

***Mutual of Omaha Insurance
Company and Subsidiaries***

*Consolidated Financial Statements
as of December 31, 2006 and 2005
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, 2006 and 2005, 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 companies as of December 31, 2006 and 2005, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 8, 2007

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2006 AND 2005

(in thousands)

	2006	2005
ASSETS		
Investments:		
Fixed maturities, available-for-sale, at fair value	\$ 12,641,009	\$ 12,644,271
Equity securities, available-for-sale, at fair value	15,202	5,723
Equity securities, at cost	11,193	7,563
Mortgage loans, net of valuation allowance	1,161,599	998,724
Limited partnerships	311,027	263,988
Other invested assets	302	52,320
Policy loans	170,731	167,019
Short-term investments	<u>268,560</u>	<u>203,344</u>
Total investments	14,579,623	14,342,952
Cash and cash equivalents	190,266	81,949
Accrued investment income	115,566	110,189
Premiums and other receivables	186,403	173,102
Deferred policy acquisition costs	1,490,214	1,402,271
Reinsurance recoverable	422,302	419,394
Current income taxes receivable	11,972	36,203
Other assets	501,134	439,693
Separate account assets	<u>1,510,596</u>	<u>1,404,112</u>
Total assets	<u>\$ 19,008,076</u>	<u>\$ 18,409,865</u>
LIABILITIES AND EQUITY		
LIABILITIES		
Future policy benefits	\$ 4,096,455	\$ 3,906,618
Policyholder account balances	6,086,056	6,562,474
Unpaid claims	1,962,904	1,801,698
Unearned premiums	257,212	239,678
Deferred income taxes payable	209,527	127,027
Long-term debt	297,280	-
Other liabilities	1,148,422	1,105,136
Separate account liabilities	<u>1,510,596</u>	<u>1,404,112</u>
Total liabilities	<u>15,568,452</u>	<u>15,146,743</u>
Commitments and contingencies (Note 8)		
EQUITY		
Retained earnings	3,357,211	3,191,501
Accumulated other comprehensive income	<u>82,413</u>	<u>71,621</u>
Total equity	<u>3,439,624</u>	<u>3,263,122</u>
Total liabilities and equity	<u>\$ 19,008,076</u>	<u>\$ 18,409,865</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, 2006 AND 2005 (in thousands)

	2006	2005
REVENUES		
Health and accident	\$2,174,570	\$1,879,534
Life and annuity	1,110,014	1,011,958
Net investment income	823,877	825,114
Net realized investment gains (losses)	10,266	(76,756)
Other	86,110	102,912
Total revenues	<u>4,204,837</u>	<u>3,742,762</u>
BENEFITS AND EXPENSES		
Health and accident benefits	1,708,214	1,473,030
Life and annuity benefits	1,031,619	921,038
Interest credited to policyholders	262,124	272,114
Policy acquisition costs	408,343	338,174
General insurance expenses	463,871	464,566
Other	75,648	97,721
Total benefits and expenses	<u>3,949,819</u>	<u>3,566,643</u>
Income before income taxes	255,018	176,119
Income taxes	<u>89,308</u>	<u>55,053</u>
NET INCOME	<u>\$ 165,710</u>	<u>\$ 121,066</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, 2006 AND 2005 (in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)		Total
		Net Unrealized Investment Gains (Losses)	Minimum Pension Liability	
Balance, January 1, 2005	\$3,070,435	\$ 335,638	\$(117,245)	\$3,288,828
Comprehensive income:				
Net income	121,066	-	-	121,066
Other comprehensive income:				
Change in minimum pension liability (net of taxes of \$657)	-	-	(1,221)	(1,221)
Unrealized holding losses arising during the year (net of taxes of \$118,253)	-	(219,614)	-	(219,614)
Reclassification adjustments for realized holding losses (net of taxes of \$39,880)	-	74,063	-	74,063
Comprehensive loss				(25,706)
Balance, December 31, 2005	3,191,501	190,087	(118,466)	\$3,263,122
Comprehensive income:				
Net income	165,710	-	-	165,710
Other comprehensive income:				
Change in minimum pension liability (net of taxes of \$63,789)	-	-	118,466	118,466
Unrealized holding losses arising during the year (net of taxes of \$67,171)	-	(124,747)	-	(124,747)
Reclassification adjustments for realized holding losses (net of taxes of \$9,193)	-	17,073	-	17,073
Comprehensive income				176,502
Balance, December 31, 2006	<u>\$3,357,211</u>	<u>\$ 82,413</u>	<u>\$ -</u>	<u>\$3,439,624</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, 2006 AND 2005

(in thousands)

	2006	2005
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES		
Net income	\$ 165,710	\$ 121,066
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	36,155	41,088
Amortization of bond premium and discount	(13,841)	(16,720)
Amortization of deferred policy acquisition costs	245,546	199,736
Net realized investment (gains) losses	(10,266)	76,756
Deferred tax provision	79,120	50,933
Interest credited to policyholders	262,123	272,114
Policy charges and fee income	(202,601)	(192,897)
Change in:		
Accrued investment income	(1,425)	2,247
Premiums and other receivables	(13,301)	38,261
Reinsurance recoverable	(2,908)	(1,572)
Other assets	(92,200)	(19,464)
Insurance liabilities	368,577	316,890
Current income taxes	24,230	(68,707)
Other liabilities	89,030	(64,161)
Capitalization of deferred policy acquisition costs	(329,368)	(287,081)
Other, net	(8,463)	5,563
Cash flows from operating activities	<u>596,118</u>	<u>474,052</u>
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES		
Proceeds from sales or maturities of fixed maturities	1,809,540	2,522,709
Proceeds from sales or payments of mortgage loans	162,050	202,296
Proceeds from equity securities, limited partnerships and other invested assets	176,619	161,181
Proceeds from sales of property and equipment	21,404	4,425
Purchases of fixed maturities	(1,991,579)	(2,541,737)
Purchases of mortgage loans	(324,110)	(332,561)
Purchases of equity securities, limited partnerships and other invested assets	(149,546)	(73,524)
Purchases of property and equipment	(16,923)	(39,980)
Change in policy loans	(3,712)	(1,570)
Net (increase) decrease in short-term investments	(65,216)	9,889
Cash flows used for investing activities	<u>(381,473)</u>	<u>(88,872)</u>
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES		
Policyholder account balance deposits	612,863	524,999
Net proceeds from issuance of long-term debt	296,370	-
Long-term debt issuance costs	(3,269)	-
Withdrawals from policyholder account balances	(1,148,803)	(1,012,433)
Net increase in short-term borrowings	136,511	62,490
Cash flows used for financing activities	<u>(106,328)</u>	<u>(424,944)</u>
Net change in cash and cash equivalents	108,317	(39,764)
Cash and cash equivalents, beginning of year	<u>81,949</u>	<u>121,713</u>
Cash and cash equivalents, end of year	<u>\$ 190,266</u>	<u>\$ 81,949</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Net cash paid (received) during the year for:		
Interest	<u>\$ 10,200</u>	<u>\$ -</u>
Income taxes	<u>\$ (17,259)</u>	<u>\$ 66,832</u>

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

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2006 AND 2005

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 and United World Life Insurance Company. 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 and retirement plans.

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, deferred policy acquisition costs, the liability for future policy benefits and the liability for unpaid claims. Actual results could differ from those estimates.

The process of determining the fair value of 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.

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.

Fixed Maturities and Equity Securities – With the exception of the Company’s 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. 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. The Company’s Federal Home Loan Bank of Topeka equity securities are carried at cost. 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 (losses) are determined using the specific identification basis. All security transactions are recorded on a trade-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.

Mortgage Loans – Mortgage loans on real estate are carried at the aggregate unpaid principal balance less an allowance for estimated uncollectible amounts, except impaired loans that are carried at the fair value of the collateral. Impairment is determined when it becomes probable the Company will be unable to collect the total contractual amounts due.

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 (losses) for partnerships that invest primarily in equity securities. The Company owns 80% of Fulcrum Growth Partners, L.L.C. (“Fulcrum”). Fulcrum was 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 2006 and 2005, the Company recognized net realized investment gains related to Fulcrum of \$20,880,000 and \$13,159,000, respectively. At December 31, 2006 and 2005, the Company’s investment in Fulcrum was \$105,164,000 and \$90,825,000, respectively. The Company reports its investment in Fulcrum on a quarter lag. As of and for the nine months ended September 30, 2006 and 2005, Fulcrum reported assets of \$137,742,000 and \$137,191,000 and liabilities of \$8,920,000 and \$8,028,000 and results of operations of \$12,810,000 and \$13,296,000, 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 – In 2006, other invested assets included investment real estate. In 2005, other invested assets included: trading securities; the investment portfolio of the Company’s investment services subsidiary; derivative financial instruments (“derivatives”); airline collateral received in restructuring and investment real estate. Trading securities and the investment portfolio of the Company’s investment services subsidiary are carried at fair value with changes in fair value reported as net realized investment gains (losses) in the consolidated statements of operations. Airline collateral

received in restructuring is carried at cost, which approximates fair value, and is reduced by collections received in liquidation. Investment real estate is carried at cost less accumulated depreciation.

Derivatives – The Company uses derivatives to reduce exposure to market volatility associated with assets held or liabilities incurred. Additionally, derivatives are used to change the characteristics of the Company's asset/liability mix, consistent with the Company's risk management activities. At December 31, 2006 and 2005, derivatives included foreign currency and interest rate swaps ("swaps") with a notional amount of \$78,000,000 and \$48,000,000, respectively, and interest rate caps with a notional amount of \$20,000,000 and \$65,000,000, respectively. Derivatives are reported at estimated fair value based upon quotations obtained from dealers or other reliable sources. Changes in fair value for swaps, considered cash flow hedges, are included in other comprehensive income and changes in fair value for the interest rate caps, which are considered non-hedge derivatives, are included in net realized investment gains (losses) in the consolidated statement of operations. For the years ended December 31, 2006 and 2005, fair value changes of \$(3,018,000) and \$4,353,000 were included in other comprehensive income. In 2006, derivatives of \$3,889,000 were included in other liabilities. In 2005, derivatives of \$100,000 and \$871,000 were included in other invested assets and other liabilities, respectively.

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. 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 realized investment gains (losses) in the consolidated statement of operations. 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.

Short-Term Investments – Short-term investments are stated at amortized cost, which 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 and the financial condition and prospects of the issuer.

Cash Equivalents – The Company considers all highly-liquid debt securities purchased with an original maturity of less than three months to be cash equivalents. 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.

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 or policies in force. Depending on product type, the period can range from 6 years 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.

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 cost at December 31, 2006 and 2005 was \$578,745,000 and \$598,173,000, respectively. Accumulated depreciation at December 31, 2006 and 2005 was \$345,052,000 and \$331,693,000, respectively.

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 range from 3.00% to 7.30% for term and non-interest sensitive permanent-life contracts, 3.00% to 7.82% for certain health coverages, and from 2.50% to 14.00% 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 2006 ranged from 2.25% to 7.15% for individual interest-sensitive life and deferred annuity contracts and from 2.18% to 7.61% for group annuities and guaranteed investment contracts.

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 payable 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 income 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 stocks, mutual funds and commercial paper) 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.

Accounting Pronouncements Adopted – In 2006, the Company adopted Financial Accounting Standards Board (“FASB”) Statement of Financial Accounting Standard No. 154, *Accounting Changes and Error Corrections* (“SFAS 154”), which changes the requirements for the accounting and reporting of a change in accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless determination of either the period specific effects or the cumulative effect of the change is impracticable or otherwise promulgated. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 did not have a material impact on the Company's consolidated financial statements.

In 2005, the Company adopted FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (“FIN 46”). FIN 46 defines a variable interest entity (“VIE”) as an entity where the (1) equity investment at risk is not sufficient for the entity to finance its activities without subordinated financial support or (2) equity holders do not have the characteristics of a controlling financial interest. It requires the primary beneficiary to consolidate the accounts of the VIE. The primary beneficiary is identified as the party that absorbs the majority of the expected losses, receives a majority of the expected residual returns, or both, as a result of holding variable interests. FIN 46 also requires disclosure about variable interest entities that a company is not required to consolidate but in which it has a significant variable interest. The FASB revised FIN 46 (“FIN 46R”) in December 2003 and deferred the effective date for applying the provisions of this interpretation. The consolidation requirements of FIN 46R apply immediately to variable interest entities created after December 31, 2003 for non-public companies. The consolidation requirements apply to existing entities in the first annual period beginning after December 15, 2004. The adoption of FIN 46R did not impact the Company's consolidated financial statements.

In 2005, the Company adopted Emerging Issues Task Force (“EITF”) Issue No. 04-5, *Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights* (“EITF 04-5”). EITF 04-5 provides a framework for determining whether a general partner controls and should consolidate a limited partnership or a similar entity in light of certain rights held by the limited partners. The consensus also provides additional guidance on substantive rights. EITF 04-5 is effective for fiscal years beginning after December 15, 2005. The early adoption of EITF 04-5 in 2005 did not have a material impact on the Company's consolidated financial statements.

In 2005, the Company adopted FASB Staff Position No. FAS 115-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (“FSP FAS 115-1”), which nullifies the guidance in paragraphs 10-18 of EITF Issue No. 03-1, *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments* (“EITF 03-1”) and references existing other-than-temporary impairment guidance. FSP FAS 115-1 clarifies that an investor should recognize an impairment loss no later than when the impairment is deemed other-than-temporary, even if a decision to sell the security has not been made, and also provides guidance on the subsequent accounting for an impaired debt security and adopts the disclosure requirements of EITF 03-1. FSP FAS 115-1 is effective for reporting periods beginning after December 15, 2005. The Company’s adoption of the requirements of FSP FAS 115-1 did not have a material effect on the Company’s consolidated financial statements.

New Accounting Pronouncements – In September 2005, the American Institute of Certified Public Accountants (“AICPA”) issued 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. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact of SOP 05-1 on the Company’s consolidated financial statements.

In February 2006, the FASB issued SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments* (“SFAS 155”). SFAS 155 amends SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (“SFAS 133”) and SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (“SFAS 140”). SFAS 155 also resolves issues addressed in SFAS 133 Implementation Issue No. D1, *Application of Statement 133 to Beneficial Interests in Securitized Financial Assets*. In summary, SFAS 155: (i) permits an entity to make an irrevocable election to measure certain hybrid financial instruments at fair value in its entirety, with changes in fair value recognized in earnings; (ii) defines certain investments not subject to the requirements of SFAS 133; (iii) establishes a requirement to evaluate interests in securitized financial assets for bifurcation; (iv) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (v) amends SFAS 140 to eliminate the prohibition on a qualifying special purpose entity from holding certain derivative financial instruments. SFAS 155 is effective for all financial instruments acquired or issued after the beginning of an entity’s first fiscal year that begins after September 15, 2006. The provisions of SFAS 155 may be applied to instruments that an entity holds at the date of adoption on an instrument-by-instrument basis. The Company is currently evaluating the impact of SFAS 155 on the Company’s consolidated financial statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (“FIN 48”), which supplements SFAS No. 109, *Accounting for Income Taxes*, 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. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The Company is currently evaluating the impact of FIN 48 on the Company's consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and requires prospective application except as provided in the statement. The Company is currently evaluating the impact of SFAS 157 on the Company's consolidated financial statements.

In September 2006, the FASB issued 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. SFAS 158 is effective for fiscal years ending after June 15, 2007 with the exception of the requirement to measure plan assets and benefit obligations as of the date of the employer's statement of financial position, which is effective for fiscal years ending after December 15, 2008. The Company is currently evaluating the impact of SFAS 158 on the Company's consolidated financial statements.

In February 2007, the FASB issued 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. SFAS 159 is effective as of the beginning of a reporting entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of the previous fiscal year provided the entity makes that choice in the first 120 days of that fiscal year and also elects to apply the provisions of SFAS 157. The Company is currently evaluating the impact of SFAS 159 on the Company's consolidated financial statements.

Reclassifications – The balance sheet reclassification of the 2005 current income taxes receivable was made to conform to the 2006 presentation. This reclassification had no impact on the previously reported net income, cash flows or equity.

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, 2006:	(in thousands)			
Fixed maturities:				
U.S. Government	\$ 457,721	\$ 3,382	\$ (737)	\$ 460,366
States and political subdivisions	26,193	1,762	(243)	27,712
Corporate	5,622,587	168,026	(87,423)	5,703,190
Mortgage-backed securities	4,820,523	110,365	(80,417)	4,850,471
Asset-backed securities	<u>1,592,335</u>	<u>15,690</u>	<u>(8,755)</u>	<u>1,599,270</u>
Total fixed maturities	<u>\$ 12,519,359</u>	<u>\$ 299,225</u>	<u>\$ (177,575)</u>	<u>\$ 12,641,009</u>
Equity securities	<u>\$ 14,663</u>	<u>\$ 575</u>	<u>\$ (36)</u>	<u>\$ 15,202</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2005:	(in thousands)			
Fixed maturities:				
U.S. Government	\$ 442,234	\$ 4,774	\$ (6,558)	\$ 440,450
States and political subdivisions	48,924	3,880	(190)	52,614
Corporate	5,364,455	257,361	(56,027)	5,565,789
Mortgage-backed securities	4,500,642	148,014	(71,191)	4,577,465
Asset-backed securities	<u>1,995,884</u>	<u>27,808</u>	<u>(15,739)</u>	<u>2,007,953</u>
Total fixed maturities	<u>\$ 12,352,139</u>	<u>\$ 441,837</u>	<u>\$ (149,705)</u>	<u>\$ 12,644,271</u>
Equity securities	<u>\$ 5,472</u>	<u>\$ 251</u>	<u>\$ -</u>	<u>\$ 5,723</u>

The Company's fixed maturities portfolio is primarily comprised of investment grade securities. Based on ratings by the National Association of Insurance Commissioners, investment grade securities comprised 96.7% and 95.3% of the Company's total fixed maturities portfolio at December 31, 2006 and 2005, respectively.

The amortized cost and fair value of fixed maturities at December 31, 2006, 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 (in thousands)	Fair Value
Due in one year or less	\$ 457,857	\$ 458,547
Due after one year through five years	2,089,280	2,100,245
Due after five years through ten years	2,129,183	2,119,495
Due after ten years	<u>1,430,181</u>	<u>1,512,981</u>
	6,106,501	6,191,268
Mortgage-backed and asset-backed securities	<u>6,412,858</u>	<u>6,449,741</u>
	<u>\$ 12,519,359</u>	<u>\$ 12,641,009</u>

An aging of unrealized losses on the Company's investments in fixed maturities at December 31, 2006 and 2005, was as follows:

	December 31, 2006					
	Less Than One Year Fair Value	Unrealized Losses	One Year or More Fair Value (in thousands)	Unrealized Losses	Fair Value	Total Unrealized Losses
U.S. Government States and political subdivisions	\$ 492	\$ -	\$ 107,463	\$ (737)	\$ 107,955	\$ (737)
Corporate	-	-	5,513	(243)	5,513	(243)
Mortgage-backed securities	1,084,309	(22,118)	1,585,785	(65,305)	2,670,094	(87,423)
Asset-backed securities	1,107,901	(23,204)	1,553,523	(57,213)	2,661,424	(80,417)
	<u>293,034</u>	<u>(3,597)</u>	<u>333,953</u>	<u>(5,158)</u>	<u>626,987</u>	<u>(8,755)</u>
	<u>\$ 2,485,736</u>	<u>\$ (48,919)</u>	<u>\$ 3,586,237</u>	<u>\$ (128,656)</u>	<u>\$ 6,071,973</u>	<u>\$ (177,575)</u>

	December 31, 2005					
	Less Than One Year Fair Value	Unrealized Losses	One Year or More Fair Value (in thousands)	Unrealized Losses	Fair Value	Total Unrealized Losses
U.S. Government States and political subdivisions	\$ 255,588	\$ (3,845)	\$ 85,951	\$ (2,713)	\$ 341,539	\$ (6,558)
Corporate	5,774	(177)	441	(13)	6,215	(190)
Mortgage-backed securities	1,328,832	(28,990)	596,281	(27,037)	1,925,113	(56,027)
Asset-backed securities	1,726,091	(41,780)	752,502	(29,411)	2,478,593	(71,191)
	<u>507,474</u>	<u>(9,348)</u>	<u>209,312</u>	<u>(6,391)</u>	<u>716,786</u>	<u>(15,739)</u>
	<u>\$ 3,823,759</u>	<u>\$ (84,140)</u>	<u>\$ 1,644,487</u>	<u>\$ (65,565)</u>	<u>\$ 5,468,246</u>	<u>\$ (149,705)</u>

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. Based on an evaluation of factors, including, but not limited to, the Company's intentions to sell or ability to hold the investments to recovery and the credit ratings of the issuers of the investments in the above fixed maturities, the Company has concluded that the declines in the fair values of the Company's investments in fixed maturities at December 31, 2006 are temporary.

At December 31, 2006, there were 353 securities in an unrealized loss position for less than twelve months with a fair value of \$2,485,736,000, unrealized losses of \$48,919,000 and an average price of 97. Of these securities, 99% were investment grade, with associated unrealized losses of \$48,305,000. None of these securities had indicated unrealized losses greater than 20% of the amortized cost of each security. At December 31, 2006, there were 442 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, 2006, the unrealized losses relating to U.S. government securities were attributed to changes in interest rates. Corporate fixed maturities in an unrealized loss position for twelve months or more, 231 securities, have an indicated gross unrealized loss of \$65,305,000 at December 31, 2006; 99.6% are investment grade with an average credit rating of Baa1 and an average price of 97. Of the 43 industries represented in the portfolio, there are no significant industry concentrations. None 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 \$56,027,000 to \$87,423,000 at December 31, 2005 and 2006, respectively related to changes in interest rates. Based on the Company's intent and ability to hold these securities and cash flow estimates that indicate full recovery of amortized cost, the Company has concluded that the declines in the fair values of the Company's investments in corporate fixed maturities at December 31, 2006 are temporary.

The Company's mortgage-backed securities are supported by both residential and commercial mortgage loans. At December 31, 2006, there are 139 securities with an indicated unrealized loss position for twelve months or more of \$57,213,000, 138 of which have indicated 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 96 and Aaa, respectively. The indicated gross unrealized losses in this category increased from \$71,191,000 to \$80,417,000 at December 31, 2005 and 2006, respectively, due to changes in prepayment expectations caused by the current economic environment and changes in interest rates. As of December 31, 2006, 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, the Company has concluded that the declines in the fair values of the Company's investments in mortgage-backed securities at December 31, 2006 are temporary.

The unrealized losses relating to asset-backed securities, principally supported by home equity and equipment loans, are almost entirely due to changes in interest rates. At December 31, 2006, there are 55 asset-backed securities, with an indicated unrealized loss for twelve months or more totaling \$5,158,000, all of which have an unrealized loss that was less than 10% of the Company's amortized cost of each security and 53 of which are investment grade. As of December 31, 2006, 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, the Company has concluded that the declines in the fair values of the Company's investments in asset-backed securities at December 31, 2006 are temporary.

Mortgage Loans – Mortgage loans are collateralized principally by commercial real estate throughout the United States. The minimum and maximum lending rates for mortgage loans during 2006 ranged from 5.3% to 9.8%. The maximum percentage of any one loan to the value of the collateral security at the time of the loan, exclusive of insured, guaranteed or purchase money mortgages, was 75%. Total impaired loans as of December 31, 2006 and 2005, and the associated interest income, were not material. The valuation allowance for mortgage loans was \$1,246,000 and \$2,180,000 at December 31, 2006 and 2005, respectively. Activity in the valuation allowance was not material. Mortgage loan participations purchased from one loan originator comprise 59% of the portfolio in 2006 and 2005. The properties collateralizing mortgage loans are geographically dispersed throughout the United States, with the largest concentration in California (approximately 25% and 27% at December 31, 2006 and 2005, respectively).

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

	2006	2005
	(in thousands)	
Fixed maturities	\$ 734,614	\$ 742,789
Mortgage loans	75,754	67,622
Limited partnerships	15,400	17,531
Policy loans	11,346	10,932
Other invested assets	1,908	78
Short-term investments	<u>9,852</u>	<u>5,744</u>
	848,874	844,696
Less investment expenses	<u>(24,997)</u>	<u>(19,582)</u>
Net investment income	<u>\$ 823,877</u>	<u>\$ 825,114</u>

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

	2006	2005
	(in thousands)	
Fixed maturities	\$ (28,428)	\$ (114,021)
Equity securities	1,563	78
Mortgage loans	647	1,502
Limited partnerships	28,572	32,470
Other invested assets	<u>7,912</u>	<u>3,215</u>
Net realized investment gains (losses)	<u>\$ 10,266</u>	<u>\$ (76,756)</u>

Proceeds from the sale of fixed maturities (excluding call and maturity proceeds) were \$393,041,000 and \$618,973,000 during 2006 and 2005, respectively. Gains of \$8,719,000 and \$31,317,000 and losses of \$14,161,000 and \$45,550,000 were realized on sales of available-for-sale fixed maturities during 2006 and 2005, respectively.

Proceeds from the sale of equity securities were \$3,583,000 and \$1,077,000 during 2006 and 2005, respectively. Gains of \$1,891,000 and \$172,000 and losses of \$328,000 and \$89,000 were realized on sales of available-for-sale equity securities during 2006 and 2005, respectively.

Net realized investment gains (losses) for the years ended December 31, 2006 and 2005 include losses of \$16,819,000 and \$104,769,000, respectively, resulting from other-than-temporary declines in the fair value of investments. In addition, the Company recognized losses of \$9,200,000 in 2006 due to changes in the intent to hold impaired securities.

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:

	2006	2005
	(in thousands)	
Balance, beginning of year	\$ 190,087	\$ 335,638
Changes in net unrealized investment gains (losses) attributed to:		
Fixed maturities	(170,482)	(230,749)
Equity securities	288	(522)
Deferred policy acquisition costs	4,121	14,644
Deferred federal income taxes	57,978	78,373
Other	421	(7,297)
	<u>(107,674)</u>	<u>(145,551)</u>
Balance, end of year	<u>\$ 82,413</u>	<u>\$ 190,087</u>

3. DEFERRED POLICY ACQUISITION COSTS

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

	2006	2005
	(in thousands)	
Balance, beginning of year	\$ 1,402,271	\$ 1,300,282
Acquisition costs deferred	329,368	287,081
Amortization	(245,546)	(199,736)
Adjustment for net unrealized investment gains	<u>4,121</u>	<u>14,644</u>
Balance, end of year	<u>\$ 1,490,214</u>	<u>\$ 1,402,271</u>

4. POLICY RESERVES

Future Policy Benefits

Reserves for traditional life and annuity products at December 31, were as follows:

	2006	2005
	(in thousands)	
Life insurance	\$ 2,013,241	\$ 1,864,020
Annuities in payout status	<u>2,083,214</u>	<u>2,042,598</u>
Total future policy benefits	<u>\$ 4,096,455</u>	<u>\$ 3,906,618</u>

Policyholder Account Balances

Policyholder account balances at December 31, were as follows:

	2006	2005
	(in thousands)	
Individual deferred annuities	\$2,747,489	\$3,301,643
Group benefit contracts	1,558,812	1,573,485
Individual interest-sensitive and universal life contracts	1,666,597	1,598,433
Other	<u>113,158</u>	<u>88,913</u>
Total policyholder account balances	<u>\$6,086,056</u>	<u>\$6,562,474</u>

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

	2006	2005
	(in thousands)	
Liability for unpaid claims, beginning of year	\$1,801,698	\$1,689,836
Less benefit reserves and non-health unpaid claim liabilities	838,219	776,946
Less reinsurance	<u>48,080</u>	<u>61,126</u>
Net unpaid health claims balance, beginning of year	<u>915,399</u>	<u>851,764</u>
Incurred related to:		
Current year	1,713,912	1,483,926
Prior years	<u>(56,018)</u>	<u>(64,067)</u>
Total incurred	<u>1,657,894</u>	<u>1,419,859</u>
Paid related to:		
Current year	1,260,193	1,085,983
Prior years	<u>304,910</u>	<u>270,241</u>
Total paid	<u>1,565,103</u>	<u>1,356,224</u>
Net unpaid health claims balance, end of year	<u>1,008,190</u>	<u>915,399</u>
Plus reinsurance	50,279	48,080
Plus benefit reserves and non-health unpaid claim liabilities	<u>904,435</u>	<u>838,219</u>
Liability for unpaid claims, end of year	<u>\$1,962,904</u>	<u>\$1,801,698</u>

The incurred prior year development for health benefits was favorable for 2006 and 2005 as actual payments were less than anticipated.

Management believes that the reserves for unpaid claims are adequate to cover the ultimate development of claims. The reserves are 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.

5. FEDERAL INCOME TAXES

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

	2006	2005
	(in thousands)	
Current tax expense	\$ 10,188	\$ 4,120
Deferred tax expense	<u>79,120</u>	<u>50,933</u>
Income taxes	<u>\$ 89,308</u>	<u>\$ 55,053</u>

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

	2006	2005
	(in thousands)	
Income before income taxes	\$ 255,018	\$ 176,119
Federal income tax rate	<u>35 %</u>	<u>35 %</u>
Income taxes at the federal rate	89,256	61,642
Income tax effect of:		
Exempt income and nondeductible expenses, net	(413)	(6,556)
Income tax credits	(387)	(226)
Prior year taxes	-	(996)
Other, net	<u>852</u>	<u>1,189</u>
Income taxes at effective rate	<u>\$ 89,308</u>	<u>\$ 55,053</u>

The Company's tax returns have been examined by the Internal Revenue Service through 2002 and all outstanding issues have been resolved. Capital loss carryforwards, as reflected in deferred tax assets, at December 31, 2006 amounted to \$22,903,000 and expire in 2010.

Significant components of deferred income taxes payable, at December 31, were as follows:

	2006	2005
	(in thousands)	
Policy reserves	\$ 193,058	\$ 216,717
Expenses deductible in subsequent periods	40,049	124,024
Investment related items	<u>38,482</u>	<u>50,907</u>
Deferred tax assets	<u>271,589</u>	<u>391,648</u>
Net unrealized investment gains	44,862	102,355
Deferred policy acquisition costs	386,821	361,648
Depreciation and amortization	<u>49,433</u>	<u>54,672</u>
Deferred tax liabilities	<u>481,116</u>	<u>518,675</u>
Deferred income taxes payable	<u>\$ 209,527</u>	<u>\$ 127,027</u>

Under federal income tax law prior to 1984, the Company's life insurance affiliates were allowed certain special deductions whereby \$34,385,000 of taxable income was deferred and accumulated in a memorandum tax account designated as the "policyholders' surplus account." Generally, this policyholders' surplus account would have become subject to income tax if certain distributions were deemed paid out of the account, however, legislation enacted in 2004 allowed tax-free distributions from the accounts in 2005 and 2006. During 2005, the Company's life insurance affiliates paid dividends to their shareholders that eliminated the taxable income previously deferred in this account.

6. 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. Effective January 1, 2005, the defined benefit plan was amended to freeze plan benefits for participants 40 years and under. No benefits are available under the defined benefit plan for employees hired on or after January 1, 2005.

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 Company uses the accrual method of accounting for postretirement benefits. The changes in projected benefit obligation and plan assets at December 31, the measurement date, were as follows:

	Pension Benefits		Other Benefits	
	2006	2005	2006	2005
	(in thousands)		(in thousands)	
Change in projected benefit obligation:				
Projected benefit obligation, beginning of year	\$ 791,082	\$ 757,598	\$ 132,957	\$ 150,727
Service cost	13,361	13,877	1,136	1,209
Interest cost	46,035	44,584	7,028	8,661
Actuarial (gain) loss	(7,664)	6,908	(11,594)	(18,459)
Benefits paid	<u>(32,467)</u>	<u>(31,885)</u>	<u>(9,193)</u>	<u>(9,181)</u>
Projected benefit obligation, end of year	<u>810,347</u>	<u>791,082</u>	<u>120,334</u>	<u>132,957</u>
Change in plan assets:				
Fair value of plan assets, beginning of year	684,857	647,775	41,213	36,281
Actual return on plan assets	84,085	52,937	1,950	1,697
Employer contribution	66,000	16,000	-	3,235
Benefits paid	<u>(32,467)</u>	<u>(31,855)</u>	<u>-</u>	<u>-</u>
Fair value of plan assets, end of year	<u>802,475</u>	<u>684,857</u>	<u>43,163</u>	<u>41,213</u>
Underfunded	(7,872)	(106,225)	(77,171)	(91,744)
Unamortized prior service costs	(62,356)	(71,336)	(10,074)	(11,382)
Unrecognized net actuarial (gain) loss	<u>230,901</u>	<u>285,966</u>	<u>(7,301)</u>	<u>4,299</u>
Prepaid (accrued) benefit cost	<u>\$ 160,673</u>	<u>\$ 108,405</u>	<u>\$ (94,546)</u>	<u>\$ (98,827)</u>
Accumulated benefit obligation, end of year	<u>\$ 785,134</u>	<u>\$ 758,711</u>	<u>\$ -</u>	<u>\$ -</u>

In accordance with the provisions of SFAS No. 87, *Employers' Accounting for Pensions*, the Company held a required minimum pension liability of \$182,259,000 at December 31, 2005. A minimum pension liability is required when the accumulated benefit obligation exceeds the fair value of plan assets. No minimum pension liability was required at December 31, 2006. At December 31, 2006 and 2005, the prepaid benefit cost of \$160,673,000 and \$108,405,000, respectively, was included in other assets and the other benefits liability of \$94,546,000 and \$98,827,000, respectively, was included in other liabilities.

Asset allocations for the Company's pension plan at December 31, 2006 and 2005, by asset category were:

	2006	2005
Fixed income securities	48.7 %	46.5 %
Equity securities	41.0 %	45.7 %
Real estate	5.5 %	5.8 %
Other	4.8 %	2.0 %

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 \$625,350,000 and \$536,935,000 at December 31, 2006 and 2005, 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 2007, the Company expects to contribute approximately \$16,000,000 and \$2,900,000 to the defined benefit and other postretirement plans, respectively.

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, 2006 and 2005 are set forth in the following table:

	Pension Benefits	Other Benefits
Discount rate	6.00 %	6.00 %
Rate of increase in compensation levels	3.50-5.00%	N/A
Expected long-term rate of return on plan assets	8.50 %	6.75 %

The assumed health care cost trend rates used in measuring the accumulated postretirement benefit obligation in 2006 and 2005 were 8.5%, gradually declining to 4.5% over 5 years 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, 2006, by approximately \$13,100,000 and the net periodic postretirement benefit costs for 2006 by approximately \$1,000,000. 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, 2006, by approximately \$10,900,000 and the net periodic postretirement benefit costs for 2006 by approximately \$800,000.

The Company's net periodic benefit costs for the year ended December 31, include the following components:

	<u>Pension Benefits</u>		<u>Other Benefits</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(in thousands)		(in thousands)	
Service cost	\$ 13,361	\$ 13,877	\$ 1,136	\$ 1,209
Interest cost	46,035	44,584	7,028	8,661
Amortization of loss	20,686	18,360	-	660
Amortization of prior service cost	(8,980)	(8,980)	(1,308)	(1,308)
Expected return on plan assets	<u>(57,370)</u>	<u>(54,307)</u>	<u>(2,782)</u>	<u>(2,449)</u>
Net periodic benefit costs	<u>\$ 13,732</u>	<u>\$ 13,534</u>	<u>\$ 4,074</u>	<u>\$ 6,773</u>

The following benefits are expected to be paid:

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012-2016</u>
Pension benefits	<u>\$33,492</u>	<u>\$34,557</u>	<u>\$35,535</u>	<u>\$36,624</u>	<u>\$38,154</u>	<u>\$220,546</u>
Other postretirement benefits	<u>\$ 8,692</u>	<u>\$ 8,810</u>	<u>\$ 8,916</u>	<u>\$ 8,951</u>	<u>\$ 9,010</u>	<u>\$ 44,091</u>

The Company sponsors a savings and investment plan under which the Company matches a portion of employee contributions. The expense for this plan was \$8,800,000 and \$8,369,000 in 2006 and 2005, respectively. The Company also provides excess pension benefits and deferred compensation benefits for certain key executive officers. At December 31, 2006 and 2005 the liability for deferred compensation benefits included in other liabilities was \$38,800,000 and \$36,200,000, respectively.

7. BORROWINGS

Mutual and United have entered into certain unsecured line of credit agreements, which allow for maximum borrowings of \$275,000,000. During 2006, the Company had \$12,864,000 of average daily outstanding borrowings against its lines of credit at a weighted-average interest rate of 5.12%. At December 31, 2006 and 2005, the Company had outstanding borrowings included in other liabilities of \$10,000,000. Interest rates applicable to borrowings under these lines of credit are established with the lenders at the time of borrowing and were 5.45% at December 31, 2006 and 4.5% at December 31, 2005. Outstanding borrowings at December 31, 2006 are due in January 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. At December 31, 2006 the Company had outstanding reverse repurchase agreements of \$25,000,000. No reverse repurchase agreements were outstanding at December 31, 2005.

In 2005, United entered into an agreement with the Federal Home Loan Bank of Topeka (FHLB). Under this agreement, United pledges assets in the form of fixed-maturity securities in return for extensions of credit. At December 31, 2006, FHLB advances of \$203,121,000 included in other liabilities are due in varying amounts through January 2007 with interest due monthly at fixed rates ranging from 5.31% to 5.35%. At December 31, 2005, FHLB advances of \$132,000,000 included in other liabilities were due in varying amounts through January 2006 with interest due monthly at fixed rates ranging from 4.26% to 4.34%. At December 31, 2006 and 2005, the Company had mortgage-backed securities with fair values of \$263,546,000 and \$194,545,000, respectively, pledged as collateral. In 2006, United entered into a funding agreement with FHLB. The liability for the funding agreement at December 31, 2006 was \$30,000,000 and is included in policyholder account balances.

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 other liabilities. The Company was liable for cash collateral under its control of \$237,266,000 and \$196,876,000 at December 31, 2006 and 2005, respectively.

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. Issuance costs of \$3,325,000 were capitalized and are included in other assets. The Company made an interest payment of \$10,200,000 in 2006. Payments of principal and interest require the approval of the Nebraska Insurance Department.

8. 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, 2006 were as follows: 2007, \$9,578,000; 2008, \$7,003,000; 2009, \$4,933,000; 2010, \$2,676,000; 2011 and thereafter, \$2,924,000. Rent expense for the years ended December 31, 2006 and 2005 was \$20,019,000 and \$18,495,000, 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. In one such lawsuit involving a former broker, an adverse jury verdict in the amount of \$28,300,000 was entered against United in September 2005. In May 2006 the trial court entered an amended verdict of \$5,500,000. The Company maintains that the amended verdict is not supported by the facts or the law and vigorously disputes both the verdict and the amount of damages awarded. The Company has taken timely action to contest the amended verdict and considers it reasonably possible that the verdict will be reversed or vacated. Although an adverse outcome is possible, no estimate of the probability of such outcome or of a range of loss can be made at this time and therefore, no provision for loss has been made in the Company's consolidated financial statements.

At December 31, 2006, securities with an amortized cost of \$19,307,000 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, 2006 and 2005 included \$11,292,000 and \$16,763,000, respectively, in other liabilities. These amounts are reduced by estimated premium tax credits related to amounts paid to guaranty funds of \$7,357,000 and \$12,389,000 at December 31, 2006 and 2005, respectively.

The Company has unfunded investment commitments for fixed maturities, mortgage loans and limited partnerships of \$385,450,000 and \$307,517,000 at December 31, 2006 and 2005, respectively.

The Company does not have any significant financial guarantee commitments.

9. 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, were as follows:

	2006	2005
	(in thousands)	
Direct premiums	\$3,286,265	\$2,969,246
Reinsurance assumed	131,015	58,385
Reinsurance ceded	<u>(132,696)</u>	<u>(136,139)</u>
Net premiums earned	<u>\$3,284,584</u>	<u>\$2,891,492</u>

Health and accident, life and annuity benefits in the accompanying consolidated statements of operations are presented net of reinsurance recoveries of \$128,818,000 and \$135,667,000 for the years ended December 31, 2006 and 2005, respectively.

10. FAIR VALUES OF FINANCIAL INSTRUMENTS

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

	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)		(in thousands)	
Financial assets:				
Fixed maturities	\$ 12,641,009	\$ 12,641,009	\$ 12,644,271	\$ 12,644,271
Equity securities	26,395	26,395	13,286	13,286
Mortgage loans	1,161,599	1,176,082	998,724	1,084,024
Other invested assets	302	302	52,320	52,320
Policy loans	170,731	170,731	167,019	167,019
Short-term investments	268,560	268,560	203,344	203,344
Cash and cash equivalents	190,266	190,266	81,949	81,949
Financial liabilities:				
Policyholder account balances	6,086,056	5,701,677	6,562,474	6,120,472
Short-term borrowings	475,387	475,387	338,876	338,876
Long-term debt	297,280	309,323	-	-
Derivatives	3,889	3,889	871	871

The bases for the carrying amount and fair values of fixed maturities, equity securities, other invested assets, short-term investments, cash and cash equivalents and derivatives are discussed 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 policyholder account balances are estimated by discounting expected future cash flows based upon interest rates currently being offered for similar contracts with maturities consistent with those remaining for the policyholder accounts being valued. The fair value of short-term borrowings is deemed to be the same as its carrying value. The fair value of long-term debt is 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.

11. STATUTORY SURPLUS AND NET INCOME

The Company's combined net income as determined in accordance with statutory accounting principles was \$85,264,000 and \$6,514,000 for 2006 and 2005, respectively. The Company's statutory surplus was \$2,140,907,000 and \$1,749,375,000 at December 31, 2006 and 2005, respectively.