position for twelve months or more, 148 securities, have an indicated gross unrealized loss of \$103,035,000 at December 31, 2008; with an average credit rating of Baa1 and an average price of 90, 87.0% are investment grade. Of the 27 industries represented in the portfolio, 22% were electric utilities and 10% were business services. Sixteen of these securities had indicated unrealized losses greater than 20% of the amortized cost of each security. The total indicated gross unrealized losses in this portfolio increased from \$57,972,000 to \$276,334,000 at December 31, 2007 and 2008, respectively related to changes in credit spreads. Based on the Company's intent and ability to hold these securities until full recovery and cash flow estimates that indicate full recovery of amortized cost, the Company has concluded that these declines in the fair values of the Company's investments in corporate fixed maturities at December 31, 2008 are temporary.

The Company's mortgage-backed securities are supported by both residential and commercial mortgage loans. At December 31, 2008, there are 83 securities with an indicated unrealized loss position for twelve months or more of \$112,854,000, 44 of which have indicated gross unrealized losses that were less than 10% of the Company's amortized cost of each security. The average price and credit rating for securities with indicated unrealized losses greater than twelve months is 86 and Aaa, respectively. The indicated gross unrealized losses in this category increased from \$93,067,000 to \$274,448,000 at December 31, 2007 and 2008, respectively, due to changes in prepayment expectations caused by the current economic environment and changes in credit spreads. As of December 31, 2008, the estimated future cash flows for these securities indicated full recovery of amortized cost and as a result, based on management's intent and ability to hold these securities until recovery, the Company has concluded that these declines in the fair values of the Company's investments in mortgage-backed securities at December 31, 2008, are temporary.

The unrealized losses relating to asset-backed securities, principally supported by collateralized loan obligations and credit card receivables, are due to changes in credit spreads and prepayment expectations. At December 31, 2008, there are 60 asset-backed securities ("ABS"), with an indicated gross unrealized loss for twelve months or more totaling \$109,355,000; with an average price of 68, 57 of which are investment grade and 33 of which have an unrealized loss that was greater than 20% of the Company's amortized cost of each security. As of December 31, 2008, the Company's estimated future cash flows for these securities indicated recovery of amortized cost and as a result, based on management's intent and ability to hold these securities until full recovery, the Company has concluded that these declines in the fair values of the Company's investments in asset-backed securities at December 31, 2008, are temporary.

Within its investments in ABS in the home equity sector, the Company has an exposure to subprime and Alt-A mortgage loans, which it manages in several ways. First, the Company monitors its exposure level to ABS against its annual investment authorization level approved by the board of directors. Restrictions include exposure at the aggregate level to ABS along with exposure to ratings classes, subsectors, issuers, and specific assets. Also, the Company continually tracks securities backed by subprime mortgage loans for factors including credit performance, rating agency actions, prepayment trends and de-levering. Loans with trends that may indicate underperformance are monitored closely for any further

deterioration that may result in action by the Company. The Company's subprime and Alt-A mortgage loan exposure as of December 31, 2008 and 2007 has a cost basis of \$55,896,000 and \$128,204,000, respectively, and a fair value of \$50,217,000 and \$126,260,000, respectively. The Company believes that the decline in value is temporary due to the quality of the security and the Company's ability and intent to hold until full recovery.

Securities pledged where the secured party does not have the right to sell or repledge totaled \$32,500,000 and \$15,710,000 at December 31, 2008 and 2007, respectively, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

Mortgage Loans — Mortgage loans are collateralized principally by commercial and residential real estate throughout the United States. The minimum and maximum lending rates for mortgage loans during 2008 ranged from 2.00% to 11.25%. Mortgage loan participations purchased from one loan originator comprise 35% and 46% of the portfolio in 2008 and 2007, respectively. The properties collateralized mortgage loans are geographically dispersed throughout the United States, with the largest concentrations in California and Nebraska (approximately 17% and 18% at December 31, 2008 and 2007, respectively, for California, and 15% and 20% for Nebraska at December 31, 2008 and 2007, respectively).

Loans for the year ended December 31, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Mortgage loans:		
Commercial	\$ 2,457,491	\$ 1,669,465
One-to-four family	205,921	117,399
Construction	231,923	93,684
Land	142,574	90,718
Multi-family	43,525	20,511
Nonmortgage loans:		
Commercial	319,133	36,453
Consumer	<u>42,168</u>	<u>16,194</u>
Total loans	3,442,735	2,044,424
Less:		
Allowance for loan losses and discounts	(26,482)	(10,547)
Deferred loan fees	<u>(1,164)</u>	<u>(820)</u>
Net loans	<u>\$ 3,415,089</u>	<u>\$ 2,033,057</u>

Activity in the allowance for loan losses and discounts for the year ended December 31 was as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Balance at beginning of year	\$(10,547)	\$ -
Allowance from acquired banks	-	(10,547)
Provision charged to expense	(20,567)	-
Charge-offs	4,681	-
Recoveries	<u>(49)</u>	<u>-</u>
Balance at end of year	<u>\$(26,482)</u>	<u>\$(10,547)</u>

At December 31, 2008 and 2007, the carrying value of impaired loans was \$41,216,000 and \$10,000,000, respectively. The average investment in impaired loans was \$43,352,000 for the year ended December 31, 2008. Specific allowances of \$5,234,000 were recorded on impaired loans with a carrying amount of \$29,237,000 as of December 31, 2008. The carrying amount of impaired loans with no specific reserves totaled \$11,979,000 as of December 31, 2008. Interest income of \$1,891,000 was recognized on impaired loans for the year ended December 31, 2008. The average investment in impaired loans at December 31, 2007 and interest income recognized on impaired loans for the year ended December 31, 2007 was not significant.

The Bank had loans outstanding to directors and executive officers. Such loans are made in the ordinary course of business at comparable terms and conditions as loans made to unrelated parties. Total loans to related parties at December 31, 2008 were \$5,481,000. Loans to related parties in 2007 were not significant.

Net Investment Income — The sources of net investment income for the years ended December 31, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Fixed maturities	\$735,161	\$733,845
Mortgage loans	176,121	97,361
Real estate	(866)	-
Limited partnerships	1,113	35,120
Policy loans	11,776	11,478
Equity securities	5,667	5,744
Other invested assets	2,253	1,516
Short-term investments	<u>4,432</u>	<u>8,601</u>
	935,657	893,665
Less investment expenses	<u>(25,968)</u>	<u>(26,536)</u>
Net investment income	<u>\$909,689</u>	<u>\$867,129</u>

Net Realized Investment Gains (Losses) — Net realized investment gains (losses) for the years ended December 31, were as follows:

	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>	
Fixed maturities	\$(138,180)	\$(17,957)
Equity securities	(13,470)	(4,393)
Mortgage loans	(7,349)	(600)
Limited partnerships	24,676	40,431
Other invested assets	<u>609</u>	<u>(336)</u>
Net realized investment gains (losses)	<u>\$(133,714)</u>	<u>\$ 17,145</u>

Proceeds from the sale of available-for-sale fixed maturities (excluding call and maturity proceeds) were \$427,513,000 and \$385,246,000 during 2008 and 2007, respectively. Gains of \$10,945,000 and \$9,608,000 and losses of \$6,505,000 and \$4,991,000 were realized on sales of available-for-sale fixed maturities during 2008 and 2007, respectively. Proceeds from the sale of trading fixed maturities (excluding call and maturity proceeds) were \$2,057,000 during 2008. Gains of \$1,212,000 and losses of \$152,000 were realized on sales of trading fixed maturities during 2008.

Proceeds from the sale of trading equity securities were \$5,337,000 during 2008. Gains of \$228,000 and losses of \$3,960,000 were realized on sales of trading equity securities during 2008. Proceeds from the sale of trading equity securities were \$6,423,000 during 2007. Gains of \$985,000 and losses of \$848,000 were realized on sales of available-for-sale equity securities during 2007.

Net Unrealized Investment Gains (Losses) — Net unrealized investment gains (losses) on available-for-sale securities are included in accumulated other comprehensive income (loss), net of taxes and policyholder related amounts. Changes in these amounts for the years ended December 31, were as follows:

	<u>2008</u>	<u>2007</u>
	<u>(In thousands)</u>	
Balance — beginning of year	\$ 81,539	\$82,413
Changes in net unrealized investment gains (losses) attributed to:		
Fixed maturities	(543,319)	12,266
Equity securities	(555)	791
Limited partnerships	3,490	(11,013)
Derivatives	13,602	(2,032)
Deferred policy acquisition costs	35,481	(1,577)
Deferred federal income taxes	172,540	471
Other	<u>(1,670)</u>	<u>220</u>
	<u>(320,431)</u>	<u>(874)</u>
Balance — end of year	<u>\$(238,892)</u>	<u>\$81,539</u>

3. FAIR VALUE

In determining the fair value of financial instruments in accordance with SFAS 157, the Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available. In some cases, a single valuation technique will be appropriate (for example, when valuing an asset or liability using quoted prices in an active market for identical assets or liabilities). In other cases, multiple valuation techniques will be appropriate. The selection of the valuation method(s) considers the definition of an exit price and considers the nature of the asset or liability being valued. The degree of judgment utilized generally correlates to the level of pricing observability. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices in active markets generally have more pricing observability and less judgment utilized in measuring fair value. Conversely, financial instruments rarely traded or not quoted have less observability and are measured at fair value using valuation techniques that require more judgment. Pricing observability is generally impacted by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction, and overall market conditions. During the year ended December 31, 2008, valuation techniques consistent with those used at December 31, 2007 prior to the adoption of SFAS 157 have been applied to similar assets and liabilities.

Inputs refer broadly to the assumptions that market participants use in pricing assets or liabilities, including assumptions about risk. Inputs may be observable or unobservable. Observable inputs are inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources. Unobservable inputs are inputs that reflect assumptions about what market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. Observable inputs used to determine the fair values of investments and derivative financial instruments include prices obtained from external pricing services and vendors and indicative broker prices. Management reviews these prices to ensure they include references to a variety of observable inputs, to verify the validity of a security's price and determine if the prices represent a reasonable estimate of fair value. These inputs, along with knowledge of the financial conditions and industry in which the issuer operates, is considered in determining whether the quoted or indicated price, as well as the change in price, are valid. On selected securities where there is not an indicated price, some of these inputs may be used to determine a price using a pricing matrix, or a comparable security may be used. The parameters and inputs used to validate a price on a security may be adjusted for assumptions about risk and current market conditions, as certain features may be more significant drivers of valuation at the time of pricing. Changes to inputs in valuations are not changes to valuation methodologies; rather, the inputs are modified to reflect direct or indirect impacts on asset classes from changes in market conditions.

The valuation process may include adjustments to valuations obtained from pricing sources. These adjustments may be made when certain features of the financial instrument, such as its complexity or the market in which the financial instrument is traded, require that an adjustment be made to the value originally obtained from pricing sources. Additionally, an adjustment to the price derived from a model typically reflects judgment that other market participants would use for the same financial instrument.

Certain investments do not have readily determinable market prices and/or observable inputs. For these securities, internally prepared valuations combining matrix pricing with vendor purchased software programs are used, including valuations based on estimates of future profitability, to estimate the fair value. Additionally, the Company may obtain prices from independent third-party brokers to aid in establishing valuations for certain of these securities. Key assumptions used to determine fair value for these securities include risk-free interest rates, risk premiums, performance of underlying collateral (if any), and other factors involving significant assumptions which may or may not reflect those of an active market.

Financial assets and liabilities have been categorized into a three-level hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are as follows:

Level 1 — Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 — Fair value is based on significant inputs that are observable for the asset or liability, either directly or indirectly, through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities and other market observable inputs. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities and validated or determined through use of valuation methodologies using observable market inputs.

Level 3 — Fair value is based on significant unobservable inputs for the asset or liability. These inputs reflect assumptions about what market participants would use in pricing the asset or liability. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques.

Recurring Fair Value Measurements — The categorization of fair value measurements determined on a recurring basis, by input level, for fixed maturity securities, equity securities, derivative financial instruments, short-term investments, and company-owned life insurance at December 31, 2008 are as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities			
	(Level 1)	(Level 2)	(Level 3)	Total
	(In thousands)			
Fixed maturities — available-for-sale	\$ -	\$ 11,538,447	\$ 438,778	\$ 11,977,225
Fixed maturities — trading	-	90,461	1,426	91,887
Equity securities — available-for-sale	-	-	17,306	17,306
Equity securities — trading	-	22,782	702	23,484
Derivative assets	-	22,873	-	22,873
Short-term investments	653,609	-	14,707	668,316
Cash equivalents	24,981	-	-	24,981
Company-owned life insurance	38,084	-	-	38,084
Derivative liabilities	-	(13,764)	-	(13,764)
Separate accounts	604,044	553,440	-	1,157,484
Total	<u>\$1,320,718</u>	<u>\$12,214,239</u>	<u>\$ 472,919</u>	<u>\$14,007,876</u>

The carrying amounts and estimated fair values of the Company's financial instruments at December 31, 2008 and 2007, respectively, were as follows:

	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In thousands)		(In thousands)	
Financial assets:				
Fixed maturities	\$ 12,069,112	\$ 12,069,112	\$ 12,343,495	\$ 12,343,495
Equity securities	81,696	81,696	72,688	72,688
Mortgage loans	3,415,089	3,310,161	2,033,057	2,087,357
Other invested assets	6,753	6,753	3,951	3,951
Policy loans	184,485	184,485	176,126	176,126
Short-term investments	668,316	668,316	106,865	106,865
Company-owned life insurance	38,084	38,084	-	-
Cash and cash equivalents	88,507	88,507	80,220	80,220
Derivatives	22,873	22,873	40	40
Financial liabilities:				
Policyholder account balances	5,657,948	5,226,887	5,658,547	5,291,779
Deposits	2,842,551	2,855,496	518,666	519,052
Borrowings	569,524	471,891	583,873	610,383
Trust preferred securities	-	-	4,093	4,078
Derivatives	13,764	13,764	7,654	7,654

The bases for the carrying amount and fair values of fixed maturities, equity securities, other invested assets, short-term investments, separate accounts, cash and cash equivalents and derivatives are discussed above and in Note 1. The fair values for mortgage loans are estimated by discounting expected future cash flows using current interest rates for similar loans with similar credit risk. Management has determined that it is not practicable to estimate the fair value of policy loans because policy loans are often repaid by reducing policy benefits and due to their variable maturity dates. The fair value of COLI is deemed to be the same as its carrying value as it represents the cash value of the policies. The fair value of policyholder account balances is estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers. The fair value of interest and non-interest demand, savings and money-market accounts and variable-rate certificates of deposit are deemed to be the same as their carrying value. The fair value for fixed-rate certificates of deposit are estimated by discounting expected future cash flows applying interest rates currently being offered. The fair value of borrowings, with the exception of the surplus note and long-term FHLB borrowings, is deemed to be the same as its carrying value. The fair value of the surplus note and long-term FHLB borrowings are estimated by discounting expected future cash flows using current interest rates for debt with comparable terms.

Considerable judgment is required to interpret market data and to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the period are as follows:

	<u>Fixed Maturities</u>	<u>Equity Securities</u>	<u>Short-Term Investments</u>
	(In thousands)		
Balance — January 1, 2008	\$ 872,571	\$17,332	\$13,529
Total gains (losses):			
Included in net realized investment gains (losses)	(63,761)	(294)	-
Included in other comprehensive income	(85,623)	-	-
Net purchases, sales and repayments	(143,967)	970	1,178
Net transfer in (out) of Level 3	<u>(139,016)</u>	<u>-</u>	<u>-</u>
Balance — December 31, 2008	<u>\$ 440,204</u>	<u>\$18,008</u>	<u>\$14,707</u>

The total change in unrealized investment gains (losses) presented in the preceding table represents unrealized gains (losses) only for the current year during which the applicable financial instruments were classified as Level 3. The total unrealized gains (losses) as of December 31, 2008 for the Level 3 assets were (\$128,560,000).

As discussed in Note 1, in 2008 the Company elected the fair value option under SFAS No. 159 for a bond hedged with an interest rate swap, certain available-for-sale equity securities managed by a third party, and a preferred stock portfolio managed by a third party to reduce income statement volatility and simplify hedge accounting. At December 31, 2008, these securities are classified as trading, Level 2 investments. The following table illustrates the changes in fair value for the year ended December 31, 2008 for those financial assets measured at fair value pursuant to election of the fair value option under SFAS No. 159:

Description	January 1 2008 Fair Value After Adoption	Net Investment Income (Loss)	Net Realized Investment Gain (Losses)	Fair Value at December 31 2008
	(In thousands)			
Fixed maturities	\$107,683	\$ (268)	\$(36,049)	\$ 91,887
Equity securities	<u>24,269</u>	<u>-</u>	<u>(6,907)</u>	<u>23,484</u>
Total	<u>\$131,952</u>	<u>\$ (268)</u>	<u>\$(42,956)</u>	<u>\$115,371</u>

Depending on the nature of the financial instrument for which the fair value option was elected, changes in fair value resulted in losses of \$268,000 recorded in net investment income and losses of \$33,955,000 recorded in net realized investment gains (losses) on investments held in 2008.

4. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill reported by the Company at December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Balance — beginning of year	\$ 67,847	\$ -
Goodwill from acquisitions	<u>112,137</u>	<u>67,847</u>
Balance — end of year	<u>\$179,984</u>	<u>\$ 67,847</u>

Amortized intangible assets at December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Gross carrying amount	\$44,058	\$ 11,191
Accumulated amortization	<u>3,319</u>	<u>-</u>
Net carrying amount	<u>\$40,739</u>	<u>\$ 11,191</u>

Amortization expense for the year ended December 31, 2008 was \$3,319,000. No amortization expense was recorded in 2007. At December 31, 2008, the estimated amortization expense for the next eight years is as follows: 2009, \$7,148,000; 2010, \$6,479,000; 2011, \$5,874,000; 2012-2015, \$4,812,000; 2016, \$1,990,000.

5. DEFERRED POLICY ACQUISITION COSTS

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2008 and 2007, respectively, were as follows:

	2008	2007
	(In thousands)	
Balance — beginning of year	\$1,558,624	\$1,490,214
Cumulative effect of adoption of SOP 05-1	<u>-</u>	<u>(14,765)</u>
	1,558,624	1,475,449
Acquisition costs deferred	417,048	369,652
Amortization	(305,452)	(284,900)
Adjustment for net unrealized investment (gains) losses	<u>35,481</u>	<u>(1,577)</u>
Balance — end of year	<u>\$1,705,701</u>	<u>\$1,558,624</u>

6. POLICY RESERVES

Future Policy Benefits — Reserves for future policy benefits at December 31, 2008 and 2007, respectively, were as follows:

	2008	2007
	(In thousands)	
Life insurance	\$2,235,710	\$2,159,738
Health insurance	901,593	841,392
Annuities in payout status	<u>2,233,142</u>	<u>2,131,277</u>
Total future policy benefits	<u>\$5,370,445</u>	<u>\$5,132,407</u>

Policyholder Account Balances — Policyholder account balances at December 31, 2008 and 2007, respectively, were as follows:

	2008	2007
	(In thousands)	
Individual deferred annuities	\$2,058,116	\$2,325,976
Group benefit contracts	1,741,760	1,514,623
Individual interest-sensitive and universal life contracts	1,760,805	1,726,086
Other	<u>97,267</u>	<u>91,862</u>
Total policyholder account balances	<u>\$5,657,948</u>	<u>\$5,658,547</u>

Liability for Unpaid Claims — A reconciliation of the liability for unpaid claims for health benefits is as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Liability for unpaid claims — beginning of year	\$1,192,993	\$1,213,547
Less nonhealth unpaid claim liabilities	156,313	155,078
Less reinsurance	<u>52,241</u>	<u>50,279</u>
Net unpaid health claims balance — beginning of year	<u>984,439</u>	<u>1,008,190</u>
Incurred related to:		
Current year	1,367,395	1,555,053
Prior years	<u>(80,491)</u>	<u>(82,492)</u>
Total incurred	<u>1,286,904</u>	<u>1,472,561</u>
Paid related to:		
Current year	933,687	959,243
Prior years	<u>313,590</u>	<u>537,069</u>
Total paid	<u>1,247,277</u>	<u>1,496,312</u>
Net unpaid health claims balance — end of year	1,024,066	984,439
Plus reinsurance	51,870	52,241
Plus nonhealth unpaid claim liabilities	<u>140,421</u>	<u>156,313</u>
Liability for unpaid claims — end of year	<u>\$1,216,357</u>	<u>\$1,192,993</u>

The incurred prior year development for health benefits was favorable for 2008 and 2007 as actual payments were less than anticipated.

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is continually reviewed and revised to reflect current conditions and claim trends and any resulting adjustments are reflected in operating results in the year they are made.

7. FEDERAL INCOME TAXES

The components of income tax expense for the years ended December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Current tax expense	\$18,653	\$ 64,953
Deferred tax expense	<u>26,315</u>	<u>50,763</u>
Income taxes	<u>\$44,968</u>	<u>\$115,716</u>

Reconciliations between income taxes based on the federal tax rate and the effective tax rate for the years ended December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Income before income taxes	\$92,016	\$332,743
Federal income tax rate	<u>35 %</u>	<u>35 %</u>
Income taxes at the federal rate	32,206	116,460
Income tax effect of:		
Valuation allowance	10,184	1,808
Nondeductible losses	4,171	-
Exempt income and nondeductible expenses — net	(571)	(943)
Income tax credits	(258)	(844)
Other — net	<u>(764)</u>	<u>(765)</u>
Income taxes at effective rate	<u>\$44,968</u>	<u>\$115,716</u>

At December 31, 2008 and 2007, the Company maintained valuation allowances of \$11,992,000 and \$1,808,000, respectively, against deferred tax assets related to certain affiliate tax losses that could not be used on a separate company basis, or offset against other affiliates losses. The Company's tax returns have been examined by the Internal Revenue Service through 2002 and all outstanding issues have been resolved. There were no capital loss carryforwards at December 31, 2008 and 2007. During 2007, the Company utilized capital loss carryforwards of \$22,903,000.

The Company accounts for uncertainties affecting income tax accounting in accordance with SFAS No. 5, *Accounting for Contingencies* ("SFAS No. 5"). SFAS No. 5 requires accruing an estimated loss from a loss contingency if (a) information available prior to issuance of the financial statements indicates that it is probable that an asset had been impaired, or a liability incurred, at the date of the financial statements and (b) the amount of the loss can be reasonably estimated. Even if one or both of these criteria are not met, SFAS No. 5 also requires disclosing a contingency when there is at least a reasonable possibility that a loss or an additional loss may have been incurred. For the years 2008 and 2007, no contingent tax liabilities were reported or disclosed in the Company's consolidated financial statements.

Significant components of deferred income taxes (receivable) payable, at December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Policy reserves	\$145,572	\$169,052
Expenses deductible in subsequent periods	155,927	93,660
Net unrealized investment losses	128,710	-
Investment related items	58,847	12,718
Net operating loss carryovers	<u>4,110</u>	<u>1,808</u>
Deferred tax assets	<u>493,166</u>	<u>277,238</u>
Deferred policy acquisition costs	430,576	395,531
Net unrealized investment gains	-	43,830
Depreciation and amortization	46,826	43,607
Valuation allowance	<u>11,992</u>	<u>1,808</u>
Deferred tax liabilities	<u>489,394</u>	<u>484,776</u>
Deferred income taxes (receivable) payable	<u>\$ (3,772)</u>	<u>\$207,538</u>

8. EMPLOYEE BENEFIT PLANS

The Company is both the sponsor and administrator of a noncontributory defined benefit plan covering all United States employees meeting certain minimum requirements. Retirement benefits are based upon years of credited service and final average earnings history. The Company also provides certain postretirement medical and life insurance benefits to employees hired before January 1, 1995. Benefits are based upon hire date, age, and years of service.

The changes in projected benefit obligation and plan assets at December 31, 2008 and 2007, respectively, the measurement date, were as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	\$ 794,144	\$810,347	\$ 143,995	\$ 120,334
Service cost	10,502	12,471	273	1,960
Interest cost	49,990	47,327	6,595	8,821
Actuarial (gain) loss	50,732	(38,664)	(30,504)	22,083
Benefits paid	<u>(34,817)</u>	<u>(37,337)</u>	<u>(8,081)</u>	<u>(9,203)</u>
Projected benefit obligation — end of year	<u>870,551</u>	<u>794,144</u>	<u>112,278</u>	<u>143,995</u>
Change in plan assets:				
Fair value of plan assets — beginning of year	823,004	802,475	45,931	43,163
Actual return on plan assets	(98,807)	57,866	(500)	1,944
Employer contribution	-	-	-	824
Benefits paid	<u>(34,817)</u>	<u>(37,337)</u>	<u>(2,765)</u>	<u>-</u>
Fair value of plan assets — end of year	<u>689,380</u>	<u>823,004</u>	<u>42,666</u>	<u>45,931</u>
Overfunded (underfunded)	<u><u>\$(181,171)</u></u>	<u><u>\$ 28,860</u></u>	<u><u>\$(69,612)</u></u>	<u><u>\$ (98,064)</u></u>
Accumulated benefit obligation— end of year	<u><u>\$ 835,890</u></u>	<u><u>\$767,904</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>

The amounts reflected in accumulated other comprehensive income for the plans at December 31, 2008 and 2007, respectively, were as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Unamortized prior service costs	\$ (44,396)	\$ (53,376)	\$ (7,458)	\$ (8,766)
Unrecognized net actuarial (gain) loss	<u>385,031</u>	<u>182,074</u>	<u>(13,283)</u>	<u>14,659</u>
Total unrecognized benefit costs	340,635	128,698	(20,741)	5,893
Deferred income tax asset	<u>(119,222)</u>	<u>(45,044)</u>	<u>7,259</u>	<u>(2,063)</u>
Total	<u><u>\$ 221,413</u></u>	<u><u>\$ 83,654</u></u>	<u><u>\$ (13,482)</u></u>	<u><u>\$ 3,830</u></u>

At December 31, 2008, the estimated net actuarial loss and prior service costs for the defined benefit pension plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$29,798,000 and (\$8,980,000), respectively. At December 31, 2008, the prior service costs for the defined postretirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is (\$1,308,000).

At December 31, 2008, underfunded pension benefits of \$181,171,000 and underfunded other benefits of \$69,612,000 were included in other liabilities. At December 31, 2007, overfunded pension benefits of \$28,860,000 were included in other assets and underfunded other benefits of \$98,064,000 were included in other liabilities.

Asset allocations for the Company's pension plan at December 31, 2008 and 2007, respectively, by asset category were:

	2008	2007
Fixed income securities	57 %	49 %
Equity securities	26	37
Real estate	10	8
Other	7	6

The investment objective of the defined benefit plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions, will be adequate to provide for the payment of the plan's benefit obligations. The assets of the defined benefit plan may be invested in both fixed income and equity investments. Fixed income investments may include group annuity contracts, cash and short-term instruments, corporate bonds, mortgages and other fixed income investments. Equity investments may include large cap, mid cap and small cap stocks, and venture capital.

Plan assets for the defined benefit plan include United group annuity contracts of \$517,631,000 and \$610,160,000 at December 31, 2008 and 2007, respectively. The Company funds only those other postretirement benefits applicable to participants who retired prior to January 1, 1988. Plan assets for the postretirement benefits plan are invested in United group annuity contracts. In 2009, the Company expects to contribute \$16,500,000 to the defined benefit plan under the plan's funding policy. Additional voluntary contributions may be made pursuant to the maximum funding limits under ERISA. The Company does not expect to make contributions to the other postretirement plan in 2009.

The Company's Retirement Plans Committee periodically reviews the performance of the defined benefit plan's investments and asset allocation. The current allocation strategy is to move the portfolio to 50% fixed income and 50% equities and other. The Company, subject to general guidelines set by the Retirement Plans Committee, makes all investment decisions.

The Company determines its expected long-term rate of return based primarily on the Company's expectations of future returns for the defined benefit plan's investments, based on target allocations of the defined benefit plan's investments. Additionally, the Company considers historical returns on comparable fixed income investments and equity investments and adjusts its estimate as deemed appropriate.

Actuarial assumptions related to the plans at December 31, 2008 and 2007, respectively, are set forth in the following table:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Discount rate	6.00 %	6.30 %	6.00 %	6.30 %
Rate of increase in compensation levels	3.50%–5.00%	3.50%–5.00%	N/A	N/A
Expected long-term rate of return on plan assets	7.75 %	8.00 %	6.75 %	6.75 %

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 2008 were 9.50% for under age 65 and 6.90% for over age 65, gradually declining to 4.40% for both age groups in 2093 and remaining at that level thereafter. The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 2007 was 7.53% for under age 65 and 9.31% for over age 65, gradually declining to 4.36% and 5.25%, respectively, in 2018 and remaining at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate by one percentage point in each year would increase the Company's accumulated postretirement benefit obligation at December 31, 2008, by approximately \$8,995,000 and the net periodic postretirement benefit costs for 2008 by approximately \$568,000. Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the Company's accumulated postretirement benefit obligation at December 31, 2008, by approximately \$7,840,000 and the net periodic postretirement benefit costs for 2008 by approximately \$491,000.

The Company's net periodic benefit costs for the years ended December 31, 2008 and 2007, respectively, include the following components:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
	(In thousands)		(In thousands)	
Service cost	\$ 10,502	\$ 12,471	\$ 273	\$ 1,960
Interest cost	49,990	47,327	6,595	8,821
Amortization of loss	9,412	15,139	-	-
Amortization of prior service cost	(8,980)	(8,980)	(1,308)	(1,308)
Expected return on plan assets	<u>(62,831)</u>	<u>(62,841)</u>	<u>(3,100)</u>	<u>(2,914)</u>
Net periodic benefit costs (income)	<u>\$ (1,907)</u>	<u>\$ 3,116</u>	<u>\$ 2,460</u>	<u>\$ 6,559</u>

The following benefits are expected to be paid (in thousands):

	2009	2010	2011	2012	2013	2014–2018
Pension benefits	<u>\$36,572</u>	<u>\$37,816</u>	<u>\$39,291</u>	<u>\$41,398</u>	<u>\$43,327</u>	<u>\$ 258,255</u>
Other postretirement benefits	<u>\$ 8,785</u>	<u>\$ 9,055</u>	<u>\$ 9,262</u>	<u>\$ 9,350</u>	<u>\$ 9,357</u>	<u>\$ 45,608</u>

The Company sponsors savings and investment plans under which the Company matches a portion of employee contributions. The expense for the plans was \$9,700,000 and \$9,300,000 in 2008 and 2007, respectively. The Company also provides excess pension benefits and deferred compensation benefits for certain key executive officers. At December 31, 2008 and 2007, the liability for deferred compensation benefits included in other liabilities was \$48,400,000 and \$44,000,000, respectively.

9. BORROWINGS

Mutual and United have entered into certain unsecured line of credit agreements, which allow for maximum borrowings of \$300,000,000. During 2008, the Company had \$17,354,000 of average daily outstanding borrowings against its lines of credit at a weighted-average interest rate of 2.60%. There were no outstanding borrowings at December 31, 2008. At December 31, 2007, the Company had outstanding borrowings of \$100,000,000. Interest rates applicable to borrowings under these lines of credit are established with the lenders at the time of borrowing and were 4.40% at December 31, 2007. In addition, Mutual and United have entered into agreements to sell and repurchase securities up to a maximum of \$350,000,000. Under these agreements, the Company obtains the use of funds for a period

not to exceed 30 days. There were no outstanding reverse repurchase agreements at December 31, 2008 and 2007.

Under an agreement with the Federal Home Loan Bank of Topeka (FHLB), United pledges assets in the form of fixed-maturity securities in return for extensions of credit. At December 31, 2008, FHLB advances of \$146,000,000 are due as follows: \$26,000,000 due 2010 with interest due monthly at a fixed interest rate of 2.5% and \$120,000,000 due 2023 at a fixed interest rate of 5.0%. FHLB has the option of converting the interest rate to an adjustable rate based on the FHLB one-month short-term advance rate as determined by FHLB beginning March 2010 and quarterly thereafter. These borrowings were made to fund the real estate development project of ECR. All fixed rate advances are subject to a prepayment penalty. United has entered into funding agreement contracts with FHLB. The liability for these funding agreements at December 31, 2008 and 2007 was \$500,000,000 and \$80,000,000, respectively, and is included in policyholder account balances. At December 31, 2008 and 2007, the Company had mortgage-backed securities with fair values of \$982,783,000 and \$431,318,000, respectively, pledged as collateral.

In 2007, the Bank entered into an agreement with the FHLB. At December 31, 2008 and 2007, FHLB advances of \$52,310,000 and \$27,910,000, respectively, were outstanding. Advances at December 31, 2008 were due in varying amounts through 2017 with interest due monthly at fixed rates ranging from 2.98% to 5.55%. Of the total amount of advances, \$15,000,000 is convertible to variable rates at the quarterly option of the FHLB at various dates beginning in March 2009. The advances are then prepayable in part or full on the date the FHLB exercises its option and on every rate adjustment date thereafter. All fixed rate FHLB advances are subject to a prepayment penalty. At December 31, 2008, aggregate maturities are as follows:

	Amount Due (In thousands)
2009	\$ 8,099
2010	11,108
2011	6,612
2012	3,617
2013	3,121
2014 and thereafter	<u>19,753</u>
	<u>\$52,310</u>

The Bank also has a line of credit agreement with the FHLB to meet short-term borrowing needs. At December 31, 2008 and 2007, the Bank had \$45,000,000 and \$6,500,000, respectively, advanced on the line of credit, which had a variable interest rate of 0.65% and 4.67%, respectively. The line of credit matures annually on May 22. The FHLB advances and line of credit are subject to an agreement whereby the Bank is required to maintain a certain level of “eligible collateral,” as defined by the agreement and substantially all the assets of the Bank are pledged as collateral.

In 2008, tax increment financing (TIF) notes of \$37,400,000 were issued by the City of Omaha, Nebraska at an interest rate of 5.125% related to the ECR real estate development project. The Company may elect to sell these notes to other parties and use the proceeds to reduce construction loan borrowings.

The Company has securities lending agreements whereby unrelated parties, primarily large brokerage firms, borrow securities from the Company. Borrowers of the securities must provide collateral in the form of cash or securities equal to 102% of the fair value plus accrued interest on the securities loaned.

The Company continues to retain control over and receive the interest on loaned securities, and accordingly, the loaned securities continue to be reported as fixed maturities. The amount of collateral received in cash is invested in short-term securities, and is included in short-term investments with a corresponding liability for funds held for securities on loan included in borrowings. The Company was liable for cash collateral under its control of \$28,692,000 and \$52,062,000 at December 31, 2008 and 2007, respectively. Of this \$28,692,000 and \$52,062,000 of cash collateral at December 31, 2008 and 2007, respectively, 100% was on open terms, meaning that the related loaned security could be returned to the Company on the next business day requiring return of cash collateral. The cash collateral cannot be accessed by the Company unless the borrower fails to deliver the loaned securities. The collateral received is not defined as a cash activity in the statement of cash flows but is disclosed as a non-cash transaction. Accordingly, in the statement of cash flows, the Company reported the collateral investing and financing activity as non-cash. The following is the impact to the 2007 column of the consolidated Statement of Cash Flows:

	As Reported December 31 2007 (Audited)	Adjustment	Revised December 31 2007 in 2008
	(In thousands)		
Net change in short-term investments	\$ 178,895	\$(185,204)	\$ (6,309)
Cash flows from (used for) investing activities	(14,899)	(185,204)	(200,103)
Net change in short-term borrowings	(230,334)	185,204	(45,130)
Cash flows used for short-term borrowings	(660,946)	185,204	(475,742)

On June 15, 2006, the Company issued a 6.80%, \$300,000,000 surplus note due June 15, 2036 at a discount of \$3,630,000 with interest due semiannually. At December 31, 2008 and 2007, the surplus note outstanding was \$297,522,000 and \$297,401,000, respectively. Unamortized issuance costs of \$3,048,000 and \$3,159,000 are included in other assets at December 31, 2008 and 2007, respectively. The Company made interest payments of \$20,400,000 in 2008 and 2007. Payments of principal and interest require the approval of the Nebraska Insurance Department.

10. COMMITMENTS AND CONTINGENCIES

The Company leases office space and office equipment under a variety of operating lease arrangements. Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year at December 31, 2008 were as follows: 2009, \$18,187,000; 2010, \$15,346,000; 2011, \$12,390,000; 2012, \$9,762,000; 2013 and thereafter, \$19,660,000. Rent expense for the years ended December 31, 2008 and 2007, was \$26,371,000 and \$21,665,000, respectively.

Deposits of the Bank include demand deposits, savings deposits, and time deposits. Demand and savings deposits at December 31, 2008 and 2007 are \$1,331,536,000 and \$234,625,000, respectively. Total time deposits at December 31, 2008, are \$1,509,441,000 with maturities as follows: 2009, \$1,370,279,000; 2010, \$90,973,000; 2011, \$30,578,000; 2012, \$12,361,000; 2013 and thereafter, \$5,250,000. The aggregate amount of time deposits in denominations of \$100,000 or more at December 31, 2008 and 2007 were \$707,782,000 and \$99,029,000, respectively.

Various lawsuits have arisen in the ordinary course of the Company's business. The Company believes that its defenses in these various lawsuits are meritorious and the eventual outcome will not have a material effect on the Company's consolidated financial statements.

The Company has unfunded investment commitments for fixed maturities, mortgage loans and limited partnerships of \$454,943,000 and \$355,738,000 at December 31, 2008 and 2007, respectively. The Company does not have any significant financial guarantee commitments.

In 2008, ECR entered into a guaranteed maximum price (GMP) construction contract that covers its development project for a GMP of approximately \$196,600,000. If actual construction costs are less than the GMP, ECR and the contractor will share the savings based on terms in the contract. The contract provides various remedies to the contractor should ECR suspend or delay work under the contract or default on payment to the contractor. Neither ECR nor the contractor was in default as of December 31, 2008. The development project is expected to be substantially complete by 2010.

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to fund mortgage loans, extend credit, and advance funds on equity lines. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. At December 31, 2008, commitments on financial instruments consist of loan commitments of \$472,483,000, unused lines of credit of \$87,752,000, and letters of credit of \$12,304,000. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet instruments. To reduce credit risk related to the use of credit related financial instruments, the Bank might deem it necessary to obtain collateral. Collateral held varies but may include cash, securities, and real estate.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if deemed necessary by the Bank, is based on management's credit evaluation of the customer. The Bank uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet obligations.

At December 31, 2008 and 2007, the Bank had \$15,932,000 and \$10,245,000, respectively, of outstanding commitments to sell loans.

11. REINSURANCE

The ceding of insurance business does not discharge an insurer from its primary legal liability to a policyowner. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. The amounts in the accompanying consolidated statements of operations are presented net of reinsurance assumed and ceded. The reconciliations of total premiums to net premiums for the years ended December 31, 2008 and 2007, respectively, were as follows:

	<u>2008</u>	<u>2007</u>
	(In thousands)	
Direct premiums	\$3,167,899	\$3,176,221
Reinsurance assumed	177,521	156,427
Reinsurance ceded	<u>(114,516)</u>	<u>(137,773)</u>
Net premiums earned	<u>\$3,230,904</u>	<u>\$3,194,875</u>

Health and accident, life and annuity benefits in the accompanying consolidated statements of operations are presented net of reinsurance recoveries of \$49,797,000 and \$111,466,000 for the years ended December 31, 2008 and 2007, respectively.

12. STATUTORY SURPLUS AND NET INCOME

The Company's combined net income (loss) as determined in accordance with statutory accounting principles was (\$56,022,000) and \$139,619,000 for 2008 and 2007, respectively. The Company's statutory surplus was \$2,098,578,000 and \$2,217,383,000 at December 31, 2008 and 2007, respectively.

13. REGULATORY MATTERS

At December 31, 2008, securities with an amortized cost of \$19,059,000 were on deposit with government agencies as required by law in various jurisdictions in which the Company conducts business.

As a condition of doing business, all states and jurisdictions have adopted laws requiring membership in life and health insurance guaranty funds. Member companies are subject to assessments each year based on life, health, or annuity premiums collected in the state. The Company estimates its costs related to past insolvencies and at December 31, 2008 and 2007 included \$5,125,000 and \$3,036,000, respectively, in other liabilities. Estimated premium tax credits related to amounts paid to guaranty funds of \$4,261,000 and \$2,245,000 at December 31, 2008 and 2007, respectively, are included in other assets.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. At December 31, 2008, the Bank meets all capital adequacy requirements to which it is subject.

14. ACQUISITIONS AND DISPOSITIONS

Acquisitions — In an effort to enable the Company to further leverage its brand equity and take advantage of customer synergies in high-density markets, management has executed a strategic initiative to enter the banking industry. In 2007, OFHI, a holding company subsidiary of Mutual established to accommodate the Company's banking venture, paid cash of \$130,569,000 for the acquisition of 100% of the stock of three banks. These acquisitions closed between October 24, 2007 and November 2, 2007 and appropriate regulatory approvals were received from the Office of Thrift Supervision. Subsequent to the acquisition, these banks were collectively renamed Mutual Omaha Bank (the "Bank"). The financial position and results of operations for the Bank are included in the consolidated financial statements beginning on the acquisition dates.

On July 25, 2008, the Bank assumed deposits of \$2,976,632,000 and acquired loans of \$77,458,000 from the Federal Deposit Insurance Corporation (FDIC), acting in its capacity as receiver for First National Bank of Nevada. The Bank received cash of \$2,632,723,000 from the FDIC as part of this transaction. The financial position and results of operations for these banks are included in the consolidated financial statements beginning July 25, 2008. Under the terms of an agreement with the FDIC, the Bank provides staffing resources and processes loan and other transactions for accounts not acquired. The Bank remits loan payments collected and other transaction amounts processed net of amounts due the Bank for staffing resources to the FDIC on a monthly basis. At December 31, 2008, \$77,078,000 was included in other liabilities related to this agreement. The unpaid principal balance of loans serviced by the Bank for the FDIC at December 31, 2008 was \$2,600,700,000.

In accordance with FASB SFAS No. 141, *Business Combinations*, and SFAS No. 142, *Goodwill and Other Intangible Assets*, both acquisitions were accounted for using the purchase method of accounting, which requires that the assets and liabilities of the acquired banks be identified and measured at their fair value as of the acquisition date. The purchase price has been allocated to the assets acquired and liabilities assumed using management's best estimate of their fair values as of the acquisition date. The allocation of the purchase price to the net assets acquired based upon their respective fair values as of the acquisition dates, and the resulting goodwill, are presented below. The entire amount of goodwill of \$176,776,000 is deductible for tax purposes. Core deposit intangible assets of \$39,282,000 is being amortized on a straight-line basis over a weighted average life of approximately eight years.

The condensed statement of net assets acquired reflects the fair value of the Bank's net assets as follows:

	At Acquisition	
	2008	2007
	(In thousands)	
Assets:		
Investments	\$ 35,687	\$ 57,925
Loans — net	<u>77,458</u>	<u>497,177</u>
 Total investments	 113,145	 555,102
Cash and cash equivalents	2,759,299	13,825
Goodwill and intangible assets	136,956	79,038
Other assets	<u>6,325</u>	<u>22,375</u>
 Total assets acquired	 <u>3,015,725</u>	 <u>670,340</u>
Liabilities:		
Deposits	2,978,994	498,824
Federal Home Loan Bank borrowings	-	32,419
Other liabilities	<u>36,731</u>	<u>8,528</u>
 Total liabilities assumed	 <u>3,015,725</u>	 <u>539,771</u>
 Net assets acquired	 <u>\$ -</u>	 <u>\$ 130,569</u>

On February 29, 2008, Mutual paid cash of \$3,750,000 for the acquisition of 100% of the stock of an independent wholesaler specializing in marketing retirement products to allow the Company to expand its retirement services product line. The acquisition was accounted for using the purchase method of accounting. Of the purchase price, \$3,728,000 was allocated to goodwill and intangible assets, and the remaining \$22,000 was allocated to other assets. The \$3,208,000 of goodwill is deductible for tax purposes. Intangible assets of \$520,000 are being amortized on a straight-line basis over two years.

On December 31, 2008, Continuum Worldwide Corporation ("Continuum"), a wholly owned subsidiary of Mutual, acquired 100% of the stock of a provider of operational risk management services for a purchase price of \$4,675,000 in order to expand its information technology security services. The acquisition was accounted for using the purchase method of accounting. Of the purchase price, \$4,316,000 was allocated to intangible assets and the remaining \$359,000 was allocated to other assets. Intangible assets of \$4,316,000 are being amortized on a straight-line basis over three years.

Disposition — On July 1, 2007, the Company signed assumptive and coinsurance reinsurance agreements and a purchase agreement with Coventry Healthcare, Inc. (“Coventry”) related to its Group health business. The transaction included Exclusive Healthcare, Inc. (a wholly owned subsidiary) as part of the Company’s exit from this product line. Under the terms of the assumptive reinsurance agreement, the Federal Employees Health Benefits business and groups in Nebraska and Iowa were given the option of continuing their group insurance contract with Coventry. Amounts related to groups who did not continue are reinsured to Coventry under the terms of the coinsurance agreement until the contract is non-renewed at the next anniversary date. Under the terms of a transition services agreement the Company and Coventry will continue to provide services related to this business that will aid in the transition for both parties. As a result, the Company will have continuing involvement in the group health business through the end of 2008.

The Company received approximately \$110,000,000 in proceeds (principally for renewal rights) and realized a net gain of \$67,900,000 for the year ended December 31, 2007, including approximately \$89,000,000 in other revenue and \$19,000,000 in general insurance expenses. Assets sold and liabilities transferred as a result of the transaction were \$39,013,000 and \$1,910,000, respectively. The Company has no contingencies associated with the transaction.

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