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FBL FINANCIAL GROUP INC

Form 10-Q

October 31, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended September 30, 2013

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 1-11917

(Exact name of registrant as specified in its charter)

Iowa  
(State of incorporation)

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

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

50266-5997  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (Section 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ☒ Yes ☐ No

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

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

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

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

| Title of each class                     | Outstanding at October 29, 2013 |
|---|---------------------------------|
| Class A Common Stock, without par value | 24,714,045                      |
| Class B Common Stock, without par value | 11,413                          |

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FBL FINANCIAL GROUP, INC.  
 FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2013  
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## ITEM 1. FINANCIAL STATEMENTS

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

|   | September 30,<br>2013 | December 31,<br>2012 |
|---|-----------------------|----------------------|
| Assets  |                       |                      |
| Investments:  |                       |                      |
| Fixed maturities - available for sale, at fair value (amortized cost: 2013 - \$5,853,234; 2012 - \$5,637,608) | \$6,145,472           | \$6,265,745          |
| Equity securities - available for sale, at fair value (cost: 2013 - \$85,800; 2012 - \$82,140)                | 87,394                | 86,253               |
| Mortgage loans  | 573,383               | 554,843              |
| Real estate   | 4,093                 | 4,668                |
| Policy loans  | 175,535               | 174,254              |
| Short-term investments  | 55,066                | 74,516               |
| Other investments   | 726                   | 371                  |
| Total investments   | 7,041,669             | 7,160,650            |
| Cash and cash equivalents   | 6,055                 | 78,074               |
| Securities and indebtedness of related parties  | 121,163               | 100,606              |
| Accrued investment income   | 80,409                | 69,965               |
| Amounts receivable from affiliates  | 12,582                | 3,931                |
| Reinsurance recoverable   | 96,469                | 98,238               |
| Deferred acquisition costs  | 318,566               | 204,326              |
| Value of insurance in force acquired  | 22,860                | 17,154               |
| Current income taxes recoverable  | —                     | 6,735                |
| Other assets  | 67,415                | 59,238               |
| Assets held in separate accounts  | 665,252               | 618,809              |
| <br>  |                       |                      |
| Total assets  | \$8,432,440           | \$8,417,726          |

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

|  | September 30,<br>2013 | December 31,<br>2012 |
|--|-----------------------|----------------------|
| Liabilities and stockholders' equity   |                       |                      |
| Liabilities:   |                       |                      |
| Future policy benefits:  |                       |                      |
| Interest sensitive products  | \$4,256,635           | \$4,050,846          |
| Traditional life insurance and accident and health products  | 1,501,018             | 1,457,075            |
| Other policy claims and benefits   | 41,767                | 39,072               |
| Supplementary contracts without life contingencies   | 352,420               | 361,273              |
| Advance premiums and other deposits  | 234,292               | 226,485              |
| Amounts payable to affiliates  | —                     | 1,658                |
| Short-term debt payable to non-affiliates  | 25,000                | —                    |
| Long-term debt payable to affiliates   | —                     | 50,000               |
| Long-term debt payable to non-affiliates   | 97,000                | 97,000               |
| Current income taxes   | 12,908                | —                    |
| Deferred income taxes  | 123,644               | 208,433              |
| Other liabilities  | 85,906                | 94,828               |
| Liabilities related to separate accounts   | 665,252               | 618,809              |
| Total liabilities  | 7,395,842             | 7,205,479            |
| Stockholders' equity:  |                       |                      |
| FBL Financial Group, Inc. stockholders' equity:  |                       |                      |
| Preferred stock, without par value, at liquidation value - authorized 10,000,000 shares, issued and outstanding 5,000,000 Series B shares              | 3,000                 | 3,000                |
| Class A common stock, without par value - authorized 88,500,000 shares, issued and outstanding 24,705,799 shares in 2013 and 24,282,184 shares in 2012 | 133,791               | 115,706              |
| Class B common stock, without par value - authorized 1,500,000 shares, issued and outstanding 11,413 shares in 2013 and 1,192,890 shares in 2012       | 72                    | 7,522                |
| Accumulated other comprehensive income   | 135,316               | 289,853              |
| Retained earnings  | 764,393               | 796,110              |
| Total FBL Financial Group, Inc. stockholders' equity   | 1,036,572             | 1,212,191            |
| Noncontrolling interest  | 26                    | 56                   |
| Total stockholders' equity   | 1,036,598             | 1,212,247            |
| Total liabilities and stockholders' equity   | \$8,432,440           | \$8,417,726          |

See accompanying notes.

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## FBL FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

(Dollars in thousands, except per share data)

|   | Three months ended September 30, |           | Nine months ended September 30, |           |
|---|----------------------------------|-----------|---------------------------------|-----------|
|   | 2013                             | 2012      | 2013                            | 2012      |
| Revenues:   |                                  |           |                                 |           |
| Interest sensitive product charges                      | \$32,270                         | \$25,638  | \$84,369                        | \$75,060  |
| Traditional life insurance premiums                     | 43,883                           | 41,886    | 134,875                         | 130,917   |
| Net investment income                                   | 93,382                           | 93,482    | 277,090                         | 269,793   |
| Net realized capital gains on sales of investments      | 1,458                            | 5,379     | 12,825                          | 10,669    |
| Total other-than-temporary impairment losses            | (5,015                           | ) (6,208  | ) (5,860                        | ) (21,188 |
| Non-credit portion in other comprehensive income        | 4,250                            | 2,291     | 4,250                           | 12,070    |
| Net impairment losses recognized in earnings            | (765                             | ) (3,917  | ) (1,610                        | ) (9,118  |
| Other income  | 3,288                            | 2,891     | 10,698                          | 13,625    |
| Total revenues  | 173,516                          | 165,359   | 518,247                         | 490,946   |
| Benefits and expenses:                                  |                                  |           |                                 |           |
| Interest sensitive product benefits                     | 53,488                           | 48,640    | 150,411                         | 147,050   |
| Traditional life insurance benefits                     | 39,726                           | 37,473    | 119,795                         | 116,925   |
| Policyholder dividends                                  | 3,244                            | 3,279     | 9,997                           | 10,893    |
| Underwriting, acquisition and insurance expenses        | 33,070                           | 39,939    | 105,429                         | 107,040   |
| Interest expense  | 1,833                            | 2,007     | 5,646                           | 5,972     |
| Other expenses  | 5,037                            | 3,986     | 14,239                          | 16,492    |
| Total benefits and expenses                             | 136,398                          | 135,324   | 405,517                         | 404,372   |
| Income taxes  | 37,118                           | 30,035    | 112,730                         | 86,574    |
| Equity income, net of related income taxes              | (11,962                          | ) (10,606 | ) (36,923                       | ) (29,620 |
| Net income from continuing operations                   | 1,829                            | 1,058     | 5,669                           | 3,309     |
| Discontinued operations:                                | 26,985                           | 20,487    | 81,476                          | 60,263    |
| Loss on sale of subsidiary                              | —                                | —         | —                               | (2,252    |
| Income (loss) from discontinued operations, net of tax  | —                                | 55        | —                               | (709      |
| Total income (loss) from discontinued operations        | —                                | 55        | —                               | (2,961    |
| Net income  | 26,985                           | 20,542    | 81,476                          | 57,302    |
| Net loss (gain) attributable to noncontrolling interest | 68                               | (66       | ) 130                           | 52        |
| Net income attributable to FBL Financial Group, Inc.    | \$27,053                         | \$20,476  | \$81,606                        | \$57,354  |
| Earnings per common share:                              |                                  |           |                                 |           |
| Income from continuing operations                       | \$1.05                           | \$0.77    | \$3.17                          | \$2.14    |
| Loss from discontinued operations                       | —                                | —         | —                               | (0.10     |
| Earnings per common share                               | \$1.05                           | \$0.77    | \$3.17                          | \$2.04    |
| Earnings per common share - assuming dilution:          |                                  |           |                                 |           |
| Income from continuing operations                       | \$1.04                           | \$0.76    | \$3.14                          | \$2.11    |
| Loss from discontinued operations                       | —                                | —         | —                               | (0.10     |
| Earnings per common share - assuming dilution           | \$1.04                           | \$0.76    | \$3.14                          | \$2.01    |



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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Cash dividends per common share        | \$0.15 | \$0.10 | \$0.37 | \$0.30 |
| Special cash dividend per common share | \$2.00 | \$—    | \$2.00 | \$—    |

See accompanying notes.

## FBL FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)

(Dollars in thousands)

|   | Three months ended September 30, |            | Nine months ended September 30, |             |
|---|----------------------------------|------------|---------------------------------|-------------|
|   | 2013                             | 2012       | 2013                            | 2012        |
| Net income  | \$26,985                         | \$20,542   | \$81,476                        | \$57,302    |
| Other comprehensive income (loss) (1)                                     |                                  |            |                                 |             |
| Change in net unrealized investment gains/losses                          | (27,023                          | ) 56,681   | (152,521                        | ) 118,398   |
| Non-credit impairment losses  | (2,652                           | ) (1,359   | ) (2,687                        | ) (7,715    |
| Change in underfunded status of postretirement benefit plans              | 203                              | —          | 671                             | (96         |
| Total other comprehensive income (loss), net of tax                       | (29,472                          | ) 55,322   | (154,537                        | ) 110,587   |
| Total comprehensive income (loss), net of tax                             | (2,487                           | ) 75,864   | (73,061                         | ) 167,889   |
| Comprehensive loss attributable to noncontrolling interest                | 68                               | (66        | ) 130                           | 52          |
| Total comprehensive income (loss) applicable to FBL Financial Group, Inc. | \$(2,419                         | ) \$75,798 | \$(72,931                       | ) \$167,941 |

Other comprehensive income is recorded net of deferred income taxes and other adjustments for assumed changes (1) in deferred acquisition costs, value of insurance in force acquired, unearned revenue reserve and policyholder liabilities.

## FBL FINANCIAL GROUP, INC.

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Unaudited)

(Dollars in thousands)

|   | FBL Financial Group, Inc. Stockholders' Equity |              |  |                   |                          |                            |
|---|--|--------------|--|-------------------|--------------------------|----------------------------|
|   | Preferred Stock                                | Common Stock | Accumulated Other Comprehensive Income | Retained Earnings | Non-controlling Interest | Total Stockholders' Equity |
| Balance at January 1, 2012                        | \$3,000  | \$137,206    | \$177,845                              | \$884,263         | \$115                    | \$1,202,429                |
| Net income - nine months ended September 30, 2012 | —  | —            | —                                      | 57,354            | (52                      | ) 57,302                   |
| Other comprehensive income                        | —  | —            | 110,587                                | —                 | —                        | 110,587                    |
| Issuance of common stock under compensation plans | —  | 8,714        | —                                      | —                 | —                        | 8,714                      |
| Purchase of common stock                          | —  | (22,355      | ) —                                    | (141,815          | ) —                      | (164,170                   |
| Dividends on preferred stock                      | —  | —            | —                                      | (112              | ) —                      | (112                       |
| Dividends on common stock                         | —  | —            | —                                      | (8,338            | ) —                      | (8,338                     |
| Balance at September 30, 2012                     | \$3,000  | \$123,565    | \$288,432                              | \$791,352         | \$63                     | \$1,206,412                |
| Balance at January 1, 2013                        | \$3,000  | \$123,228    | \$289,853                              | \$796,110         | \$56                     | \$1,212,247                |
| Net income - nine months ended September 30, 2013 | —  | —            | —                                      | 81,606            | (130                     | ) 81,476                   |
| Other comprehensive loss                          | —  | —            | (154,537                               | ) —               | —                        | (154,537                   |
| Issuance of common stock under compensation plans | —  | 18,954       | —                                      | —                 | —                        | 18,954                     |
| Purchase of common stock                          | —  | (8,319       | ) —                                    | (52,284           | ) —                      | (60,603                    |

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|   |         |           |            |           |      |              |
|---|---------|-----------|------------|-----------|------|--------------|
| Dividends on preferred stock                | —       | —         | —          | (112 )    | —    | (112 )       |
| Dividends on common stock                   | —       | —         | —          | (60,927 ) | —    | (60,927 )    |
| Receipts related to noncontrolling interest | —       | —         | —          | —         | 100  | 100          |
| Balance at September 30, 2013               | \$3,000 | \$133,863 | \$ 135,316 | \$764,393 | \$26 | \$ 1,036,598 |

See accompanying notes.

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

|   | Nine months ended September 30, |             |
|---|---------------------------------|-------------|
|   | 2013                            | 2012        |
| Operating activities  |                                 |             |
| Net income  | \$81,476                        | \$57,302    |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                 |             |
| Interest credited to account balances   | 107,888                         | 105,822     |
| Charges for mortality, surrenders and administration                              | (75,113)                        | ) (70,647)  |
| Net realized gains on investments   | (11,215)                        | ) (1,551)   |
| Change in fair value of derivatives   | (646)                           | ) 267       |
| Increase in traditional life and accident and health benefit liabilities          | 43,943                          | 39,645      |
| Deferral of acquisition costs   | (31,804)                        | ) (34,978)  |
| Amortization of deferred acquisition costs and value of insurance in force        | 25,482                          | 33,399      |
| Change in reinsurance recoverable   | 1,769                           | 262         |
| Provision for deferred income taxes   | (1,862)                         | ) 36,435    |
| Loss on sale of subsidiary  | —                               | 2,252       |
| Other   | (11,639)                        | ) (75,634)  |
| Net cash provided by operating activities   | 128,279                         | 92,574      |
| Investing activities  |                                 |             |
| Sales, maturities or repayments:  |                                 |             |
| Fixed maturities - available for sale   | 568,600                         | 478,972     |
| Equity securities - available for sale  | 10,970                          | 7,524       |
| Mortgage loans  | 47,613                          | 57,525      |
| Derivative instruments  | 319                             | —           |
| Policy loans  | 26,617                          | 28,512      |
| Securities and indebtedness of related parties                                    | 2,290                           | —           |
| Real estate   | 1,957                           | —           |
| Other long-term investments   | 30                              | —           |
| Acquisitions:   |                                 |             |
| Fixed maturities - available for sale   | (762,920)                       | ) (848,330) |
| Equity securities - available for sale  | (20,630)                        | ) (33,329)  |
| Mortgage loans  | (68,243)                        | ) (48,880)  |
| Derivative instruments  | (344)                           | ) (151)     |
| Policy loans  | (27,898)                        | ) (28,930)  |
| Securities and indebtedness of related parties                                    | (25,612)                        | ) (30,529)  |
| Short-term investments, net change  | 19,450                          | 22,867      |
| Purchases and disposals of property and equipment, net                            | (9,319)                         | ) (2,695)   |
| Net cash used in investing activities   | (237,120)                       | ) (397,444) |

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

|   | Nine months ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2013                            | 2012      |
| Financing activities                              |                                 |           |
| Contract holder account deposits                  | \$453,750                       | \$538,096 |
| Contract holder account withdrawals               | (288,109)                       | (274,175) |
| Transfer from restricted debt defeasance trusts   | —                               | 211,627   |
| Proceeds from issuance of short-term debt         | 25,000                          | —         |
| Repayments of debt                                | (50,000)                        | (174,258) |
| Receipts related to noncontrolling interests, net | 100                             | —         |
| Excess tax deductions on stock-based compensation | 1,904                           | 2,359     |
| Repurchase of common stock, net                   | (44,784)                        | (157,409) |
| Dividends paid                                    | (61,039)                        | (8,450)   |
| Net cash provided by financing activities         | 36,822                          | 137,790   |
| Decrease in cash and cash equivalents             | (72,019)                        | (167,080) |
| Cash and cash equivalents at beginning of period  | 78,074                          | 296,339   |
| Cash and cash equivalents at end of period        | \$6,055                         | \$129,259 |
| Supplemental disclosures of cash flow information |                                 |           |
| Cash paid (received) during the period for:       |                                 |           |
| Interest  | \$5,891                         | \$9,408   |
| Income taxes                                      | 8,501                           | (1,626)   |

See accompanying notes.

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## FBL FINANCIAL GROUP, INC.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

September 30, 2013

## 1. Significant Accounting Policies

## Basis of Presentation

The accompanying unaudited consolidated financial statements of FBL Financial Group, Inc. (we or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Our financial statements include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position and results of operations.

Operating results for the three- and nine-month periods ended September 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. We encourage you to refer to our consolidated financial statements and notes for the year ended December 31, 2012 included in our Annual Report on Form 10-K for a complete description of our material accounting policies. Also included in the Form 10-K is a description of areas of judgments and estimates and other information necessary to understand our financial position and results of operations.

## 2. Investment Operations

## Fixed Maturity and Equity Securities

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

|   | September 30, 2013     |                              |                               |               | Non-credit losses<br>on<br>other-than-temporary<br>impairments (1) |
|---|------------------------|------------------------------|-------------------------------|---------------|--|
|   | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value |  |
|   | (Dollars in thousands) |                              |                               |               |  |
| Fixed maturities:                         |                        |                              |                               |               |  |
| Corporate (2)                             | \$3,146,971            | \$248,479                    | \$(62,016)                    | ) \$3,333,434 | \$ (735 )  |
| Residential mortgage-backed               | 510,112                | 35,671                       | (6,641)                       | ) 539,142     | (4,897 )   |
| Commercial mortgage-backed                | 407,662                | 24,261                       | (5,553)                       | ) 426,370     | —  |
| Other asset-backed                        | 460,224                | 18,436                       | (11,278)                      | ) 467,382     | (1,368 )   |
| United States Government and<br>agencies  | 38,962                 | 4,813                        | (65)                          | ) 43,710      | —  |
| State, municipal and other<br>governments | 1,289,303              | 71,696                       | (25,565)                      | ) 1,335,434   | —  |
| Total fixed maturities                    | \$5,853,234            | \$403,356                    | \$(111,118)                   | ) \$6,145,472 | \$ (7,000 )  |
| Equity securities:                        |                        |                              |                               |               |  |
| Non-redeemable preferred stocks           | \$59,692               | \$2,846                      | \$(1,845)                     | ) \$60,693    | \$ —   |
| Common stocks                             | 26,108                 | 593                          | —                             | 26,701        | —  |
| Total equity securities                   | \$85,800               | \$3,439                      | \$(1,845)                     | ) \$87,394    | \$ —   |





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

|   | December 31, 2012      |                              |                               |               |  |
|---|------------------------|------------------------------|-------------------------------|---------------|--|
|   | Amortized<br>Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value | Non-credit losses<br>on<br>other-than-temporary<br>impairments (1) |
|   | (Dollars in thousands) |                              |                               |               |  |
| Fixed maturities:                         |                        |                              |                               |               |  |
| Corporate (2)                             | \$2,906,622            | \$399,144                    | \$(10,183)                    | ) \$3,295,583 | \$ (2,913)   |
| Residential mortgage-backed               | 632,955                | 47,459                       | (6,232)                       | ) 674,182     | (5,164)  |
| Commercial mortgage-backed                | 463,504                | 49,173                       | (1,858)                       | ) 510,819     | —  |
| Other asset-backed                        | 485,796                | 16,981                       | (13,064)                      | ) 489,713     | (4,788)  |
| United States Government and<br>agencies  | 42,079                 | 6,930                        | —                             | 49,009        | —  |
| State, municipal and other<br>governments | 1,106,652              | 142,704                      | (2,917)                       | ) 1,246,439   | —  |
| Total fixed maturities                    | \$5,637,608            | \$662,391                    | \$(34,254)                    | ) \$6,265,745 | \$ (12,865)  |
| Equity securities:                        |                        |                              |                               |               |  |
| Non-redeemable preferred stocks           | \$56,909               | \$4,251                      | \$(668)                       | ) \$60,492    | \$ —   |
| Common stocks                             | 25,231                 | 530                          | —                             | 25,761        | —  |
| Total equity securities                   | \$82,140               | \$4,781                      | \$(668)                       | ) \$86,253    | \$ —   |

(1) Non-credit losses, subsequent to the initial impairment measurement date, on other-than-temporary impairments are included in the gross unrealized gains and losses columns above.

Corporate securities include hybrid preferred securities with a carrying value of \$75.2 million at September 30, (2)2013 and \$99.6 million at December 31, 2012. Corporate securities also include redeemable preferred stock with a carrying value of \$17.5 million at September 30, 2013 and \$5.6 million at December 31, 2012.

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

## Available-For-Sale Fixed Maturities by Maturity Date

|  | September 30, 2013     |                         |
|--|------------------------|-------------------------|
|  | Amortized<br>Cost      | Estimated<br>Fair Value |
|  | (Dollars in thousands) |                         |
| Due in one year or less                | \$95,370               | \$99,719                |
| Due after one year through five years  | 693,221                | 764,249                 |
| Due after five years through ten years | 1,028,992              | 1,110,192               |
| Due after ten years                    | 2,657,653              | 2,738,418               |
|  | 4,475,236              | 4,712,578               |
| Mortgage-backed and other asset-backed | 1,377,998              | 1,432,894               |
| Total fixed maturities                 | \$5,853,234            | \$6,145,472             |

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Fixed maturities not due at a single maturity date have been

included in the above table in the year of final contractual maturity.

# Net Unrealized Gains (Losses) on Investments in Accumulated Other Comprehensive Income

|   | September 30,<br>2013  | December 31,<br>2012 |
|---|------------------------|----------------------|
|   | (Dollars in thousands) |                      |
| Net unrealized appreciation on:                             |                        |                      |
| Fixed maturities - available for sale                       | \$292,238              | \$628,137            |
| Equity securities - available for sale                      | 1,594                  | 4,113                |
|   | 293,832                | 632,250              |
| Adjustments for assumed changes in amortization pattern of: |                        |                      |
| Deferred acquisition costs                                  | (67,211                | ) (172,320 )         |
| Value of insurance in force acquired                        | (7,628                 | ) (15,346 )          |
| Unearned revenue reserve                                    | 3,945                  | 13,554               |
| Adjustments for assumed changes in policyholder liabilities | (3,581                 | ) —                  |
| Provision for deferred income taxes                         | (76,760                | ) (160,333 )         |
| Net unrealized investment gains                             | \$142,597              | \$297,805            |

Net unrealized investment gains and losses are recorded net of deferred income taxes and other adjustments for assumed changes in deferred acquisition costs, value of insurance in force acquired, unearned revenue reserve and policyholder liabilities. Subsequent changes in fair value of securities for which a previous non-credit other-than-temporary impairment loss was recognized in accumulated other comprehensive income, are reported along with changes in fair value for which no other-than-temporary impairment losses were previously recognized.

## Fixed Maturity and Equity Securities with Unrealized Losses by Length of Time

| Description of Securities              | September 30, 2013     |             |                  |             |             |              | Percent of Total |   |
|--|------------------------|-------------|------------------|-------------|-------------|--------------|------------------|---|
|  | Less than one year     |             | One year or more |             | Total       |              |                  |   |
|  | Estimated              | Unrealized  | Estimated        | Unrealized  | Estimated   | Unrealized   |                  |   |
|  | Fair Value             | Losses      | Fair Value       | Losses      | Fair Value  | Losses       |                  |   |
|  | (Dollars in thousands) |             |                  |             |             |              |                  |   |
| Fixed maturities:                      |                        |             |                  |             |             |              |                  |   |
| Corporate                              | \$801,299              | \$(56,820 ) | \$39,503         | \$(5,196 )  | \$840,802   | \$(62,016 )  | 55.8             | % |
| Residential mortgage-backed            | 65,049                 | (1,941 )    | 20,855           | (4,700 )    | 85,904      | (6,641 )     | 6.0              |   |
| Commercial mortgage-backed             | 36,513                 | (2,763 )    | 28,089           | (2,790 )    | 64,602      | (5,553 )     | 5.0              |   |
| Other asset-backed                     | 112,173                | (1,819 )    | 29,683           | (9,459 )    | 141,856     | (11,278 )    | 10.1             |   |
| United States Government and agencies  | 4,089                  | (65 )       | —                | —           | 4,089       | (65 )        | 0.1              |   |
| State, municipal and other governments | 304,993                | (24,013 )   | 14,941           | (1,552 )    | 319,934     | (25,565 )    | 23.0             |   |
| Total fixed maturities                 | \$1,324,116            | \$(87,421 ) | \$133,071        | \$(23,697 ) | \$1,457,187 | \$(111,118 ) | 100.0            | % |
| Equity securities:                     |                        |             |                  |             |             |              |                  |   |
| Non-redeemable preferred stocks        | \$35,049               | \$(1,345 )  | \$4,500          | \$(500 )    | \$39,549    | \$(1,845 )   |                  |   |
| Total equity securities                | \$35,049               | \$(1,345 )  | \$4,500          | \$(500 )    | \$39,549    | \$(1,845 )   |                  |   |



## Fixed Maturity and Equity Securities with Unrealized Losses by Length of Time

| Description of Securities              | December 31, 2012       |                      |                         |                      |                         |                      |                     |   |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|---------------------|---|
|  | Less than one year      |                      | One year or more        |                      | Total                   |                      |                     |   |
|  | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Estimated<br>Fair Value | Unrealized<br>Losses | Percent of<br>Total |   |
| (Dollars in thousands)                 |                         |                      |                         |                      |                         |                      |                     |   |
| Fixed maturities:                      |                         |                      |                         |                      |                         |                      |                     |   |
| Corporate                              | \$123,610               | \$(2,120 )           | \$87,176                | \$(8,063 )           | \$210,786               | \$(10,183 )          | 29.7                | % |
| Residential mortgage-backed            | 10,560                  | (85 )                | 32,884                  | (6,147 )             | 43,444                  | (6,232 )             | 18.2                |   |
| Commercial mortgage-backed             | 27,073                  | (380 )               | 32,697                  | (1,478 )             | 59,770                  | (1,858 )             | 5.4                 |   |
| Other asset-backed                     | 31,749                  | (512 )               | 50,468                  | (12,552 )            | 82,217                  | (13,064 )            | 38.1                |   |
| State, municipal and other governments | 33,228                  | (542 )               | 15,932                  | (2,375 )             | 49,160                  | (2,917 )             | 8.6                 |   |
| Total fixed maturities                 | \$226,220               | \$(3,639 )           | \$219,157               | \$(30,615 )          | \$445,377               | \$(34,254 )          | 100.0               | % |
| Equity securities:                     |                         |                      |                         |                      |                         |                      |                     |   |
| Non-redeemable preferred stocks        | \$3,858                 | \$(32 )              | \$7,364                 | \$(636 )             | \$11,222                | \$(668 )             |                     |   |
| Total equity securities                | \$3,858                 | \$(32 )              | \$7,364                 | \$(636 )             | \$11,222                | \$(668 )             |                     |   |

Included in fixed maturities in the above tables are 418 securities from 353 issuers at September 30, 2013 and 140 securities from 116 issuers at December 31, 2012. The unrealized losses in fixed maturities are generally due to an increase in risk free rates relative to the risk free rates when the securities were purchased. We do not intend to sell or believe we will be required to sell any of our impaired fixed maturities before recovery of their amortized cost basis. The following summarizes the more significant unrealized losses of fixed maturities and equity securities by investment category as of September 30, 2013.

**Corporate securities:** The largest unrealized losses are in the utilities sector (\$200.8 million carrying value and \$18.1 million unrealized loss). The largest unrealized losses in the utilities sector were in the electric (\$144.8 million carrying value and \$12.6 million unrealized loss) and the gas-pipeline (\$41.6 million carrying value and \$4.5 million unrealized loss) sub-sectors. The majority of losses in the sector are primarily attributable to general changes in market interest rates for corporate securities.

**Residential mortgage-backed securities:** The unrealized losses on residential mortgage-backed securities were primarily due to continued uncertainty regarding mortgage defaults on Alt-A loans. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on mortgages and other assets backing the securities.

**Commercial mortgage-backed securities:** The unrealized losses on commercial mortgage-backed securities were primarily due to spread widening and concerns regarding the potential for future defaults. The contractual cash flows of these investments are based on mortgages backing the securities. Unrealized losses on military housing bonds were mainly attributable to spread widening relative to spreads at which we acquired the bonds. Insured military housing bonds have also been impacted by the removal of their ratings following downgrades of the insurance providers.

**Other asset-backed securities:** The unrealized losses on other asset-backed securities were primarily due to concerns regarding defaults on subprime mortgages and home equity loans. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on mortgages and other assets backing the securities.

State, municipal and other governments: The unrealized losses on state, municipal and other governments were primarily due to general spread widening relative to spreads at which we acquired the bonds.

Equity securities: Our gross unrealized losses were on investment grade non-redeemable perpetual preferred securities within the finance sector. These securities provide periodic cash flows, contain call features and are similarly rated and priced like other long-term callable bonds and are evaluated for other-than-temporary impairment similar to fixed maturities. The decline in fair value is primarily due to market concerns regarding the sector. We have evaluated the near-term prospects of our equity securities in relation to the severity and duration of their impairment and based on that evaluation have the intent and ability to hold these investments until recovery of fair value.

Excluding mortgage and asset-backed securities, no securities from the same issuer had an aggregate unrealized loss in excess of \$1.8 million at September 30, 2013, with the largest unrealized loss from an insurance carrier in the financial sector. With respect to mortgage and asset-backed securities not backed by the United States Government, no securities from the same issuer had an aggregate unrealized loss in excess of \$5.1 million at September 30, 2013, with the largest unrealized loss from a collateralized bond obligation of bank and thrift holding companies, which is rated non-investment grade.

The carrying values of all our investments are reviewed on an ongoing basis for credit deterioration. When our review indicates a decline in fair value for a fixed maturity security is other-than-temporary and we do not intend to sell or believe we will be required to sell the security before recovery of our amortized cost, a specific write down is charged to earnings for the credit loss and a specific charge is recognized in accumulated other comprehensive income for the non-credit loss component. If we intend to sell or believe we will be required to sell a fixed maturity security before its recovery, the full amount of the impairment write down to fair value is charged to earnings. For all equity securities, the full amount of an other-than-temporary impairment write down is recognized as a realized loss on investments in the consolidated statements of operations and the new cost basis for the security is equal to its fair value.

We monitor the financial condition and operations of the issuers of fixed maturities and equity securities that could potentially have a credit impairment that is other-than-temporary. In determining whether or not an unrealized loss is other-than-temporary, we review factors such as:

- historical operating trends;
- business prospects;
- status of the industry in which the company operates;
- analyst ratings on the issuer and sector;
- quality of management;
- size of unrealized loss;
- level of current market interest rates compared to market interest rates when the security was purchased; and
- length of time the security has been in an unrealized loss position.

In order to determine the credit and non-credit impairment loss for fixed maturities, every quarter we estimate the future cash flows we expect to receive over the remaining life of the instrument as well as review our plans to hold or sell the instrument. Significant assumptions regarding the present value of expected cash flows for each security are used when an other-than-temporary impairment occurs and there is a non-credit portion of the unrealized loss that won't be recognized in earnings. Our assumptions for residential mortgage-backed securities, commercial mortgage-backed securities and other asset-backed securities include collateral pledged, guarantees, vintage, anticipated principal and interest payments, prepayments, default levels, severity assumptions, delinquency rates and the level of nonperforming assets for the remainder of the investments' expected term. We use a single best estimate of cash flows approach and use the effective yield prior to the date of impairment to calculate the present value of cash flows. Our assumptions for corporate and other fixed maturities include anticipated principal and interest payments and an estimated recovery value, generally based on a percentage return of the current fair value.

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





### Credit Loss Component of Other-Than-Temporary Impairments on Fixed Maturities

|   | Nine months ended September 30, |                |
|---|---------------------------------|----------------|
|   | 2013                            | 2012           |
|   | (Dollars in thousands)          |                |
| Balance at beginning of period                                  | \$ (27,712                      | ) \$ (22,746 ) |
| Increases for which an impairment was not previously recognized | —                               | (847 )         |
| Increases to previously impaired investments                    | (618                            | ) (1,179 )     |
| Reductions due to investments sold                              | 5,840                           | 146            |
| Reductions due to change of intent to not hold investments      | —                               | 40             |
| Balance at end of period  | \$ (22,490                      | ) \$ (24,586 ) |

The table above sets forth the amount of credit loss impairments on fixed maturities held by the Company as of the dates indicated for which a portion of the other-than-temporary impairment was recognized in other comprehensive income (loss) and corresponding changes in such amounts.

### Realized Gains (Losses) - Recorded in Income

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |            |
|--|-------------------------------------|----------|------------------------------------|------------|
|  | 2013                                | 2012     | 2013                               | 2012       |
|  | (Dollars in thousands)              |          |                                    |            |
| Realized gains (losses) on sales of investments      |                                     |          |                                    |            |
| Fixed maturities:                                    |                                     |          |                                    |            |
| Gross gains  | \$ 1,467                            | \$ 5,429 | \$ 15,193                          | \$ 10,077  |
| Gross losses   | (9                                  | ) (11    | ) (2,374                           | ) (446 )   |
| Equity securities                                    | —                                   | —        | —                                  | 310        |
| Mortgage loans                                       | —                                   | —        | —                                  | 767        |
| Real estate  | —                                   | (26      | ) 12                               | (26 )      |
| Other  | —                                   | (13      | ) (6                               | ) (13 )    |
|  | 1,458                               | 5,379    | 12,825                             | 10,669     |
| Impairment losses recognized in earnings:            |                                     |          |                                    |            |
| Credit-related portion of fixed maturity losses (1)  | (618                                | ) (1,179 | ) (618                             | ) (2,026 ) |
| Other credit-related (2)                             | (147                                | ) (2,738 | ) (992                             | ) (7,092 ) |
| Net realized gains on investments recorded in income | \$ 693                              | \$ 1,462 | \$ 11,215                          | \$ 1,551   |

Amount represents the credit-related losses recognized for fixed maturities which were not written down to fair (1) value. As discussed above the non-credit portion of the losses have been recognized in other comprehensive income (loss).

(2) Amount represents credit-related losses for mortgage loans, real estate and fixed maturities written down to fair value.

Proceeds from sales of fixed maturities totaled \$123.2 million at September 30, 2013 and \$129.9 million at September 30, 2012.

Realized gains and losses on sales of investments are determined on the basis of specific identification.

### Mortgage Loans

Our mortgage loan portfolio consists principally of commercial mortgage loans that we have originated. Our lending policies require that the loans be collateralized by the value of the related property, establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type. We originate loans with an initial loan-to-value ratio that provides sufficient excess collateral to absorb losses should we be required to foreclose and take possession of the collateral. In order to identify impairment losses timely, management maintains and reviews a watch list of mortgage loans that have heightened risk. These loans may include those with borrowers delinquent on contractual payments, borrowers experiencing financial difficulty, increases in rental real estate vacancies and significant declines in collateral value. We evaluate each of our mortgage loans individually and establish an allowance as needed for possible losses against our mortgage

loan portfolio. An allowance is needed for loans in which we do not believe we will collect all amounts due according to the contractual terms of the respective loan agreements or a modification which has been classified as a troubled debt restructuring (TDR).

Any loan delinquent on contractual payments is considered non-performing. At September 30, 2013, there were no non-performing loans over 90 days past due on contractual payments. At December 31, 2012, there were two non-performing loans over 90 days past due on contractual payments with a carrying value of \$16.4 million. Interest income is accrued on impaired loans to the extent it is deemed collectible (delinquent less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis. Once mortgage loans are classified as nonaccrual loans, the resumption of the interest accrual would commence only after all past due interest has been collected or the mortgage loan has been restructured to where the collection of interest is considered likely. We did not accrue interest on the two loans at December 31, 2012.

#### Mortgage Loans by Collateral Type

| Collateral Type | September 30, 2013     |                  |   | December 31, 2012 |                  |   |
|-----------------|------------------------|------------------|---|-------------------|------------------|---|
|                 | Carrying Value         | Percent of Total |   | Carrying Value    | Percent of Total |   |
|                 | (Dollars in thousands) |                  |   |                   |                  |   |
| Office          | \$228,943              | 39.9             | % | \$218,837         | 39.4             | % |
| Retail          | 184,584                | 32.2             |   | 184,135           | 33.2             |   |
| Industrial      | 123,415                | 21.5             |   | 133,149           | 24.0             |   |
| Other           | 36,441                 | 6.4              |   | 18,722            | 3.4              |   |
| Total           | \$573,383              | 100.0            | % | \$554,843         | 100.0            | % |

#### Mortgage Loans by Geographic Location within the United States

| Region of the United States | September 30, 2013     |                  |   | December 31, 2012 |                  |   |
|-----------------------------|------------------------|------------------|---|-------------------|------------------|---|
|                             | Carrying Value         | Percent of Total |   | Carrying Value    | Percent of Total |   |
|                             | (Dollars in thousands) |                  |   |                   |                  |   |
| South Atlantic              | \$165,612              | 28.9             | % | \$164,294         | 29.6             | % |
| Pacific                     | 92,242                 | 16.1             |   | 81,333            | 14.7             |   |
| West North Central          | 86,459                 | 15.1             |   | 77,798            | 14.0             |   |
| East North Central          | 80,485                 | 14.0             |   | 81,015            | 14.6             |   |
| Mountain                    | 54,226                 | 9.4              |   | 48,881            | 8.8              |   |
| West South Central          | 38,962                 | 6.8              |   | 42,141            | 7.6              |   |
| Other                       | 55,397                 | 9.7              |   | 59,381            | 10.7             |   |
| Total                       | \$573,383              | 100.0            | % | \$554,843         | 100.0            | % |

#### Mortgage Loans by Loan-to-Value Ratio

|           | September 30, 2013     |                  |   | December 31, 2012 |                  |   |
|-----------|------------------------|------------------|---|-------------------|------------------|---|
|           | Carrying Value         | Percent of Total |   | Carrying Value    | Percent of Total |   |
|           | (Dollars in thousands) |                  |   |                   |                  |   |
| 0% - 50%  | \$142,298              | 24.8             | % | \$173,040         | 31.2             | % |
| 51% - 60% | 200,050                | 34.9             |   | 156,633           | 28.2             |   |

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|           |           |       |             |       |   |
|-----------|-----------|-------|-------------|-------|---|
| 61% - 70% | 200,436   | 35.0  | 186,738     | 33.7  |   |
| 71% - 80% | 26,462    | 4.6   | 36,857      | 6.6   |   |
| 81% - 90% | 4,137     | 0.7   | 1,575       | 0.3   |   |
| Total     | \$573,383 | 100.0 | % \$554,843 | 100.0 | % |

The loan-to-value ratio is determined using the most recent appraised value. Appraisals are updated periodically including when there is indication of a possible significant collateral decline or loan modification and refinance requests.

## Mortgage Loans by Year of Origination

|                | September 30, 2013     |                  | December 31, 2012 |                  |
|----------------|------------------------|------------------|-------------------|------------------|
|                | Carrying Value         | Percent of Total | Carrying Value    | Percent of Total |
|                | (Dollars in thousands) |                  |                   |                  |
| 2013           | \$65,615               | 11.4 %           | \$—               | — %              |
| 2012           | 73,405                 | 12.8             | 75,173            | 13.6             |
| 2011           | 48,523                 | 8.5              | 47,405            | 8.5              |
| 2010           | 26,505                 | 4.6              | 27,422            | 4.9              |
| 2008           | 68,840                 | 12.0             | 70,346            | 12.7             |
| 2007 and prior | 290,495                | 50.7             | 334,497           | 60.3             |
| Total          | \$573,383              | 100.0 %          | \$554,843         | 100.0 %          |

## Impaired Mortgage Loans

|   | September 30, 2013                        | December 31, 2012 |
|---|---|-------------------|
|   | (Dollars in thousands)                    |                   |
| Unpaid principal balance                  | \$22,229                                  | \$10,046          |
| Less:                                     |   |                   |
| Related allowance                         | 559                                       | 1,694             |
| Discount                                  | 526                                       | —                 |
| Carrying value of impaired mortgage loans | \$21,144                                  | \$8,352           |
| Allowance on Mortgage Loans               |   |                   |
|   | Nine months ended September 30, 2013 2012 |                   |
|   | (Dollars in thousands)                    |                   |
| Balance at beginning of period            | \$1,694                                   | \$1,759           |
| Allowances established                    | 475                                       | 335               |
| Charge offs                               | (1,610)                                   | (400)             |
| Balance at end of period                  | \$559                                     | \$1,694           |

## Mortgage Loan Modifications

Our commercial mortgage loan portfolio includes loans that have been modified. We assess loan modifications on a loan-by-loan basis to evaluate whether a TDR has occurred. Generally, the types of concessions include: reduction of the contractual interest rate to a below market rate, extension of the maturity date, and/or a reduction of accrued interest. The amount, timing and extent of the concession granted is considered in determining if an impairment loss is needed for the restructuring.

During the first quarter of 2013 we modified one commercial mortgage loan that met the criteria of a TDR with a carrying value after the restructuring of \$14.4 million and recognized an impairment loss of \$0.5 million. TDR modifications during the first three quarters of 2012 resulted in losses of less than \$0.1 million.

## Variable Interest Entities

We evaluate our variable interest entity (VIE) investees to determine whether the level of our direct ownership interest, our rights to manage operations or our obligation to provide ongoing financial support are such that we are the primary beneficiary of the entity, and are then required to consolidate it for financial reporting purposes. None of our VIE investees were required to be consolidated through September 30, 2013 or 2012. Our VIE investments are as follows:

|                                  | September 30, 2013     |                          | December 31, 2012 |                          |
|----------------------------------|------------------------|--------------------------|-------------------|--------------------------|
|                                  | Carrying Value         | Maximum Exposure to Loss | Carrying Value    | Maximum Exposure to Loss |
|                                  | (Dollars in thousands) |                          |                   |                          |
| Real estate limited partnerships | \$17,493               | \$17,493                 | \$16,914          | \$16,914                 |

We make commitments to fund partnership investments in the normal course of business. We did not have any other commitments to investees designated as VIEs as of September 30, 2013 or December 31, 2012.

#### Derivative Instruments

We are not significantly involved in hedging activities and have limited exposure to derivatives. We do not apply hedge accounting to any of our derivative positions. Derivative assets, which are primarily reported in reinsurance recoverable and other investments, totaled \$3.2 million at September 30, 2013 and \$5.6 million at December 31, 2012. Our derivative assets consist of derivatives embedded within our modified coinsurance agreements and call options which provide an economic hedge for a small block of index annuity contracts. Derivative liabilities totaled \$0.3 million at September 30, 2013 and \$0.5 million December 31, 2012 and include derivatives embedded within our index annuity contracts and derivatives embedded within our modified coinsurance agreements. The net gain (loss) recognized on these derivatives is included in net investment income and interest sensitive benefits and, for the three-month period ended September 30, totaled (\$1.1) million for 2013 and \$0.8 million for 2012 and for the nine-month period ended September 30, totaled (\$2.0) million for 2013 and \$1.1 million for 2012.

#### Other

At September 30, 2013, we had committed to provide \$42.3 million of additional funds for our investments in low income housing tax credit limited partnerships.

### 3. Fair Values

The carrying and estimated fair values of our financial instruments are as follows:

#### Fair Values and Carrying Values

|   | September 30, 2013     |             | December 31, 2012 |             |
|---|------------------------|-------------|-------------------|-------------|
|   | Carrying Value         | Fair Value  | Carrying Value    | Fair Value  |
|   | (Dollars in thousands) |             |                   |             |
| Assets  |                        |             |                   |             |
| Fixed maturities - available for sale             | \$6,145,472            | \$6,145,472 | \$6,265,745       | \$6,265,745 |
| Equity securities - available for sale            | 87,394                 | 87,394      | 86,253            | 86,253      |
| Mortgage loans                                    | 573,383                | 602,276     | 554,843           | 600,448     |
| Policy loans                                      | 175,535                | 214,685     | 174,254           | 227,161     |
| Other investments                                 | 640                    | 640         | 247               | 247         |
| Cash, cash equivalents and short-term investments | 61,121                 | 61,121      | 152,590           | 152,590     |
| Reinsurance recoverable                           | 2,560                  | 2,560       | 5,326             | 5,326       |
| Assets held in separate accounts                  | 665,252                | 665,252     | 618,809           | 618,809     |

#### Liabilities

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|   |             |             |             |             |
|---|-------------|-------------|-------------|-------------|
| Future policy benefits                            | \$3,351,764 | \$3,402,397 | \$3,226,765 | \$3,352,252 |
| Supplemental contracts without life contingencies | 352,420     | 337,779     | 361,273     | 350,187     |
| Advance premiums and other deposits               | 224,637     | 224,637     | 216,857     | 216,857     |
| Short-term debt                                   | 25,000      | 25,000      | —           | —           |
| Long-term debt                                    | 97,000      | 63,292      | 147,000     | 116,359     |
| Other liabilities                                 | —           | —           | 131         | 131         |
| Liabilities related to separate accounts          | 665,252     | 657,398     | 618,809     | 609,704     |



Fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As not all financial instruments are actively traded, various valuation methods may be used to estimate fair value. These methods rely on observable data and where observable data is not available, the best information available. Significant judgment may be required to interpret the data and select the assumptions used in the valuation estimates, particularly when observable market data is not available.

In the discussion that follows, we have ranked our financial instruments by the level of judgment used in the determination of the fair values presented above. The levels are defined as follows:

Level 1 - Fair values are based on unadjusted quoted prices in active markets for identical assets or liabilities.

Level 2 - Fair values are based on inputs, other than quoted prices from active markets, that are observable for the asset or liability, either directly or indirectly.

Level 3 - Fair values are based on significant unobservable inputs for the asset or liability.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument. From time to time there may be movements between levels as inputs become more or less observable, which may depend on several factors including the activity of the market for the specific security, the activity of the market for similar securities, the level of risk spreads and the source of the information from which we obtain the information. Transfers in or out of any level are measured as of the beginning of the period.

The following methods and assumptions were used in estimating the fair value of our financial instruments:

Fixed maturities:

Level 1 fixed maturities consist of U.S. Treasury issues that are actively traded, allowing us to use current market prices as an estimate of their fair value.

Level 2 fixed maturities consist of corporate, mortgage and other asset-backed, United States Government agencies and private placement securities with observable market data, and in some circumstances recent trade activity. When quoted prices of identical assets in active markets are not available, our first priority is to obtain prices from third party pricing vendors. We have regular interaction with these vendors to ensure we understand their pricing methodologies and to confirm they are utilizing observable market information. Their methodologies vary by asset class and include inputs such as estimated cash flows, benchmark yields, reported trades, credit quality, industry events and economic events. Fixed maturities with validated prices from pricing services, which includes the majority of our public fixed maturities in all asset classes, are generally reflected in Level 2.

Also included in Level 2 are corporate bonds where quoted market prices are not available, for which an internal model using substantially all observable inputs or a matrix pricing valuation approach is used. In the matrix approach, securities are grouped into pricing categories that vary by sector, rating and average life. Each pricing category is assigned a risk spread based on studies of observable public market data. The expected cash flows of the security are then discounted back at the current Treasury curve plus the appropriate risk spread.

Level 3 fixed maturities include private placements as well as corporate, mortgage and other asset-backed and state and municipal securities for which there is little or no current market data available. We use external pricing sources, or if prices are not available will estimate fair value internally. Fair values of private investments in Level 3 are determined by reference to public market, private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. For other securities where an exit price based on relevant observable inputs is not obtained, the fair value is determined using a matrix calculation. Fair values estimated through use of matrix pricing methods rely on an estimate of credit spreads to a risk free U.S. Treasury yield. Selecting the credit spread requires judgment based on an understanding of the security and may include a market liquidity premium. Our selection of comparable companies as well as the level of spread requires significant judgment. Increases in spreads used in our

matrix models, or those used to value comparable companies, will result in a decrease in discounted cash flows used, and accordingly in the estimated fair value of the security.

We obtain fixed maturity fair values from a variety of external independent pricing services, including brokers, with access to observable data including recent trade information, if available. In certain circumstances in which an external price is not available for a Level 3 security, we will internally estimate its fair value. Our process for evaluation and selection of the fair values includes:

Follow a “pricing waterfall” policy, which establishes the pricing source preference for a particular security or security type. The order of preference is based on our evaluation of the valuation methods used, the source's knowledge of the instrument and the reliability of the prices we have received from the source in the past. Our valuation policy dictates that fair values are initially sought from third party pricing services. If our review of the prices received from our preferred source indicates an inaccurate price, we will use an alternative source within the waterfall and document the decision. In the event that fair values are not available from one of our external pricing services or upon review of the fair values provided it is determined that they may not be reflective of market conditions, those securities are submitted to brokers familiar with the security to obtain non-binding price quotes. Broker quotes tend to be used in limited circumstances such as for newly issued, private placement and other instruments that are not widely traded. For those securities for which an externally provided fair value is not available we use cash flow modeling techniques to estimate fair value.

- Evaluate third party pricing source estimation methodologies to assess whether they will provide a fair value which approximates a market exit price.

- Perform an overall analysis of portfolio fair value movement against general movements in interest rates and spreads.

- Compare month-to-month price trends to detect unexpected price fluctuation based on our knowledge of the market and the particular instrument. As fluctuations are noted, we will perform further research which may include discussions with the original pricing source or other external sources to ensure we are in agreement with the valuation.

- Compare prices between different pricing sources for unusual disparity.

- Meet monthly with our Investment Committee, the group that oversees our valuation process, to discuss valuation practices and observations during the pricing process.

Equity securities:

Level 1 equity securities consist of listed common stocks and mutual funds that are actively traded, allowing us to use current market prices as an estimate of their fair value.

Level 2 equity securities consist of common stock issued by the Federal Home Loan Bank, with estimated fair value based on the current redemption value of the shares and non-redeemable preferred stock with estimated fair value obtained from external pricing sources using a matrix pricing approach.

Level 3 equity securities consist of a non-redeemable preferred stock for which no active market exists, and fair value estimates for these securities is based on the values of comparable securities which are actively traded. Increases in spreads used in our matrix models, or those used to value comparable companies, will result in a decrease in discounted cash flows used, and accordingly in the estimated fair value of the security.

In the case where external pricing services are used for certain Level 1 and Level 2 equity securities, our review process is consistent with the process used to determine the fair value of fixed maturities discussed above.

Mortgage loans:

Mortgage loans are not measured at fair value on a recurring basis. Mortgage loans are a Level 3 measurement as there is no current market for the loans. The fair value of our mortgage loans is estimated internally using a matrix pricing approach. Along with specific loan terms, two key management assumptions are required including the risk rating of the

loan (our current rating system A-highest quality, B-moderate quality, C-low quality and W-watch or F-foreclosure) and estimated spreads for new loans over the U.S. Treasury yield curve. Spreads are updated quarterly and loans are reviewed and rated annually with quarterly adjustments should significant changes occur. Our determination of each loan's risk rating as well as selection of the credit spread requires significant judgment. A higher risk rating, as well as an increase in spreads, would result in a decrease in discounted cash flows used, and accordingly the fair value of the loan.

Policy loans:

Policy loans are not measured at fair value on a recurring basis. Policy loans are a Level 3 measurement as there is no current market since they are specifically tied to the underlying insurance policy. The loans are relatively risk free as they cannot exceed the cash surrender value of the insurance policy. Fair values are estimated by discounting expected cash flows using a risk-free interest rate based on the U.S. Treasury curve. An increase in the risk-free interest rate would result in a decrease in discounted cash flows used, and accordingly the fair value of the loan.

Other investments:

Level 2 other investments include call options with fair values based on counterparty market prices adjusted for a credit component of the counterparty.

Cash, cash equivalents and short-term investments:

Level 1 cash, cash equivalents and short-term investments are highly liquid instruments for which historical cost approximates fair value.

Reinsurance recoverable:

Level 2 reinsurance recoverable includes embedded derivatives in our modified coinsurance contracts under which we cede or assume business. Fair values of these embedded derivatives are based on the difference between the fair value and the cost basis of the underlying fixed maturities, which are valued consistent with the discussion of fixed maturities above.

Assets held in separate accounts:

Level 1 assets held in separate accounts consist of mutual funds that are actively traded, allowing us to use current market prices as an estimate of their fair value.

Future policy benefits, supplemental contracts without life contingencies and advance premiums and other deposits:

Level 3 policy related financial instruments of investment-type contracts are those not involving significant mortality or morbidity risks. No active market exists for these contracts and they are not measured at fair value on a recurring basis. Fair values for our insurance contracts, other than investment-type contracts, are not required to be disclosed. Fair values for our investment-type contracts with expected maturities, including deferred annuities, funding agreements and supplementary contracts, are determined using discounted cash flow valuation techniques based on current interest rates adjusted to reflect our credit risk and an additional provision for adverse deviation. For certain deposit liabilities with no defined maturities and no surrender charges, including pension related deposit administration funds, advance premiums and other deposits, fair value is the account value or amount payable on demand. Significant judgment is required in selecting the assumptions used to estimate the fair values of these financial instruments. For contracts with known maturities, increases in current rates will result in a decrease in

discounted cash flows and a decrease in the estimated fair value of the policy obligation.

Certain annuity contracts include embedded derivatives and are measured at fair value on a recurring basis. These embedded derivatives are a Level 3 measurement. The fair value of the embedded derivatives is based on the discounted excess of projected account values (including a risk margin) over projected guaranteed account values. The key unobservable inputs required in the projection of future values which require management judgment include the risk margin as well as the credit risk of our company. Should the risk margin increase or the credit risk decrease the discounted cash flows and the estimated fair value of the obligation will increase.

# Short-term debt:

Short-term debt is not measured at fair value on a recurring basis and is a Level 3 measurement. Our short-term debt is a weekly renewable instrument, last renewed on September 30, 2013 at which time its interest rate was reset to the issuer's current lending rate. Given the recent renewal of this short-term debt, its carrying value approximates fair value.

# Long-term debt:

Long-term debt is not measured at fair value on a recurring basis and is a Level 3 measurement. The fair value of our outstanding debt is estimated using a discounted cash flow method based on the market's assessment or our current incremental borrowing rate for similar types of borrowing arrangements adjusted, as needed, to reflect our credit risk. Our selection of the credit spread requires significant judgment. A decrease in the spread will increase the estimated fair value of the outstanding debt.

# Other liabilities:

Level 2 other liabilities include the embedded derivatives in our modified coinsurance contracts under which we cede business. Fair values for the embedded derivatives are based on the difference between the fair value and the cost basis of the underlying fixed maturities.

# Liabilities related to separate accounts:

Separate account liabilities are not measured at fair value on a recurring basis. Level 3 separate account liabilities' fair value is based on the cash surrender value of the underlying contract, which is the cost we would incur to extinguish the liability.

# Valuation of our Financial Instruments Measured on a Recurring Basis by Hierarchy Levels

|   | September 30, 2013  |  |  |             |
|---|---|--|--|-------------|
|   | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total       |
|   | (Dollars in thousands)  |  |  |             |
| Assets  |   |  |  |             |
| Corporate securities                              | \$—   | \$3,248,851  | \$84,583   | \$3,333,434 |
| Residential mortgage-backed securities            | —   | 539,142  | —  | 539,142     |
| Commercial mortgage-backed securities             | —   | 354,513  | 71,857   | 426,370     |
| Other asset-backed securities                     | —   | 379,362  | 88,020   | 467,382     |
| United States Government and agencies             | 15,134  | 20,484   | 8,092  | 43,710      |
| State, municipal and other governments            | —   | 1,335,434  | —  | 1,335,434   |
| Non-redeemable preferred stocks                   | —   | 48,023   | 12,670   | 60,693      |
| Common stocks                                     | 3,051   | 23,650   | —  | 26,701      |
| Other investments                                 | —   | 640  | —  | 640         |
| Cash, cash equivalents and short-term investments | 61,121  | —  | —  | 61,121      |
| Reinsurance recoverable                           | —   | 2,560  | —  | 2,560       |
| Assets held in separate accounts                  | 665,252   | —  | —  | 665,252     |

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|  |           |             |           |             |
|--|-----------|-------------|-----------|-------------|
| Total assets   | \$744,558 | \$5,952,659 | \$265,222 | \$6,962,439 |
| Liabilities  |           |             |           |             |
| Future policy benefits - index annuity<br>embedded derivatives | \$—       | \$—         | \$287     | \$287       |
| Total liabilities  | \$—       | \$—         | \$287     | \$287       |



## Valuation of our Financial Instruments Measured on a Recurring Basis by Hierarchy Levels

|   | December 31, 2012   |  |  |             |
|---|---|--|--|-------------|
|   | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1)<br>(Dollars in thousands) | Significant other<br>observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total       |
| Assets  |   |  |  |             |
| Corporate securities  | \$—   | \$3,195,120  | \$100,463  | \$3,295,583 |
| Residential mortgage-backed securities                      | —   | 674,182  | —  | 674,182     |
| Commercial mortgage-backed securities                       | —   | 434,538  | 76,281   | 510,819     |
| Other asset-backed securities                               | —   | 393,957  | 95,756   | 489,713     |
| United States Government and agencies                       | 14,884  | 25,570   | 8,555  | 49,009      |
| State, municipal and other governments                      | —   | 1,246,216  | 223  | 1,246,439   |
| Non-redeemable preferred stocks                             | —   | 53,101   | 7,391  | 60,492      |
| Common stocks   | 2,773   | 22,988   | —  | 25,761      |
| Other investments   | —   | 247  | —  | 247         |
| Cash, cash equivalents and short-term investments           | 152,590   | —  | —  | 152,590     |
| Reinsurance recoverable                                     | —   | 5,326  | —  | 5,326       |
| Assets held in separate accounts                            | 618,809   | —  | —  | 618,809     |
| Total assets  | \$789,056   | \$6,051,245  | \$288,669  | \$7,128,970 |
| Liabilities   |   |  |  |             |
| Future policy benefits - index annuity embedded derivatives | \$—   | \$—  | \$307  | \$307       |
| Other liabilities   | —   | 131  | —  | 131         |
| Total liabilities   | \$—   | \$131  | \$307  | \$438       |

## Level 3 Fixed Maturities on a Recurring Basis by Valuation Source

|                                       | September 30, 2013                               |                      |           |   |
|---------------------------------------|--|----------------------|-----------|---|
|                                       | Third-party<br>vendors<br>(Dollars in thousands) | Priced<br>internally | Total     |   |
| Corporate securities                  | \$43,134   | \$41,449             | \$84,583  |   |
| Commercial mortgage-backed securities | 71,857   | —                    | 71,857    |   |
| Other asset-backed securities         | 67,311   | 20,709               | 88,020    |   |
| United States Government and agencies | 8,092  | —                    | 8,092     |   |
| Total                                 | \$190,394  | \$62,158             | \$252,552 |   |
| Percent of total                      | 75.4   | % 24.6               | % 100.0   | % |

  

|                                       | December 31, 2012                                |                      |           |
|---------------------------------------|--|----------------------|-----------|
|                                       | Third-party<br>vendors<br>(Dollars in thousands) | Priced<br>internally | Total     |
| Corporate securities                  | \$70,975   | \$29,488             | \$100,463 |
| Commercial mortgage-backed securities | 76,281   | —                    | 76,281    |
| Other asset-backed securities         | 79,320   | 16,436               | 95,756    |

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|  |           |          |           |   |
|--|-----------|----------|-----------|---|
| United States Government and agencies  | 8,555     | —        | 8,555     |   |
| State, municipal and other governments | 223       | —        | 223       |   |
| Total                                  | \$235,354 | \$45,924 | \$281,278 |   |
| Percent of total                       | 83.7      | % 16.3   | % 100.0   | % |

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## Quantitative Information about Level 3 Fair Value Measurements - Recurring Basis

| September 30, 2013  |                        |                      |                            |  |
|---|------------------------|----------------------|----------------------------|--|
|   | Fair Value             | Valuation Technique  | Unobservable Input         | Range (Weighted Average)                       |
|   | (Dollars in thousands) |                      |                            |  |
| Assets  |                        |                      |                            |  |
| Corporate securities  | \$49,987               | Discounted cash flow | Credit spread              | 0.93% - 17.65% (7.90%)                         |
| Commercial mortgage-backed                                  | 71,857                 | Discounted cash flow | Credit spread              | 1.90% - 4.40% (3.14%)                          |
| Other asset-backed securities                               | 37,554                 | Discounted cash flow | Credit spread              | 1.03% - 5.77% (4.05%)                          |
| Non-redeemable preferred stocks                             | 7,795                  | Discounted cash flow | Credit spread              | 4.70% (4.70%)                                  |
| Total Assets  | \$167,193              |                      |                            |  |
| Liabilities   |                        |                      |                            |  |
| Future policy benefits - index annuity embedded derivatives | \$287                  | Discounted cash flow | Credit risk<br>Risk margin | 0.40% - 1.85% (1.20%)<br>0.15% - 0.40% (0.25%) |
| December 31, 2012   |                        |                      |                            |  |
|   | Fair Value             | Valuation Technique  | Unobservable Input         | Range (Weighted Average)                       |
|   | (Dollars in thousands) |                      |                            |  |
| Assets  |                        |                      |                            |  |
| Corporate securities  | \$54,538               | Discounted cash flow | Credit spread              | 0.78% - 9.21% (5.72%)                          |
| Commercial mortgage-backed                                  | 76,264                 | Discounted cash flow | Credit spread              | 1.95% - 4.80% (3.35%)                          |
| Other asset-backed securities                               | 43,119                 | Discounted cash flow | Credit spread              | 1.24% - 6.07% (4.28%)                          |
| State, municipal and other governments                      | 223                    | Discounted cash flow | Credit spread              | 1.75% (1.75%)                                  |
| Non-redeemable preferred stocks                             | 7,391                  | Discounted cash flow | Credit spread              | 6.00% (6.00%)                                  |
| Total Assets  | \$181,535              |                      |                            |  |
| Liabilities   |                        |                      |                            |  |
| Future policy benefits - index annuity embedded derivatives | \$307                  | Discounted cash flow | Credit risk<br>Risk margin | 1.00% - 2.50% (1.80%)<br>0.15% - 0.40% (0.25%) |

The tables above exclude certain securities for which the fair values were based on non-binding broker quotes where we could not reasonably obtain the quantitative unobservable inputs.

## Level 3 Financial Instruments Changes in Fair Value Recurring Basis

|   | September 30, 2013               |           |             |  |  |                                     |                                       |  |                                      |
|---|----------------------------------|-----------|-------------|--|--|-------------------------------------|---------------------------------------|--|--------------------------------------|
|   | Balance,<br>December<br>31, 2012 | Purchases | Disposals   | Realized and<br>unrealized gains<br>(losses), net<br>Included in<br>net income | Realized and<br>unrealized gains<br>(losses), net<br>Included in<br>other<br>comprehensive<br>income | Transfers<br>into<br>Level 3<br>(1) | Transfers<br>out of<br>Level 3<br>(1) | Amort-ization<br>included in<br>net income | Balance,<br>September<br>30,<br>2013 |
|   | (Dollars in thousands)           |           |             |  |  |                                     |                                       |  |                                      |
| Assets  |                                  |           |             |  |  |                                     |                                       |  |                                      |
| Corporate securities  | \$ 100,463                       | \$ 2,129  | \$(5,387 )  | \$—  | \$ (1,810 )  | \$—                                 | \$(10,798 )                           | \$ (14 )                                   | \$ 84,583                            |
| Commercial mortgage-backed securities                       | 76,281                           | —         | (491 )      | —  | (3,996 )   | —                                   | —                                     | 63   | 71,857                               |
| Other asset-backed securities                               | 95,756                           | 37,411    | (10,408 )   | —  | (1,439 )   | 4,062                               | (38,405 )                             | 1,043                                      | 88,020                               |
| United States Government and agencies                       | 8,555                            | —         | —           | —  | (468 )   | —                                   | —                                     | 5  | 8,092                                |
| State, municipal and other governments                      | 223                              | —         | (218 )      | —  | (5 )   | —                                   | —                                     | —  | —                                    |
| Non-redeemable preferred stocks                             | 7,391                            | —         | —           | —  | 71   | 5,208                               | —                                     | —  | 12,670                               |
| Total Assets  | \$ 288,669                       | \$ 39,540 | \$(16,504 ) | \$—  | \$ (7,647 )  | \$ 9,270                            | \$(49,203 )                           | \$ 1,097                                   | \$ 265,222                           |
| Liabilities   |                                  |           |             |  |  |                                     |                                       |  |                                      |
| Future policy benefits - index annuity embedded derivatives | \$ 307                           | \$—       | \$(26 )     | \$—  | \$ 6   | \$—                                 | \$—                                   | \$ —                                       | \$ 287                               |
| Total Liabilities   | \$ 307                           | \$—       | \$(26 )     | \$—  | \$ 6   | \$—                                 | \$—                                   | \$ —                                       | \$ 287                               |

## Level 3 Financial Instruments Changes in Fair Value Recurring Basis

|  | September 30, 2012               |           |            |   |   |  |   |  |                                      |
|--|----------------------------------|-----------|------------|---|---|--|---|--|--------------------------------------|
|  |                                  |           |            | Realized and<br>unrealized gains<br>(losses), net |   |  |   |  |                                      |
|  | Balance,<br>December<br>31, 2011 | Purchases | Disposals  | Included<br>in net<br>income                      | Included<br>in other<br>compre-hens-<br>ive<br>income | Net<br>transfers<br>into<br>Level 3<br>(2) | Net<br>transfers<br>out of<br>Level 3 (2) | Amort-iza-<br>tion<br>included<br>in net<br>income | Balance,<br>September<br>30,<br>2012 |
|  | (Dollars in thousands)           |           |            |   |   |  |   |  |                                      |
| Assets   |                                  |           |            |   |   |  |   |  |                                      |
| Corporate securities   | \$ 106,412                       | \$—       | \$(14,108) | \$(9 )  | \$ 3,201  | \$28,109                                   | \$(15,295 )                               | \$ 94  | \$ 108,404                           |
| Residential mortgage-backed securities                                   | 7,711                            | —         | —          | —   | —   | —  | (7,711 )                                  | —  | —                                    |
| Commercial mortgage-backed securities                                    | 27,899                           | 5,105     | (2,181 )   | —   | 264   | 63,313                                     | (14,055 )                                 | 61   | 80,406                               |
| Other asset-backed securities  | 113,458                          | 56,382    | (5,637 )   | (44 )   | 1,523   | 12,440                                     | (99,553 )                                 | 722  | 79,291                               |
| Collateralized debt obligation   | 270                              | —         | —          | (252 )  | —   | —  | —   | —  | 18                                   |
| United States Government and agencies                                    | 12,588                           | —         | —          | —   | 111   | —  | (4,010 )                                  | 4  | 8,693                                |
| State, municipal and other governments                                   | 12,044                           | —         | (4,195 )   | —   | (315 )  | —  | (7,845 )                                  | 561  | 250                                  |
| Non-redeemable preferred stocks  | 14,447                           | —         | (5,105 )   | 105   | 646   | —  | (2,805 )                                  | —  | 7,288                                |
| Common stocks  | —                                | 4,370     | —          | —   | —   | —  | —   | —  | 4,370                                |
| Total Assets   | \$294,829                        | \$65,857  | \$(31,226) | \$(200 )  | \$ 5,430  | \$103,862                                  | \$(151,274)                               | \$ 1,442   | \$288,720                            |
| Liabilities  |                                  |           |            |   |   |  |   |  |                                      |
| Future policy benefits - index annuity embedded derivatives              | \$302                            | \$—       | \$(24 )    | \$—   | \$ 53   | \$—  | \$—                                       | \$ —   | \$331                                |
| Other liabilities-Senior Notes make-whole redemption embedded derivative | 33,144                           | —         | (33,144 )  | —   | —   | —  | —   | —  | —                                    |
| Total Liabilities  | \$33,446                         | \$—       | \$(33,168) | \$—   | \$ 53   | \$—  | \$—                                       | \$ —   | \$331                                |

Transfers into Level 3 represent assets previously priced using an external pricing service with access to observable inputs no longer available and therefore, were priced using non-binding broker quotes. Transfers out of Level 3 (1) include those assets that we are now able to obtain pricing from a third party pricing vendor that uses observable inputs. There were no transfers between Level 1 and Level 2 during 2013.

Transfers into Level 3 represent assets previously priced using an external pricing service with access to observable inputs no longer available and therefore, were priced using non-binding broker quotes. During 2012, we began (2) using an external pricing service with access to observable inputs for a portion of our Level 3 investments for which non-binding broker quotes were previously used to estimate fair value. We believe the change in pricing sources is appropriate, and consistent with our pricing waterfall policy to use higher level valuation methods when available. There were no transfers between Level 1 and Level 2 during 2012.

## Valuation of our Financial Instruments Not Reported at Fair Value by Hierarchy Levels

|   | September 30, 2013  |  |  |             |
|---|---|--|--|-------------|
|   | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1)<br>(Dollars in thousands) | Significant<br>other observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total       |
| Assets  |   |  |  |             |
| Mortgage loans                                    | \$—   | \$—  | \$602,276  | \$602,276   |
| Policy loans                                      | —   | —  | 214,685  | 214,685     |
| Total assets                                      | \$—   | \$—  | \$816,961  | \$816,961   |
| Liabilities                                       |   |  |  |             |
| Future policy benefits                            | \$—   | \$—  | \$3,402,110  | \$3,402,110 |
| Supplemental contracts without life contingencies | —   | —  | 337,779  | 337,779     |
| Advance premiums and other deposits               | —   | —  | 224,637  | 224,637     |
| Short-term debt                                   | —   | —  | 25,000   | 25,000      |
| Long-term debt                                    | —   | —  | 63,292   | 63,292      |
| Liabilities related to separate accounts          | —   | —  | 657,398  | 657,398     |
| Total liabilities                                 | \$—   | \$—  | \$4,710,216  | \$4,710,216 |

|   | December 31, 2012   |  |  |             |
|---|---|--|--|-------------|
|   | Quoted prices in<br>active markets<br>for identical<br>assets (Level 1)<br>(Dollars in thousands) | Significant<br>other observable<br>inputs<br>(Level 2) | Significant<br>unobservable<br>inputs<br>(Level 3) | Total       |
| Assets  |   |  |  |             |
| Mortgage loans                                    | \$—   | \$—  | \$600,448  | \$600,448   |
| Policy loans                                      | —   | —  | 227,161  | 227,161     |
| Total assets                                      | \$—   | \$—  | \$827,609  | \$827,609   |
| Liabilities                                       |   |  |  |             |
| Future policy benefits                            | \$—   | \$—  | \$3,351,945  | \$3,351,945 |
| Supplemental contracts without life contingencies | —   | —  | 350,187  | 350,187     |
| Advance premiums and other deposits               | —   | —  | 216,857  | 216,857     |
| Long-term debt                                    | —   | —  | 116,359  | 116,359     |
| Liabilities related to separate accounts          | —   | —  | 609,704  | 609,704     |
| Total liabilities                                 | \$—   | \$—  | \$4,645,052  | \$4,645,052 |

## Level 3 Financial Instruments Measured at Fair Value on a Nonrecurring Basis

Certain assets are measured at fair value on a nonrecurring basis, generally mortgage loans or real estate which have been deemed to be impaired during the reporting period. During the nine months ended September 30, 2013, one real estate property was impaired to a fair value totaling \$1.9 million which resulted in an impairment charge of \$0.2

million. During the nine months ended September 30, 2012, one mortgage loan was impaired to a fair value totaling \$1.6 million which resulted in an impairment charge of \$0.3 million.



## 4. Defined Benefit Plan

We participate with several affiliates and an unaffiliated organization in various defined benefit plans, including a multiemployer plan. Our share of net periodic pension cost for the plans is recorded as expense in our consolidated statements of operations.

## Components of Net Periodic Pension Cost for FBL and Affiliates Combined - Multiemployer Plan

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2013                                | 2012     | 2013                               | 2012      |
|  | (Dollars in thousands)              |          |                                    |           |
| Service cost   | \$1,618                             | \$2,029  | \$4,854                            | \$6,087   |
| Interest cost  | 3,346                               | 3,176    | 10,038                             | 9,528     |
| Expected return on assets                                    | (3,916                              | ) (3,520 | ) (11,748                          | ) (10,560 |
| Amortization of prior service cost                           | 36                                  | 106      | 108                                | 318       |
| Amortization of actuarial loss                               | 3,117                               | 2,367    | 9,351                              | 7,101     |
| Net periodic pension cost                                    | \$4,201                             | \$4,158  | \$12,603                           | \$12,474  |
| FBL Financial Group, Inc. share of net periodic pension cost | \$1,341                             | \$1,343  | \$4,023                            | \$4,071   |

On September 26, 2013, we redeemed the Senior Notes payable to affiliates that had a balance of \$50.0 million at December 31, 2012. These 6.10% Senior Notes were due May 3, 2015 and prepayable anytime at par. These notes were issued to Farm Bureau Property & Casualty and an investment affiliate of the Iowa Farm Bureau Federation, our majority stockholder.

Short-term debt consists of a \$25.0 million floating rate (0.21% at September 30, 2013) advance from the Federal Home Loan Bank, collateralized by fixed maturity securities with a carrying value of \$28.9 million.

During the first quarter of 2012, we completed the required redemption of \$175.0 million of our long-term debt in accordance with the mandatory redemption provisions of the underlying notes. The make-whole redemption price of \$210.9 million, which included repayment of principal, accrued interest and a make-whole premium, was funded from assets held in two irrevocable

debt defeasance trusts. The make-whole redemption premium was based on U.S. Treasury yields and considered an embedded derivative with a fair value of \$33.1 million at December 31, 2011. The change in fair value during 2012 was offset by the write off of deferred debt issuance costs and reported with other expenses in the consolidated statements of operations.

## 7. Stockholders' Equity

### Special Dividend

On August 21, 2013, the Board of Directors approved a special \$2.00 per share cash dividend to Class A and B common shareholders of record as of September 6, 2013. The aggregate dividend totaling \$51.4 million was paid on September 13, 2013.

### Share Repurchases

On August 21, 2013, the Board of Directors authorized the repurchase of Class B common shares through a tender offer for 99 percent of all Class B shares outstanding. The tender offer was conditioned upon all the Class B shareholders either tendering their shares or converting their shares to Class A. The tender price of \$45.33 was based upon the average of the closing price of FBL's Class A common stock for the seven consecutive business days preceding the tender closing date of September 25, 2013. All Class B shareholders participated with 1,023,948 Class B common shares repurchased for \$46.4 million and 105,930 shares of Class B common stock converted to Class A common stock.

During 2011 and 2012, the Board of Directors approved plans to repurchase up to \$230.0 million of Class A common stock. These repurchase plans authorize us to make repurchases in the open market or through privately negotiated transactions, with the timing and terms of the purchases to be determined by management based on market conditions. At September 30, 2013, \$20.3 million remains available for repurchase under these plans. Completion of the program is dependent on market conditions and other factors. There is no guarantee as to the exact timing of any repurchases or the number of shares that we will repurchase. The share repurchase program may be modified or terminated at any time without prior notice.

In addition to the Class B activity described above, during the nine months ended September 30, 2013, we repurchased 363,430 shares of Class A common stock for \$14.2 million. During the nine months ended September 30, 2012, we conducted a modified "Dutch Auction" tender offer, entered into a separate stock repurchase agreement with our majority stockholder and purchased shares in the open market totaling 4,991,012 shares for \$164.2 million.

### Reconciliation of Outstanding Common Stock

|   | Class A<br>Shares<br>(Dollars in thousands) | Dollars   | Class B<br>Shares | Dollars | Total<br>Shares | Dollars   |
|---|---|-----------|-------------------|---------|-----------------|-----------|
| Outstanding at January 1, 2012                    | 29,457,644                                  | \$129,684 | 1,192,990         | \$7,522 | 30,650,634      | \$137,206 |
| Issuance of common stock under compensation plans | 273,649                                     | 8,714     | —                 | —       | 273,649         | 8,714     |
| Purchase of common stock                          | (4,991,012 )                                | (22,355 ) | —                 | —       | (4,991,012 )    | (22,355 ) |
| Outstanding at September 30, 2012                 | 24,740,281                                  | \$116,043 | 1,192,990         | \$7,522 | 25,933,271      | \$123,565 |
| Outstanding at January 1, 2013                    | 24,282,184                                  | \$115,706 | 1,192,890         | \$7,522 | 25,475,074      | \$123,228 |
| Issuance of common stock under compensation plans | 629,516                                     | 18,954    | —                 | —       | 629,516         | 18,954    |

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|   |            |           |              |          |              |           |
|---|------------|-----------|--------------|----------|--------------|-----------|
| Purchase of common stock                          | (363,430 ) | (1,862 )  | (1,023,948 ) | (6,457 ) | (1,387,378 ) | (8,319 )  |
| Conversion of Class B to Class A common stock (1) | 157,529    | 993       | (157,529 )   | (993 )   | —            | —         |
| Outstanding at September 30, 2013                 | 24,705,799 | \$133,791 | 11,413       | \$72     | 24,717,212   | \$133,863 |

(1) There is no established market for our Class B common stock, although it is convertible upon demand into Class A common stock on a share for share basis. See discussion of tender offer above.

# Accumulated Other Comprehensive Income, Net of Tax and Other Offsets

|  | Unrealized<br>Net<br>Investment<br>Gains<br>(Losses) on<br>Available For<br>Sale<br>Securities (1)<br>(Dollars in thousands) | Accumulated<br>Non-Credit<br>Impairment<br>Losses | Underfunded<br>Status of<br>Postretirement<br>Benefit Plans | Total       |
|--|--|---|---|-------------|
| Balance at January 1, 2012                                 | \$190,449  | \$(12,703)  | ) \$ 99   | \$177,845   |
| Other comprehensive income before reclassifications        | 118,326  | 6,955   | —   | 125,281     |
| Reclassification adjustments                               | (6,883)  | ) (7,715)   | ) (96)  | ) (14,694)  |
| Balance at September 30, 2012                              | \$301,892  | \$(13,463)  | ) \$ 3  | \$288,432   |
| Balance at January 1, 2013                                 | \$306,167  | \$(8,362)   | ) \$ (7,952)  | ) \$289,853 |
| Other comprehensive income (loss) before reclassifications | (151,182)  | ) 6,499   | —   | (144,683)   |
| Reclassification adjustments                               | (7,838)  | ) \$(2,687)                                       | ) 671   | (9,854)     |
| Balance at September 30, 2013                              | \$147,147  | \$(4,550)   | ) \$ (7,281)  | ) \$135,316 |

(1) Includes the impact of taxes, deferred acquisition costs, value of insurance in force acquired, unearned revenue reserves and policyholder liabilities. See Note 2 for further information.

# Accumulated Other Comprehensive Income Reclassification Adjustments

|   | Nine months ended September 30, 2013   |   |  | Total      |
|---|--|---|--|------------|
|   | Unrealized<br>Net<br>Investment<br>Gains<br>(Losses) on<br>Available For<br>Sale<br>Securities (1)<br>(Dollars in thousands) | Accumulated<br>Non-Credit<br>Impairment<br>Losses (1) | Underfunded<br>Status of<br>Postretirement<br>Benefit<br>Plans (2) |            |
| Realized capital gains on sales of investments  | \$(12,819)   | ) \$—   | \$—  | \$(12,819) |
| Adjustments for assumed changes in deferred policy acquisition costs, value of insurance in force acquired, unearned revenue reserve and policyholder liabilities | 760  | 116   | —  | 876        |
| Other than temporary impairment losses  | —  | (4,250)   | ) —  | (4,250)    |
| Other expenses: Amortization of unrecognized postretirement items:  |  |   |  |            |
| Prior service costs   | —  | —   | (9   | ) (9       |
| Net actuarial loss  | —  | —   | 1,041  | 1,041      |
| Reclassifications before income taxes   | (12,059)   | ) (4,134)   | ) 1,032  | (15,161)   |
| Income taxes  | 4,221  | 1,447   | (361)  | ) 5,307    |
| Reclassification adjustments  | \$(7,838)  | ) \$(2,687)   | ) \$ 671   | \$(9,854)  |



# Accumulated Other Comprehensive Income Reclassification Adjustments

|   | Nine months ended September 30, 2012 |             |                |              |
|---|--------------------------------------|-------------|----------------|--------------|
|   | Unrealized                           |             |                |              |
|   | Net                                  |             |                |              |
|   | Investment                           | Accumulated | Unfunded       | Total        |
|   | Gains                                | Non-Credit  | Status of      |              |
|   | (Losses) on                          | Impairment  | Postretirement |              |
|   | Available For                        | Losses (1)  | Benefit        |              |
|   | Sale                                 |             | Plans (2)      |              |
|   | Securities (1)                       |             |                |              |
|   | (Dollars in thousands)               |             |                |              |
| Realized capital gains on sales of investments  | \$ (9,941 )                          | \$ —        | \$ —           | \$ (9,941 )  |
| Adjustments for assumed changes in deferred policy acquisition costs, value of insurance in force acquired, unearned revenue reserve and policyholder liabilities | (648 )                               | 201         | —              | (447 )       |
| Other than temporary impairment losses  | —                                    | (12,070 )   | —              | (12,070 )    |
| Other expenses: Amortization of unrecognized postretirement items:  |                                      |             |                |              |
| Net actuarial loss  | —                                    | —           | (148 )         | (148 )       |
| Reclassifications before income taxes   | (10,589 )                            | (11,869 )   | (148 )         | (22,606 )    |
| Income taxes  | 3,706                                | 4,154       | 52             | 7,912        |
| Reclassification adjustments  | \$ (6,883 )                          | \$ (7,715 ) | \$ (96 )       | \$ (14,694 ) |
| (1) See Note 2 for further information.   |                                      |             |                |              |
| (2) See Note 4 for further information.   |                                      |             |                |              |

## 8. Earnings Per Share

## Computation of Earnings Per Common Share

|   | Three months ended September 30, 2013         |            | Nine months ended September 30, 2013 |            |
|---|---|------------|--------------------------------------|------------|
|   | 2012  | 2013       | 2012                                 | 2013       |
|   | (Dollars in thousands, except per share data) |            |                                      |            |
| Numerator:  |   |            |                                      |            |
| Net income attributable to FBL Financial Group, Inc.                | \$27,053                                      | \$20,476   | \$81,606                             | \$57,354   |
| Less: Net loss from discontinued operations                         | —   | 55         | —                                    | (2,961)    |
| Less: Dividends on Series B preferred stock                         | 37  | 37         | 112                                  | 112        |
| Income available to common stockholders from continuing operations  | \$27,016                                      | \$20,384   | \$81,494                             | \$60,203   |
| Denominator:  |   |            |                                      |            |
| Weighted average shares - basic                                     | 25,770,499                                    | 26,562,068 | 25,721,995                           | 28,072,997 |
| Effect of dilutive securities - stock-based compensation            | 259,059                                       | 304,593    | 258,127                              | 350,150    |
| Weighted average shares - diluted                                   | 26,029,558                                    | 26,866,661 | 25,980,122                           | 28,423,147 |
| Earnings per common share:  |   |            |                                      |            |
| Income from continuing operations                                   | \$1.05  | \$0.77     | \$3.17                               | \$2.14     |
| Loss from discontinued operations                                   | —   | —          | —                                    | (0.10)     |
| Total earnings per share  | \$1.05  | \$0.77     | \$3.17                               | \$2.04     |
| Earnings per common share - assuming dilution:                      |   |            |                                      |            |
| Income from continuing operations                                   | \$1.04  | \$0.76     | \$3.14                               | \$2.11     |
| Loss from discontinued operations                                   | —   | —          | —                                    | (0.10)     |
| Total earnings per share  | \$1.04  | \$0.76     | \$3.14                               | \$2.01     |
| Antidilutive stock options excluded from diluted earnings per share | —   | 776,029    | 293                                  | 800,851    |



We use operating income, in addition to net income, to measure our performance since realized gains and losses on investments and the change in net unrealized gains and losses on derivatives can fluctuate greatly from quarter to quarter. Also, the discontinued operations and related loss on debt redemption are nonrecurring items. A view of our operating performance without the impact of these items enhances the analysis of our results. We use operating income for goal setting, determining

short-term incentive compensation and evaluating performance on a basis comparable to that used by many in the investment community.

# Financial Information Concerning our Operating Segments

|   | Three months ended September 30, |           | Nine months ended September 30, |            |
|---|----------------------------------|-----------|---------------------------------|------------|
|   | 2013                             | 2012      | 2013                            | 2012       |
|   | (Dollars in thousands)           |           |                                 |            |
| Operating revenues:   |                                  |           |                                 |            |
| Annuity   | \$50,435                         | \$49,467  | \$147,775                       | \$143,466  |
| Life Insurance  | 99,851                           | 90,745    | 288,742                         | 274,847    |
| Corporate and Other   | 23,511                           | 22,771    | 72,803                          | 69,667     |
|   | 173,797                          | 162,983   | 509,320                         | 487,980    |
| Realized gains on investments (1)                                 | 786                              | 1,438     | 11,267                          | 1,518      |
| Change in net unrealized gains/losses on derivatives (1)          | (1,067)                          | ) 938     | (2,340)                         | ) 1,448    |
| Consolidated revenues   | \$173,516                        | \$165,359 | \$518,247                       | \$490,946  |
| Pre-tax operating income:   |                                  |           |                                 |            |
| Annuity   | \$16,427                         | \$12,113  | \$48,181                        | \$40,649   |
| Life Insurance  | 14,263                           | 12,870    | 35,198                          | 31,343     |
| Corporate and Other   | 4,409                            | 1,766     | 17,548                          | 10,288     |
|   | 35,099                           | 26,749    | 100,927                         | 82,280     |
| Income taxes on operating income                                  | (8,540)                          | ) (8,003) | ) (25,597)                      | ) (23,701) |
| Realized gains/losses on investments (2)                          | 406                              | 1,324     | 6,714                           | 1,297      |
| Change in net unrealized gains/losses on derivatives (2)          | 88                               | 351       | (438)                           | ) 461      |
| Loss on debt redemption (2)                                       | —                                | —         | —                               | (22)       |
| Income (loss) from discontinued operations (2)                    | —                                | 55        | —                               | (2,961)    |
| Consolidated net income attributable to FBL Financial Group, Inc. | \$27,053                         | \$20,476  | \$81,606                        | \$57,354   |

(1) Amounts are net of adjustments, as applicable, to amortization of unearned revenue reserves attributable to these items.

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

Our investment in equity method investees, the related equity income and interest expense are attributable to the Corporate and Other segment. Expenditures for long-lived assets were not significant during the periods presented above. Goodwill at September 30, 2013 and December 31, 2012 was allocated among the segments as follows: Annuity (\$3.9 million) and Life Insurance (\$6.1 million).

Premiums collected, which is not a measure used in financial statements prepared according to GAAP, includes premiums received on life insurance policies and deposits on annuities and universal life-type products. Net premiums collected totaled \$150.2 million for the quarter ended September 30, 2013 and \$139.1 million for the 2012 period. Net premiums collected totaled \$491.2 million for the nine months ended September 30, 2013 and \$501.0 million for the 2012 period.

Under GAAP, premiums on whole life and term life policies are recognized as revenues over the premium-paying period and reported in the Life Insurance segment. The following chart provides a reconciliation of life insurance premiums collected to those reported in the GAAP financial statements.

## Reconciliation of Traditional Life Insurance Premiums, Net of Reinsurance

|   | Three months ended September 30, |          | Nine months ended September 30, |           |
|---|----------------------------------|----------|---------------------------------|-----------|
|   | 2013                             | 2012     | 2013                            | 2012      |
|   | (Dollars in thousands)           |          |                                 |           |
| Traditional and universal life insurance premiums collected | \$76,946                         | \$61,853 | \$238,062                       | \$184,409 |
| Premiums collected on interest sensitive products           | (32,718)                         | (19,916) | (103,538)                       | (54,061)  |
| Traditional life insurance premiums collected               | 44,228                           | 41,937   | 134,524                         | 130,348   |
| Change in due premiums and other                            | (345)                            | (51)     | 351                             | 569       |
| Traditional life insurance premiums                         | \$43,883                         | \$41,886 | \$134,875                       | \$130,917 |

There is no comparable GAAP financial measure for premiums collected on annuities and universal life-type products. GAAP revenues for those interest sensitive and variable products consist of various policy charges and fees assessed on those contracts, as summarized in the chart below.

## Interest Sensitive Product Charges by Segment

|   | Three months ended September 30, |          | Nine months ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2013                             | 2012     | 2013                            | 2012     |
|   | (Dollars in thousands)           |          |                                 |          |
| <b>Annuity</b>                                  |                                  |          |                                 |          |
| Surrender charges and other                     | \$279                            | \$166    | \$936                           | \$563    |
| <b>Life Insurance</b>                           |                                  |          |                                 |          |
| Administration charges                          | \$9,865                          | \$2,697  | \$15,800                        | \$8,089  |
| Cost of insurance charges                       | 10,834                           | 10,092   | 31,799                          | 29,621   |
| Surrender charges                               | 101                              | 187      | 361                             | 652      |
| Amortization of policy initiation fees          | 124                              | 852      | 1,160                           | 1,941    |
| Total   | \$20,924                         | \$13,828 | \$49,120                        | \$40,303 |
| <b>Corporate and Other</b>                      |                                  |          |                                 |          |
| Administration charges                          | \$1,532                          | \$1,428  | \$4,628                         | \$4,522  |
| Cost of insurance charges                       | 7,416                            | 7,410    | 22,179                          | 22,215   |
| Surrender charges                               | 144                              | 192      | 413                             | 587      |
| Separate account charges                        | 2,158                            | 2,081    | 6,376                           | 6,276    |
| Amortization of policy initiation fees          | (183)                            | 533      | 717                             | 594      |
| Total   | \$11,067                         | \$11,644 | \$34,313                        | \$34,194 |
| Consolidated interest sensitive product charges | \$32,270                         | \$25,638 | \$84,369                        | \$75,060 |

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

This section includes a summary of FBL Financial Group, Inc.'s consolidated results of operations, financial condition and where appropriate, factors that management believes may affect future performance. Unless noted otherwise, all references to FBL Financial Group, Inc. (we or the Company) include all of its direct and indirect subsidiaries, including its life insurance subsidiary, Farm Bureau Life Insurance Company (Farm Bureau Life). Please read this discussion in conjunction with the accompanying consolidated financial statements and related notes. In addition, we encourage you to refer to our 2012 Form 10-K for a complete description of our significant accounting policies and estimates. Familiarity with this information is important in understanding our financial position and results of operations.

This Form 10-Q includes statements relating to anticipated financial performance, business prospects, new products, and similar matters. These statements and others, which include words such as "expect," "anticipate," "believe," "intend" and other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in our forward-looking statements. See Part 1A, Risk Factors, of our 2012 Annual Report on Form 10-K for additional information on the risks and uncertainties that may affect the operations, performance, development and results of our business.

### Overview

We operate predominantly in the life insurance industry through our principal subsidiary, Farm Bureau Life. Farm Bureau Life markets individual life insurance policies and annuity contracts to Farm Bureau members and other individuals and businesses in the Midwestern and Western sections of the United States through an exclusive agency force. Several subsidiaries support various functional areas of Farm Bureau Life and other affiliates by providing investment advisory, marketing and distribution, and leasing services. In addition, we manage two Farm Bureau affiliated property-casualty companies.

We analyze operations by reviewing financial information regarding our primary products that are aggregated in Annuity and Life Insurance product segments. In addition, our Corporate and Other segment includes various support operations, corporate capital and other product lines that are not currently underwritten by the Company. We analyze our segment results based on pre-tax operating income, which excludes the impact of certain items that are included in net income. See Note 9 to our consolidated financial statements for further information regarding how we define our segments and operating income.

We also include within our analysis "premiums collected" which is not a measure used in financial statements prepared in accordance with GAAP, but is a common industry measure of agent productivity. See Note 9 to our consolidated financial statements for further information regarding this measure and its relationship to GAAP revenues.

During the third quarter of 2013, we took several steps to utilize excess capital including a 36 percent increase in the quarterly cash dividend to \$0.15 per share, a special cash dividend of \$2.00 per share on Class A and Class B common stock, a tender offer for 99 percent of our Class B common shares and the repayment of \$50 million of affiliate debt. These equity transactions had minimal impact on net income for the three and nine months ended September 30, 2013 as the transactions took place near the end of the quarter.

In December 2011, we completed the sale of our wholly-owned subsidiary, EquiTrust Life Insurance Company (EquiTrust Life). As a result of the sale, certain lines of business are considered discontinued operations, and unless otherwise indicated, have been removed from the discussion that follows. See our 2012 Form 10-K for additional

information related to the sale.

#### Impact of Recent Business Environment

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

While there have been positive economic signs in 2013, the U.S. economy continues to face a number of challenges. Pertinent recent economic events include, but are not limited to the following:

- Continued uncertainty from the failure of the U.S. government to reach consensus over debt reduction strategies, resulting in a government shutdown during October.

- Gross Domestic Product increased by 2.5% during the second quarter 2013 based on August estimates.

- Estimates suggest third quarter growth will be slowed due to the recent U.S. government shutdown.

- U.S. unemployment remains high at 7.2% through September 2013.

- Growth in personal income generally remains below average.

- Based on USDA estimates, U.S. net farm income is forecasted to grow 6.0% and farm real estate value is forecasted to grow 7.1% during 2013.

- The European debt crisis continues to cause intermittent stress within the markets.

An increase in market interest rates during 2013 has reduced the fair value of our fixed maturity portfolio. The benchmark 10-year U.S. Treasury yield rose over the quarter, while credit spreads decreased. Strong liquidity and favorable corporate profitability continue to support fundamental credit quality. In the securitized markets, spreads on agency residential mortgage-backed securities and commercial mortgage-backed securities declined but rose for asset-backed securities. The yield curve remained moderately steep at the end of the third quarter, but low current interest rates create a challenging environment for sales of new money fixed annuity products.

We intentionally decreased the amount of annuity sales beginning in 2012 by suspending sales of certain products and reducing agent commission rates on certain products where it was difficult to achieve profitability targets during this period of low interest rates. We expect modest increases in annuity sales due to the recent rise in market interest rates and a renewed emphasis placed on sales of products with low guaranteed crediting rates. Our life sales have increased, reflecting the attractiveness of enhanced universal life and term life product offerings and the strong farm and energy subsectors of the economy in our marketplace, as well as Farm Bureau Life's emphasis on life insurance product sales.

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Results of Operations for the Periods Ended September 30, 2013 and 2012

|   | Three months ended September 30, 2013 |            |        |   | Nine months ended September 30, 2013 |             |        |   |
|---|---------------------------------------|------------|--------|---|--------------------------------------|-------------|--------|---|
|   |                                       | 2012       | Change |   |                                      | 2012        | Change |   |
| (Dollars in thousands, except per share data)   |                                       |            |        |   |                                      |             |        |   |
| Pre-tax operating income:   |                                       |            |        |   |                                      |             |        |   |
| Annuity segment   | \$16,427                              | \$12,113   | 36     | % | \$48,181                             | \$40,649    | 19     | % |
| Life Insurance segment  | 14,263                                | 12,870     | 11     | % | 35,198                               | 31,343      | 12     | % |
| Corporate and Other segment   | 4,409                                 | 1,766      | 150    | % | 17,548                               | 10,288      | 71     | % |
| Total pre-tax operating income  | 35,099                                | 26,749     | 31     | % | 100,927                              | 82,280      | 23     | % |
| Income taxes on operating income  | (8,540 )                              | (8,003 )   | 7      | % | (25,597 )                            | (23,701 )   | 8      | % |
| Operating income  | 26,559                                | 18,746     | 42     | % | 75,330                               | 58,579      | 29     | % |
| Realized gains/losses on investments (1)  | 406                                   | 1,324      | (69 )  | % | 6,714                                | 1,297       | 418    | % |
| Change in net unrealized gains/losses on derivatives (1)  | 88                                    | 351        | (75 )  | % | (438 )                               | 461         | (195 ) | % |
| Loss on debt redemption (1)   | —                                     | —          | NA     |   | —                                    | (22 )       | NA     |   |
| Net impact of discontinued operations (1)   | —                                     | 55         | NA     |   | —                                    | (2,961 )    | NA     |   |
| Net income attributable to FBL Financial Group, Inc.  | \$27,053                              | \$20,476   | 32     | % | \$81,606                             | \$57,354    | 42     | % |
| Operating income per common share - assuming dilution   | \$1.02                                | \$0.70     | 46     | % | \$2.90                               | \$2.06      | 41     | % |
| Earnings per common share - assuming dilution:  |                                       |            |        |   |                                      |             |        |   |
| Continuing operations   | \$1.04                                | \$0.76     | 37     | % | \$3.14                               | \$2.11      | 49     | % |
| Discontinued operations   | —                                     | —          | NA     |   | —                                    | (0.10 )     | NA     |   |
| Earnings per common share - assuming dilution   | \$1.04                                | \$0.76     | 37     | % | \$3.14                               | \$2.01      | 56     | % |
| Effective tax rate on operating income  | 24                                    | % 30       | %      |   | 25                                   | % 29        | %      |   |
| Average invested assets   |                                       |            |        |   | \$6,709,289                          | \$6,284,041 | 7      | % |
| Annualized yield on average invested assets   |                                       |            |        |   | 5.70                                 | % 5.92      | %      |   |
| Impact on operating income of unlocking deferred acquisition costs, value of insurance in force acquired and unearned revenue reserve, net of tax | \$—                                   | \$(3,418 ) | NA     |   | \$151                                | \$(3,188 )  | 105    | % |

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



Our operating income increased in the third quarter of 2013 and the nine months ended September 30, 2013, compared to the prior year periods, primarily due to an increase in the volume of business in force, the impact of unlocking and a refinement in the calculation of unearned revenue reserves. These increases were partially offset by increases in mortality and general expenses. See the discussion that follows for details regarding operating income by segment and the impact of discontinued operations.

Earnings per share from continuing operations and operating income per common share benefited from repurchases of Class A common shares in 2012 and 2013, as well as a tender offer of Class B common shares completed in the third quarter of 2013. Details regarding the share repurchases are included in Note 7 to the consolidated financial statements.

We periodically revise key assumptions used in the calculation of the amortization of deferred acquisition costs, value of insurance in force acquired and unearned revenue reserve for participating life insurance, variable and interest sensitive products, as applicable, through an “unlocking” process. These assumptions typically consist of withdrawal and lapse rates, earned spreads and mortality with revisions based on historical results and our best estimate of future experience. The impact of unlocking is recorded in the current period as an increase or decrease to amortization of the respective balances. While the unlocking process can take place at any time, as needs dictate, the process typically takes place annually. For all of our blocks of business we unlocked our valuation assumptions for deferred policy acquisition costs, value of insurance in force and unearned revenue reserves during the second quarter 2013 and the second and third quarters of 2012. See the discussion that follows for further details of the unlocking impact to our operating segments.

## Annuity Segment

|   | Three months ended September 30, 2013 |          |      |    | Nine months ended September 30, 2013 |           |      |    |
|---|---------------------------------------|----------|------|----|--------------------------------------|-----------|------|----|
|   | 2012                                  | Change   |      |    | 2012                                 | Change    |      |    |
|   | (Dollars in thousands)                |          |      |    |                                      |           |      |    |
| Operating revenues:   |                                       |          |      |    |                                      |           |      |    |
| Interest sensitive product charges and other income   | \$279                                 | \$166    | 68   | %  | \$936                                | \$572     | 64   | %  |
| Net investment income   | 50,156                                | 49,301   | 2    | %  | 146,839                              | 142,894   | 3    | %  |
| Total operating revenues  | 50,435                                | 49,467   | 2    | %  | 147,775                              | 143,466   | 3    | %  |
| Benefits and expenses:  |                                       |          |      |    |                                      |           |      |    |
| Interest sensitive product benefits   | 25,754                                | 25,717   | —    | %  | 75,832                               | 77,379    | (2)  | )% |
| Underwriting, acquisition and insurance expenses:   |                                       |          |      |    |                                      |           |      |    |
| Commissions net of deferrals  | 458                                   | 590      | (22) | )% | 1,990                                | 2,029     | (2)  | )% |
| Amortization of deferred acquisition costs  | 2,748                                 | 4,124    | (33) | )% | 6,729                                | 6,452     | 4    | %  |
| Amortization of value of insurance in force   | 208                                   | 2,024    | (90) | )% | 741                                  | 2,191     | (66) | )% |
| Other underwriting expenses   | 4,840                                 | 4,899    | (1)  | )% | 14,302                               | 14,766    | (3)  | )% |
| Total underwriting, acquisition and insurance expenses  | 8,254                                 | 11,637   | (29) | )% | 23,762                               | 25,438    | (7)  | )% |
| Total benefits and expenses   | 34,008                                | 37,354   | (9)  | )% | 99,594                               | 102,817   | (3)  | )% |
| Pre-tax operating income  | \$16,427                              | \$12,113 | 36   | %  | \$48,181                             | \$40,649  | 19   | %  |
| Other data  |                                       |          |      |    |                                      |           |      |    |
| Annuity premiums collected, direct  | \$58,377                              | \$61,498 | (5)  | )% | \$200,015                            | \$258,616 | (23) | )% |
| Policy liabilities and accruals, end of period  |                                       |          |      |    | 3,539,711                            | 3,444,284 | 3    | %  |
| Average invested assets   |                                       |          |      |    | 3,560,074                            | 3,422,078 | 4    | %  |
| Investment fee income included in net investment income (1)   | 1,803                                 | 2,039    | (12) | )% | 4,374                                | 2,853     | 53   | %  |
| Average individual annuity account value  |                                       |          |      |    | 2,381,260                            | 2,252,818 | 6    | %  |
| Earned spread on individual annuity products:   |                                       |          |      |    |                                      |           |      |    |
| Weighted average yield on cash and invested assets  |                                       |          |      |    | 5.85                                 | % 6.05    | %    |    |
| Weighted average interest crediting rate  |                                       |          |      |    | 2.96                                 | % 3.19    | %    |    |
| Spread  |                                       |          |      |    | 2.89                                 | % 2.86    | %    |    |
| Individual annuity withdrawal rate  |                                       |          |      |    | 5.4                                  | % 4.7     | %    |    |
| Impact on pre-tax income of unlocking deferred acquisition costs and value of insurance in force acquired | —                                     | (1,853)  | )    | NA | 1,436                                | 234       | 514  | %  |

- (1) Includes prepayment fee income and net discount accretion on mortgage and asset-backed securities resulting from changing prepayment speed assumptions at the end of each period.

Pre-tax operating income for the Annuity segment increased in the third quarter of 2013 and nine months ended September 30, 2013, compared to the prior year periods, primarily due to higher spread income earned from an increase in the volume of business in force and the impact of unlocking. Spread income during the nine month period also benefited from higher investment fee income. In addition, decreased amortization of deferred acquisition costs resulted in higher operating income in the third quarter.

Amortization of deferred acquisition costs was impacted by changes in actual profits on the underlying business and a refinement increasing amortization \$1.4 million in the third quarter of 2012. Amortization of the value of insurance in force decreased in the three month and nine month periods ending September 30, 2013 due to the impact of unlocking.

The average aggregate account value for individual annuity contracts in force increased in the 2013 periods due to continued sales and the crediting of interest. Premiums collected were lower in the 2013 periods as we had decreased our emphasis on annuity sales during this period of low interest rates. The amount of traditional annuity premiums collected is highly dependent upon the relationship between the current crediting rate and perceived security of our products compared to those of competing products.

Also included within our policy liabilities are advances on our funding agreements with the Federal Home Loan Bank (FHLB). Outstanding funding agreements totaled \$343.3 million at September 30, 2013 and \$356.0 million at September 30, 2012.

The weighted average yield on cash and invested assets for individual annuities decreased for the nine months ended September 30, 2013, compared to the prior year period. The decrease was primarily due to lower yields on new investment acquisitions from premium receipts and reinvestment of the proceeds from maturing investments, compared with the average existing portfolio yield, partially offset by an increase in investment fee income. See the "Financial Condition" section which follows for additional information regarding the yields obtained on investment acquisitions. The weighted average interest crediting rate decreased due to crediting rate actions taken on a significant portion of our annuity portfolio during 2012 in response to the declining portfolio yield.

## Life Insurance Segment

|  | Three months ended September 30,<br>2013      2012      Change |          |      |    | Nine months ended September 30,<br>2013      2012      Change |          |      |    |
|--|--|----------|------|----|---|----------|------|----|
|  | (Dollars in thousands)   |          |      |    |   |          |      |    |
| Operating revenues:                                    |  |          |      |    |   |          |      |    |
| Interest sensitive product charges and other income    | \$20,758   | \$13,770 | 51   | %  | \$48,864  | \$40,154 | 22   | %  |
| Traditional life insurance premiums                    | 43,883   | 41,886   | 5    | %  | 134,875   | 130,917  | 3    | %  |
| Net investment income                                  | 35,210   | 35,089   | —    | %  | 105,003   | 103,776  | 1    | %  |
| Total operating revenues                               | 99,851   | 90,745   | 10   | %  | 288,742   | 274,847  | 5    | %  |
| Benefits and expenses:                                 |  |          |      |    |   |          |      |    |
| Interest sensitive product benefits:                   |  |          |      |    |   |          |      |    |
| Interest credited                                      | 8,057  | 7,075    | 14   | %  | 23,236  | 21,425   | 8    | %  |
| Death benefits and other                               | 11,582   | 7,808    | 48   | %  | 31,088  | 26,112   | 19   | %  |
| Total interest sensitive product benefits              | 19,639   | 14,883   | 32   | %  | 54,324  | 47,537   | 14   | %  |
| Traditional life insurance benefits:                   |  |          |      |    |   |          |      |    |
| Death benefits   | 18,740   | 16,261   | 15   | %  | 52,788  | 49,700   | 6    | %  |
| Surrender and other benefits                           | 8,263  | 12,220   | (32) | )% | 26,428  | 29,037   | (9)  | )% |
| Increase in traditional life future policy benefits    | 12,723   | 8,980    | 42   | %  | 40,571  | 38,183   | 6    | %  |
| Total traditional life insurance benefits              | 39,726   | 37,461   | 6    | %  | 119,787   | 116,920  | 2    | %  |
| Distributions to participating policyholders           | 3,244  | 3,279    | (1)  | )% | 9,997   | 10,893   | (8)  | )% |
| Underwriting, acquisition and insurance expenses:      |  |          |      |    |   |          |      |    |
| Commission expense, net of deferrals                   | 4,407  | 4,073    | 8    | %  | 16,373  | 12,505   | 31   | %  |
| Amortization of deferred acquisition costs             | 4,667  | 5,482    | (15) | )% | 12,074  | 16,725   | (28) | )% |
| Amortization of value of insurance in force            | 424  | 538      | (21) | )% | 1,210   | 2,579    | (53) | )% |
| Other underwriting expenses                            | 13,481   | 12,159   | 11   | %  | 39,779  | 36,345   | 9    | %  |
| Total underwriting, acquisition and insurance expenses | 22,979   | 22,252   | 3    | %  | 69,436  | 68,154   | 2    | %  |
| Total benefits and expenses                            | 85,588   | 77,875   | 10   | %  | 253,544   | 243,504  | 4    | %  |
| Pre-tax operating income                               | \$14,263   | \$12,870 | 11   | %  | \$35,198  | \$31,343 | 12   | %  |

## Life Insurance Segment - continued

|   | Three months ended September 30, |          |        |    | Nine months ended September 30, |            |        |    |
|---|----------------------------------|----------|--------|----|---------------------------------|------------|--------|----|
|   | 2013                             | 2012     | Change |    | 2013                            | 2012       | Change |    |
|   | (Dollars in thousands)           |          |        |    |                                 |            |        |    |
| Other data  |                                  |          |        |    |                                 |            |        |    |
| Life premiums collected, net of reinsurance   | \$76,947                         | \$61,853 | 24     | %  | \$238,062                       | \$184,409  | 29     | %  |
| Policy liabilities and accruals, end of period  |                                  |          |        |    | 2,422,077                       | 2,264,518  | 7      | %  |
| Life insurance in force, end of period  |                                  |          |        |    | 48,093,854                      | 45,284,218 | 6      | %  |
| Average invested assets   |                                  |          |        |    | 2,377,198                       | 2,243,836  | 6      | %  |
| Investment fee income included in net investment income (1)   | 449                              | 1,222    | (63    | )% | 1,609                           | 2,560      | (37    | )% |
| Average interest sensitive life account value   |                                  |          |        |    | 698,215                         | 643,446    | 9      | %  |
| Interest sensitive life insurance spread:   |                                  |          |        |    |                                 |            |        |    |
| Weighted average yield on cash and invested assets  |                                  |          |        |    | 6.06                            | % 6.47     | %      |    |
| Weighted average interest crediting rate  |                                  |          |        |    | 4.08                            | % 4.08     | %      |    |
| Spread  |                                  |          |        |    | 1.98                            | % 2.39     | %      |    |
| Life insurance lapse and surrender rates  |                                  |          |        |    | 5.5                             | % 6.1      | %      |    |
| Death benefits, net of reinsurance and reserves released  | 18,215                           | 17,004   | 7      | %  | \$55,169                        | \$49,824   | 11     | %  |
| Impact on pre-tax income of unlocking deferred acquisition costs, value of insurance in force acquired and unearned revenue reserve | —                                | (975     | )      | NA | (595                            | ) (3,762   | ) 84   | %  |

(1) Includes prepayment fee income and net discount accretion on mortgage and asset-backed securities resulting from changing prepayment speed assumptions at the end of each period.

Pre-tax operating income for the Life Insurance segment increased in the third quarter of 2013 and the nine months ended September 30, 2013, compared to the prior year periods, primarily due to an increase in the volume of business in force, the impact of unlocking and a refinement in the calculation of unearned revenue reserves. These results were partially offset by increased mortality and general expenses. The three-month and the nine-month periods of 2012 were also impacted by reserve refinements, as discussed below, which impacted comparability with the 2013 periods.

Premiums collected were higher during the quarter and the nine months ended September 30, 2013 compared to the prior year periods due to the relative attractiveness of life insurance products. The increased sales activity, along with the overall increase in business in force, is contributing to the increase in revenues and expenses, including non-deferrable underwriting and commission related expenses. Increases in general expenses were also due to changes in expense allocations between segments and additional expenses associated with upgrading software. Reserve refinement in the third quarter of 2013 was related to a reclassification of certain product loads from deferred revenue

to earned income and increased interest sensitive product charges \$6.3 million, changes in reserves classified with interest sensitive death benefits \$2.5 million and amortization of deferred acquisition costs \$1.0 million.

Amortization of deferred acquisition costs and value of insurance in force was lower in the three and nine months ended September 30, 2013 compared to the prior year periods primarily due to changes in actual profits on the underlying business and the impact of unlocking.

Refinements in reserving methods during 2012 resulted in a \$1.4 million decrease in interest sensitive death benefits during the third quarter 2012, and a \$1.8 million increase in traditional life future policy benefits for the nine months ended September 30, 2012.



Death benefits, net of reinsurance and reserves released, increased in the third quarter of 2013 primarily due to an increase in the number of claims and increased in the nine months ended September 30, 2013 primarily due to an increase in the average size of claims.

The weighted average yield on cash and invested assets for interest sensitive life insurance products decreased primarily due to lower yields on new investment acquisitions from premium receipts and reinvestment of the proceeds from maturing investments, compared with the average existing portfolio yield. See the "Financial Condition" section which follows for additional information regarding the yields obtained on investment acquisitions. Weighted average interest crediting rates on our interest sensitive life products were impacted by crediting rate decreases taken on various products in 2012 and 2013 in response to the declining portfolio yield, offset by sales of products with higher crediting rates.

## Corporate and Other Segment

|  | Three months ended September 30, |           |        | Nine months ended September 30, |            |        |   |
|--|----------------------------------|-----------|--------|---------------------------------|------------|--------|---|
|  | 2013                             | 2012      | Change | 2013                            | 2012       | Change |   |
|  | (Dollars in thousands)           |           |        |                                 |            |        |   |
| Operating revenues:  |                                  |           |        |                                 |            |        |   |
| Interest sensitive product charges   | \$ 11,067                        | \$ 11,669 | (5 )%  | \$ 34,313                       | \$ 34,222  | —      | % |
| Net investment income  | 9,083                            | 8,154     | 11 %   | 27,588                          | 21,675     | 27     | % |
| Other income   | 3,361                            | 2,948     | 14 %   | 10,902                          | 13,770     | (21 )% | % |
| Total operating revenues   | 23,511                           | 22,771    | 3 %    | 72,803                          | 69,667     | 5      | % |
| Benefits and expenses:   |                                  |           |        |                                 |            |        |   |
| Interest sensitive product benefits  | 8,045                            | 7,953     | 1 %    | 20,512                          | 21,987     | (7 )%  | % |
| Underwriting, acquisition and insurance expenses:  |                                  |           |        |                                 |            |        |   |
| Commission expense, net of deferrals   | 831                              | 889       | (7 )%  | 2,908                           | 2,846      | 2      | % |
| Amortization of deferred acquisition costs   | 563                              | 3,371     | (83 )% | 4,739                           | 5,209      | (9 )%  | % |
| Other underwriting expenses  | 1,536                            | 2,089     | (26 )% | 5,064                           | 5,282      | (4 )%  | % |
| Total underwriting, acquisition and insurance expenses   | 2,930                            | 6,349     | (54 )% | 12,711                          | 13,337     | (5 )%  | % |
| Interest expense   | 1,833                            | 2,007     | (9 )%  | 5,646                           | 5,972      | (5 )%  | % |
| Other expenses   | 5,037                            | 3,986     | 26 %   | 14,239                          | 16,459     | (13 )% | % |
| Total benefits and expenses  | 17,845                           | 20,295    | (12 )% | 53,108                          | 57,755     | (8 )%  | % |
|  | 5,666                            | 2,476     | 129 %  | 19,695                          | 11,912     | 65     | % |
| Net (income) loss attributable to noncontrolling interest  | 68                               | (66 )     | 203 %  | 130                             | 52         | 150    | % |
| Equity loss, before tax  | (1,325 )                         | (644 )    | 106 %  | (2,277 )                        | (1,676 )   | 36     | % |
| Pre-tax operating income   | \$ 4,409                         | \$ 1,766  | 150 %  | \$ 17,548                       | \$ 10,288  | 71     | % |
| Other data   |                                  |           |        |                                 |            |        |   |
| Average invested assets  |                                  |           |        | \$ 772,017                      | \$ 618,127 | 25     | % |
| Investment fee income included in net investment income (1)  | \$ 48                            | \$ 16     | 200 %  | 172                             | 98         | 76     | % |
| Average interest sensitive life account value  |                                  |           |        | 322,741                         | 295,364    | 9      | % |
| Death benefits, net of reinsurance and reserves released   | 5,060                            | 5,153     | (2 )%  | 11,826                          | 14,496     | (18 )% | % |
| Impact on pre-tax income of unlocking of deferred acquisition costs and unearned revenue reserve                   | —                                | (2,430 )  | NA     | (610 )                          | (1,376 )   | 56     | % |
| Estimated impact on pre-tax income from separate account performance on amortization of deferred acquisition costs | 840                              | 800       | 5 %    | 1,650                           | 1,100      | 50     | % |

(1) Includes prepayment fee income and net discount accretion on mortgage and asset-backed securities resulting from changing prepayment speed assumptions at the end of each period.

Pre-tax operating income increased in the third quarter of 2013, and the nine months ended September 30, 2013, compared to the prior year periods, primarily due to an increase in net investment income and a decrease in amortization of deferred acquisition costs. The increase for the nine month period ended September 30, 2013 was also due to a decrease in mortality experience.

Other income in 2012 included administrative fee income of \$3.0 million received from EquiTrust Life for accounting and other services rendered through June 2012 to support the transition of that company subsequent to its sale in December 2011.

Other income and other expenses also includes fees and expenses from sales of brokered products and operating results of our non-insurance subsidiaries, which include management, advisory, marketing and distribution services and leasing activities.

Death benefits net of reinsurance and reserves released decreased in the nine months ended September 30, 2013 due to a decrease in the number of claims and the average size of claims.

Net investment income increased during 2013 due to increases in invested assets as well as higher yielding securities held in the portfolio.

Amortization of deferred acquisition costs decreased for the quarter and the nine months ended September 30, 2013 primarily due to the impact of unlocking.

Equity loss includes our proportionate share of gains and losses attributable to our ownership interest in partnerships, joint ventures and certain companies where we exhibit some control but have a minority ownership interest. Given the timing of availability of financial information from our equity investees, we will consistently use information that is as much as three months in arrears for certain of these entities. Several of these entities are investment companies whose operating results are derived primarily from unrealized and realized gains and losses generated by their investment portfolios. As is normal with these types of entities, the level of these gains and losses is subject to fluctuation from period to period depending on the prevailing economic environment, changes in prices of bond and equity securities held by the investment partnerships, timing and success of initial public offerings or exit strategies, and the timing of the sale of investments held by the partnerships and joint ventures. We also invest in low income housing tax credit partnerships which generate pre-tax losses but after tax gains as the related tax credits are realized. The timing of the realization of the tax credits is subject to fluctuation from period to period due to the timing of the housing project completions and when tax credits are approved. Equity income, net of related income taxes, was as follows:

#### Equity income (loss), net of related income taxes

|   | Three months ended September 30, 2013 |           | Nine months ended September 30, 2013 |           |
|---|---------------------------------------|-----------|--------------------------------------|-----------|
|   | 2013                                  | 2012      | 2013                                 | 2012      |
|   | (Dollars in thousands)                |           |                                      |           |
| Equity income (loss):                             |                                       |           |                                      |           |
| Low income housing tax credit partnerships        | \$(1,473)                             | \$(1,430) | \$(4,359)                            | \$(3,654) |
| Other equity method investments                   | 148                                   | 786       | 2,082                                | 1,978     |
|   | (1,325)                               | (644)     | (2,277)                              | (1,676)   |
| Income taxes:                                     |                                       |           |                                      |           |
| Taxes on equity income (loss)                     | 463                                   | 225       | 797                                  | 586       |
| Investment tax credits                            | 2,691                                 | 1,477     | 7,149                                | 4,399     |
| Equity income (loss), net of related income taxes | \$1,829                               | \$1,058   | \$5,669                              | \$3,309   |

#### Income Taxes on Operating Income

The effective tax rate on operating income was 24.3% for the third quarter of 2013 and 25.4% for the nine months ended September 30, 2013 compared to 29.9% for the third quarter of 2012 and 28.8% for the nine month period. The effective tax rates differ from the federal statutory rate of 35% primarily due to the impact of low-income housing credits from equity method investees, tax-exempt interest and dividend income and incentive stock option deductions.



# Impact of Operating Adjustments on FBL Net Income

|   | Three months ended September 30, |         | Nine months ended September 30, |          |   |
|---|----------------------------------|---------|---------------------------------|----------|---|
|   | 2013                             | 2012    | 2013                            | 2012     |   |
|   | (Dollars in thousands)           |         |                                 |          |   |
| Realized gains on investments                                       | \$693                            | \$1,462 | \$11,215                        | \$1,551  |   |
| Change in net unrealized gains/losses on derivatives                | (1,087                           | ) 860   | (2,062                          | ) 1,308  |   |
| Change in amortization of:  |                                  |         |                                 |          |   |
| Deferred acquisition costs  | 1,061                            | 309     | 513                             | (83      | ) |
| Value of insurance in force acquired                                | 2                                | (31     | ) (62                           | ) (40    | ) |
| Unearned revenue reserve  | 93                               | (24     | ) 52                            | (33      | ) |
| Loss on debt redemption   | —                                | —       | —                               | (33      | ) |
| Income tax offset   | (268                             | ) (901  | ) (3,380                        | ) (934   | ) |
| Net impact of operating income adjustments on continuing operations | 494                              | 1,675   | 6,276                           | 1,736    |   |
| Net impact of discontinued operations                               | —                                | 55      | —                               | (2,961   | ) |
| Net impact of operating income adjustments                          | \$494                            | \$1,730 | \$6,276                         | \$(1,225 | ) |
| Impact of Operating Adjustments on FBL Net Income, continued        |                                  |         |                                 |          |   |

|  | Three months ended September 30, 2013 |         | Nine months ended September 30, 2013 |          |   |
|--|---------------------------------------|---------|--------------------------------------|----------|---|
|  |                                       | 2012    |                                      | 2012     |   |
|  | (Dollars in thousands)                |         |                                      |          |   |
| Summary of adjustments noted above after offsets and income taxes: |                                       |         |                                      |          |   |
| Realized gains/losses on investments                               | \$406                                 | \$1,324 | \$6,714                              | \$1,297  |   |
| Change in net unrealized gains/losses on derivatives               | 88                                    | 351     | (438                                 | ) 461    |   |
| Loss on debt redemption  | —                                     | —       | —                                    | (22      | ) |
| Net impact of discontinued operations                              | —                                     | 55      | —                                    | (2,961   | ) |
| Net impact of operating income adjustments                         | \$494                                 | \$1,730 | \$6,276                              | \$(1,225 | ) |
| Net impact per common share - basic                                | \$0.02                                | \$0.07  | \$0.24                               | \$(0.04  | ) |
| Net impact per common share - assuming dilution                    | \$0.02                                | \$0.06  | \$0.24                               | \$(0.04  | ) |

Income taxes on operating income adjustments on continuing operations are recorded at 35% as there are no permanent differences between book and taxable income relating to these adjustments.

## Realized Gains (Losses) on Investments

|   | Three months ended September 30, |          | Nine months ended September 30, |           |
|---|----------------------------------|----------|---------------------------------|-----------|
|   | 2013                             | 2012     | 2013                            | 2012      |
|   | (Dollars in thousands)           |          |                                 |           |
| Realized gains (losses) on investments:       |                                  |          |                                 |           |
| Realized gains on sales                       | \$1,467                          | \$5,417  | \$15,205                        | \$11,142  |
| Realized losses on sales                      | (9                               | ) (38    | ) (2,380                        | ) (473    |
| Total other-than-temporary impairment charges | (5,015                           | ) (6,208 | ) (5,860                        | ) (21,188 |
| Net realized investment gains (losses)        | (3,557                           | ) (829   | ) 6,965                         | (10,519   |
|   | 4,250                            | 2,291    | 4,250                           | 12,070    |

Non-credit losses included in other comprehensive  
income (loss)

|  |       |         |          |         |
|--|-------|---------|----------|---------|
| Total reported in statements of operations | \$693 | \$1,462 | \$11,215 | \$1,551 |
|--|-------|---------|----------|---------|

The level of realized gains (losses) is subject to fluctuation from period to period depending on the prevailing interest rate and economic environment and the timing of the sale of investments. See "Financial Condition - Investments" and Note 2 to our

consolidated financial statements for details regarding our unrealized gains and losses on available-for-sale securities at September 30, 2013 and December 31, 2012.

#### Investment Credit Impairment Losses Recognized in Net Income

|   | Three months ended September 30, |         | Nine months ended September 30, |         |
|---|----------------------------------|---------|---------------------------------|---------|
|   | 2013                             | 2012    | 2013                            | 2012    |
|   | (Dollars in thousands)           |         |                                 |         |
| Corporate securities:   |                                  |         |                                 |         |
| Energy  | \$—                              | \$2,423 | \$—                             | \$6,461 |
| Transportation  | 43                               | —       | 242                             | 171     |
| Residential mortgage-backed   | 618                              | 257     | 618                             | 1,229   |
| Other asset-backed  | 104                              | 922     | 104                             | 922     |
| Mortgage loans  | —                                | 315     | 475                             | 335     |
| Real estate   | —                                | —       | 171                             | —       |
| Total other-than-temporary impairment losses reported in net income | \$765                            | \$3,917 | \$1,610                         | \$9,118 |

Impairment losses for the three months ended September 30, 2013 were incurred within the residential mortgage-backed securities due to a decline in the present value of cash flows. Losses were also incurred within other asset-backed securities and the transportation sector due to our intent to reduce our exposure by selling all or a portion of these securities. Losses for the nine months ended September 30, 2013 occurred in the transportation sector due to our intent to reduce our exposure by selling all or a portion of the security, a mortgage loan that was restructured, and real estate due to a contract to sell the property. Fixed maturity other-than-temporary credit impairment losses for the three months ended September 30, 2012 were incurred within the energy industry sector, due to a geothermal operation with reported decreasing cash flows during the quarter which suggest difficulties in meeting its debt obligations within the next year. Losses were also incurred within our residential, other asset-backed securities and mortgage loans due to weakness in underlying collateral values. Losses for the nine months ended September 30, 2012 also included residential mortgage-backed securities due to anticipated interest shortfalls that we were not going to recover and an airline with continuing financial difficulties.

#### Financial Condition

##### Investments

Our investment portfolio decreased 1.7% to \$7,041.7 million at September 30, 2013 compared to \$7,160.7 million at December 31, 2012. The portfolio decreased due to a reduction of \$335.9 million in the net unrealized appreciation of fixed maturities during 2013 and the execution of capital management transactions as outlined in Note 7 to the consolidated financial statements, partially offset by an increase due to positive cash flows from operating and financing activities. The reduction in net unrealized appreciation of fixed maturities is primarily attributable to an increase in market interest rates. Additional details regarding securities in an unrealized loss position at September 30, 2013 are included in the discussion that follows and in Note 2 to our consolidated financial statements. Details regarding investment impairments are discussed above in the "Realized Gains (Losses) on Investments" section under "Results of Operations."

We manage the investment portfolio to optimize risk-adjusted yield within the context of prudent asset-liability management. We evaluate multiple cash flow testing scenarios as part of this process. The Company's investment policy calls for investing primarily in high quality fixed maturities and commercial mortgage loans.





## Fixed Maturity Acquisitions Selected Information

|                                       | Nine months ended September 30, |   |           |   |
|---------------------------------------|---------------------------------|---|-----------|---|
|                                       | 2013                            |   | 2012      |   |
|                                       | (Dollars in thousands)          |   |           |   |
| Cost of acquisitions:                 |                                 |   |           |   |
| Corporate                             | \$415,811                       |   | \$384,802 |   |
| Mortgage and asset-backed             | 131,602                         |   | 395,725   |   |
| United States Government and agencies | 1,074                           |   | —         |   |
| Tax-exempt municipals                 | 190,588                         |   | 70,576    |   |
| Taxable municipals                    | 19,835                          |   | 18,513    |   |
| Total                                 | \$758,910                       |   | \$869,616 |   |
| Effective annual yield                | 4.40                            | % | 4.44      | % |
| Credit quality                        |                                 |   |           |   |
| NAIC 1 designation                    | 70.0                            | % | 63.8      | % |
| NAIC 2 designation                    | 29.5                            | % | 35.9      | % |
| Non-investment grade                  | 0.5                             | % | 0.3       | % |
| Weighted-average life in years        | 18.0                            |   | 11.1      |   |

The table above summarizes selected information for fixed maturity purchases. The effective annual yield shown is the yield calculated to the "worst-call date." For noncallable bonds, the worst-call date is always the maturity date. For callable bonds, the worst-call date is the call or maturity date that produces the lowest yield. The weighted-average maturity is calculated using scheduled pay-downs and expected prepayments for amortizing securities. For non-amortizing securities, the weighted-average maturity is equal to the stated maturity date.

A portion of the securities acquired during the nine months ended September 30, 2013 and September 30, 2012, were acquired with the proceeds from advances on our funding agreements with the Federal Home Loan Bank (FHLB). The securities acquired to support these funding agreements often carry a lower average yield than securities acquired to support our other insurance products, due to the shorter maturity and relatively low interest rate paid on those advances. The average yield of the securities acquired, excluding the securities supporting these funding agreements, was 4.59% during the nine-month period ended September 30, 2013 and 4.88% during the nine-month period ended September 30, 2012.

## Investment Portfolio Summary

|   | September 30, 2013     |         | December 31, 2012 |         |   |
|---|------------------------|---------|-------------------|---------|---|
|   | Carrying Value         | Percent | Carrying Value    | Percent |   |
|   | (Dollars in thousands) |         |                   |         |   |
| Fixed maturities - available for sale:      |                        |         |                   |         |   |
| Public                                      | \$4,661,415            | 66.2    | % \$4,649,954     | 64.9    | % |
| 144A private placement                      | 1,186,295              | 16.9    | 1,297,628         | 18.1    |   |
| Private placement                           | 297,762                | 4.2     | 318,163           | 4.5     |   |
| Total fixed maturities - available for sale | 6,145,472              | 87.3    | 6,265,745         | 87.5    |   |
| Equity securities                           | 87,394                 | 1.2     | 86,253            | 1.2     |   |
| Mortgage loans                              | 573,383                | 8.1     | 554,843           | 7.8     |   |
| Real estate                                 | 4,093                  | 0.1     | 4,668             | 0.1     |   |
| Policy loans                                | 175,535                | 2.5     | 174,254           | 2.4     |   |
| Short-term investments                      | 55,066                 | 0.8     | 74,516            | 1.0     |   |
| Other investments                           | 726                    | —       | 371               | —       |   |

|                   |             |       |   |             |       |   |
|-------------------|-------------|-------|---|-------------|-------|---|
| Total investments | \$7,041,669 | 100.0 | % | \$7,160,650 | 100.0 | % |
|-------------------|-------------|-------|---|-------------|-------|---|

As of September 30, 2013, 95.4% (based on carrying value) of the available-for-sale fixed maturities were investment grade debt securities, defined as being in the highest two National Association of Insurance Commissioners (NAIC) designations. Non-investment grade debt securities generally provide higher yields and involve greater risks than investment grade debt securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment grade issuers. In addition, the trading market for these securities is usually more limited than for investment grade

debt securities. We regularly review the percentage of our portfolio that is invested in non-investment grade debt securities (NAIC designations 3 through 6). As of September 30, 2013, no single non-investment grade holding exceeded 0.2% of total investments.

#### Credit Quality by NAIC Designation and Equivalent Rating

| NAIC Designation | Equivalent Rating (1)                       | September 30, 2013     |         | December 31, 2012 |             |       |   |
|------------------|---|------------------------|---------|-------------------|-------------|-------|---|
|                  |   | Carrying Value         | Percent | Carrying Value    | Percent     |       |   |
|                  |   | (Dollars in thousands) |         |                   |             |       |   |
| 1                | AAA, AA, A                                  | \$3,803,849            | 61.9    | %                 | \$3,877,173 | 61.9  | % |
| 2                | BBB   | 2,058,885              | 33.5    |                   | 2,054,260   | 32.8  |   |
|                  | Total investment grade                      | 5,862,734              | 95.4    |                   | 5,931,433   | 94.7  |   |
| 3                | BB  | 169,753                | 2.8     |                   | 210,875     | 3.4   |   |
| 4                | B   | 58,220                 | 0.9     |                   | 80,676      | 1.2   |   |
| 5                | CCC   | 38,654                 | 0.6     |                   | 24,930      | 0.4   |   |
| 6                | In or near default                          | 16,111                 | 0.3     |                   | 17,831      | 0.3   |   |
|                  | Total below investment grade                | 282,738                | 4.6     |                   | 334,312     | 5.3   |   |
|                  | Total fixed maturities - available for sale | \$6,145,472            | 100.0   | %                 | \$6,265,745 | 100.0 | % |

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

See Note 2 to our consolidated financial statements for a summary of fixed maturities by contractual maturity date.

#### Gross Unrealized Gains and Gross Unrealized Losses by Internal Industry Classification

|                                      | September 30, 2013   |  |                        |   |                         |
|--------------------------------------|----------------------|--|------------------------|---|-------------------------|
|                                      | Total Carrying Value | Carrying Value of Securities with Gross Unrealized Gains | Gross Unrealized Gains | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| (Dollars in thousands)               |                      |  |                        |   |                         |
| Corporate securities:                |                      |  |                        |   |                         |
| Basic industrial                     | \$303,073            | \$193,155  | \$18,236               | \$109,918   | \$(9,686)               |
| Capital goods                        | 206,004              | 144,238  | 14,746                 | 61,766  | (3,746)                 |
| Communications                       | 116,181              | 91,534   | 8,177                  | 24,647  | (2,584)                 |
| Consumer cyclical                    | 223,008              | 136,751  | 11,769                 | 86,257  | (3,591)                 |
| Consumer non-cyclical                | 350,766              | 212,885  | 18,375                 | 137,881   | (9,952)                 |
| Energy                               | 392,383              | 324,035  | 33,569                 | 68,348  | (5,018)                 |
| Finance                              | 734,020              | 608,451  | 50,567                 | 125,569   | (7,870)                 |
| Transportation                       | 83,467               | 74,908   | 8,911                  | 8,559   | (1,029)                 |
| Utilities                            | 866,474              | 665,719  | 79,982                 | 200,755   | (18,116)                |
| Other                                | 58,058               | 40,956   | 4,147                  | 17,102  | (424)                   |
| Total corporate securities           | 3,333,434            | 2,492,632  | 248,479                | 840,802   | (62,016)                |
| Mortgage and asset-backed securities | 1,432,894            | 1,140,532  | 78,368                 | 292,362   | (23,472)                |

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|  |             |             |           |             |              |
|--|-------------|-------------|-----------|-------------|--------------|
| United States Government and agencies  | 43,710      | 39,621      | 4,813     | 4,089       | (65 )        |
| State, municipal and other governments | 1,335,434   | 1,015,500   | 71,696    | 319,934     | (25,565 )    |
| Total                                  | \$6,145,472 | \$4,688,285 | \$403,356 | \$1,457,187 | \$(111,118 ) |

## Gross Unrealized Gains and Gross Unrealized Losses by Internal Industry Classification

|  | December 31, 2012          |   |                              |  |                               |
|--|----------------------------|---|------------------------------|--|-------------------------------|
|  | Total<br>Carrying<br>Value | Carrying<br>Value of<br>Securities<br>with Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Gains | Carrying<br>Value of<br>Securities<br>with Gross<br>Unrealized<br>Losses | Gross<br>Unrealized<br>Losses |
|  | (Dollars in thousands)     |   |                              |  |                               |
| Corporate securities:                  |                            |   |                              |  |                               |
| Basic industrial                       | \$262,068                  | \$250,190   | \$32,086                     | \$11,878   | \$(1,488 )                    |
| Capital goods                          | 200,164                    | 188,833   | 25,292                       | 11,331   | (345 )                        |
| Communications                         | 109,376                    | 106,462   | 14,099                       | 2,914  | (86 )                         |
| Consumer cyclical                      | 223,885                    | 198,103   | 17,576                       | 25,782   | (477 )                        |
| Consumer non-cyclical                  | 317,162                    | 296,401   | 35,802                       | 20,761   | (297 )                        |
| Energy                                 | 397,046                    | 395,372   | 56,768                       | 1,674  | (27 )                         |
| Finance                                | 801,565                    | 699,674   | 68,374                       | 101,891  | (6,940 )                      |
| Transportation                         | 85,195                     | 85,195  | 11,187                       | —  | —                             |
| Utilities                              | 836,785                    | 804,200   | 131,292                      | 32,585   | (516 )                        |
| Other                                  | 62,337                     | 60,367  | 6,668                        | 1,970  | (7 )                          |
| Total corporate securities             | 3,295,583                  | 3,084,797   | 399,144                      | 210,786  | (10,183 )                     |
| Mortgage and asset-backed securities   | 1,674,714                  | 1,489,283   | 113,613                      | 185,431  | (21,154 )                     |
| United States Government and agencies  | 49,009                     | 49,009  | 6,930                        | —  | —                             |
| State, municipal and other governments | 1,246,439                  | 1,197,279   | 142,704                      | 49,160   | (2,917 )                      |
| Total                                  | \$6,265,745                | \$5,820,368   | \$662,391                    | \$445,377  | \$(34,254 )                   |

## Non-Sovereign European Debt Exposure

|                         | September 30, 2013     |                   | December 31, 2012 |                   |
|-------------------------|------------------------|-------------------|-------------------|-------------------|
|                         | Amortized<br>Cost      | Carrying<br>Value | Amortized<br>Cost | Carrying<br>Value |
|                         | (Dollars in thousands) |                   |                   |                   |
| Italy                   | \$19,699               | \$19,533          | \$19,694          | \$20,682          |
| Spain                   | 15,429                 | 19,168            | 15,429            | 18,913            |
| Ireland                 | 13,047                 | 15,164            | 8,976             | 10,701            |
| Subtotal                | 48,175                 | 53,865            | 44,099            | 50,296            |
| United Kingdom          | 188,156                | 187,565           | 129,061           | 139,682           |
| Netherlands             | 61,056                 | 65,089            | 51,745            | 59,348            |
| France                  | 42,210                 | 44,711            | 37,914            | 42,383            |
| Other countries         | 62,465                 | 64,000            | 45,936            | 50,433            |
| Subtotal                | 353,887                | 361,365           | 264,656           | 291,846           |
| Total European exposure | \$402,062              | \$415,230         | \$308,755         | \$342,142         |

The table above reflects our exposure to non-sovereign European debt. This represents 6.8% of total fixed maturities as of September 30, 2013 and 5.5% of total fixed maturities as of December 31, 2012. The exposures are primarily in the industrial, financial and utility sectors. We do not own any securities issued by European governments.



## Credit Quality of Available-for-Sale Fixed Maturities with Unrealized Losses

| NAIC Designation | Equivalent Rating            | September 30, 2013  |                  |   |                         |                  |   |
|------------------|------------------------------|---|------------------|---|-------------------------|------------------|---|
|                  |                              | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total |   | Gross Unrealized Losses | Percent of Total |   |
|                  |                              | (Dollars in thousands)                                    |                  |   |                         |                  |   |
| 1                | AAA, AA, A                   | \$823,796   | 56.5             | % | \$(56,360)              | ) 50.7           | % |
| 2                | BBB                          | 508,339   | 34.9             |   | (32,418)                | ) 29.2           |   |
|                  | Total investment grade       | 1,332,135   | 91.4             |   | (88,778)                | ) 79.9           |   |
| 3                | BB                           | 75,024  | 5.1              |   | (5,805)                 | ) 5.2            |   |
| 4                | B                            | 28,603  | 2.0              |   | (9,340)                 | ) 8.4            |   |
| 5                | CCC                          | 12,934  | 0.9              |   | (1,450)                 | ) 1.3            |   |
| 6                | In or near default           | 8,491   | 0.6              |   | (5,745)                 | ) 5.2            |   |
|                  | Total below investment grade | 125,052   | 8.6              |   | (22,340)                | ) 20.1           |   |
|                  | Total                        | \$1,457,187   | 100.0            | % | \$(111,118)             | ) 100.0          | % |

| NAIC Designation | Equivalent Rating            | December 31, 2012   |                  |   |                         |                  |   |
|------------------|------------------------------|---|------------------|---|-------------------------|------------------|---|
|                  |                              | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total |   | Gross Unrealized Losses | Percent of Total |   |
|                  |                              | (Dollars in thousands)                                    |                  |   |                         |                  |   |
| 1                | AAA, AA, A                   | \$176,253   | 39.5             | % | \$(5,731)               | ) 16.7           | % |
| 2                | BBB                          | 134,355   | 30.2             |   | (3,315)                 | ) 9.7            |   |
|                  | Total investment grade       | 310,608   | 69.7             |   | (9,046)                 | ) 26.4           |   |
| 3                | BB                           | 67,380  | 15.1             |   | (3,801)                 | ) 11.1           |   |
| 4                | B                            | 44,961  | 10.1             |   | (14,227)                | ) 41.5           |   |
| 5                | CCC                          | 13,621  | 3.1              |   | (1,263)                 | ) 3.7            |   |
| 6                | In or near default           | 8,807   | 2.0              |   | (5,917)                 | ) 17.3           |   |
|                  | Total below investment grade | 134,769   | 30.3             |   | (25,208)                | ) 73.6           |   |
|                  | Total                        | \$445,377   | 100.0            | % | \$(34,254)              | ) 100.0          | % |

## Available-For-Sale Fixed Maturities with Unrealized Losses by Length of Time

|   | September 30, 2013     |  |   |  |
|---|------------------------|--|---|--|
|   | Amortized Cost         | Fair Value is 75% or Greater than Cost | Gross Unrealized Losses Fair Value is Less than 75% of Cost | Fair Value is 75% or Greater than Cost |
|   | (Dollars in thousands) |  |   |  |
| Three months or less                    | \$—                    | \$253,258                              | \$—   | \$(4,102)                              |
| Greater than three months to six months | —                      | 1,105,407                              | —   | (77,066)                               |



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|   |          |             |           |        |           |   |
|---|----------|-------------|-----------|--------|-----------|---|
| Greater than six months to nine months    | —        | 27,743      | —         | (2,906 | )         |   |
| Greater than nine months to twelve months | —        | 25,129      | —         | (3,347 | )         |   |
| Greater than twelve months                | 36,712   | 120,056     | (14,212   | )      | (9,485    | ) |
| Total                                     | \$36,712 | \$1,531,593 | \$(14,212 | )      | \$(96,906 | ) |

# Available-For-Sale Fixed Maturities with Unrealized Losses by Length of Time

|   | December 31, 2012                   |  | Gross Unrealized Losses             |  |
|---|-------------------------------------|--|-------------------------------------|--|
|   | Amortized Cost                      |  |                                     |  |
|   | Fair Value is Less than 75% of Cost | Fair Value is 75% or Greater than Cost | Fair Value is Less than 75% of Cost | Fair Value is 75% or Greater than Cost |
|   | (Dollars in thousands)              |  |                                     |  |
| Three months or less                      | \$—                                 | \$168,537                              | \$—                                 | \$(2,238 )                             |
| Greater than three months to six months   | —                                   | 33,622                                 | —                                   | (923 )                                 |
| Greater than six months to nine months    | —                                   | 9,276                                  | —                                   | (109 )                                 |
| Greater than nine months to twelve months | —                                   | 18,424                                 | —                                   | (369 )                                 |
| Greater than twelve months                | 51,957                              | 197,815                                | (18,691 )                           | (11,924 )                              |
| Total                                     | \$51,957                            | \$427,674                              | \$(18,691 )                         | \$(15,563 )                            |

# Available-For-Sale Fixed Maturities with Unrealized Losses by Maturity Date

|  | September 30, 2013  |                         | December 31, 2012   |                         |
|--|---|-------------------------|---|-------------------------|
|  | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
|  | (Dollars in thousands)                                    |                         |   |                         |
| Due in one year or less                | \$432   | \$(1 )                  | \$—   | \$—                     |
| Due after one year through five years  | 34,708  | (2,946 )                | 28,999  | (3,793 )                |
| Due after five years through ten years | 171,159   | (7,484 )                | 42,320  | (711 )                  |
| Due after ten years                    | 958,526   | (77,215 )               | 188,627   | (8,596 )                |
|  | 1,164,825   | (87,646 )               | 259,946   | (13,100 )               |
| Mortgage and asset-backed              | 292,362   | (23,472 )               | 185,431   | (21,154 )               |
| Total                                  | \$1,457,187   | \$(111,118 )            | \$445,377   | \$(34,254 )             |

See Note 2 to our consolidated financial statements for additional analysis of these unrealized losses.

## Mortgage and Asset-Backed Securities

Mortgage and other asset-backed securities are purchased when we believe these types of investments provide superior risk-adjusted returns compared to returns of more conventional investments such as corporate bonds and mortgage loans. These securities are diversified as to collateral types, cash flow characteristics and maturity.

## Mortgage and Asset-Backed Securities by Type

|  | September 30, 2013     |           |                |                             |
|--|------------------------|-----------|----------------|-----------------------------|
|  | Amortized Cost         | Par Value | Carrying Value | Percent of Fixed Maturities |
|  | (Dollars in thousands) |           |                |                             |

Residential mortgage-backed securities:

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|  |             |             |             |      |   |
|--|-------------|-------------|-------------|------|---|
| Sequential                                   | \$324,100   | \$387,904   | \$343,462   | 5.6  | % |
| Pass-through                                 | 24,857      | 24,779      | 26,953      | 0.5  |   |
| Planned and targeted amortization class      | 154,405     | 152,815     | 160,767     | 2.6  |   |
| Other  | 6,750       | 9,633       | 7,960       | 0.1  |   |
| Total residential mortgage-backed securities | 510,112     | 575,131     | 539,142     | 8.8  |   |
| Commercial mortgage-backed securities        | 407,662     | 414,854     | 426,370     | 6.9  |   |
| Other asset-backed securities                | 460,224     | 495,969     | 467,382     | 7.6  |   |
| Total  | \$1,377,998 | \$1,485,954 | \$1,432,894 | 23.3 | % |

## Mortgage and Asset-Backed Securities by Type

|  | December 31, 2012      |             |                   |      | Percent of<br>Fixed<br>Maturities |
|--|------------------------|-------------|-------------------|------|-----------------------------------|
|  | Amortized<br>Cost      | Par Value   | Carrying<br>Value |      |                                   |
|  | (Dollars in thousands) |             |                   |      |                                   |
| Residential mortgage-backed securities:      |                        |             |                   |      |                                   |
| Sequential                                   | \$404,252              | \$468,821   | \$424,922         | 6.8  | %                                 |
| Pass-through                                 | 31,496                 | 31,309      | 34,614            | 0.6  |                                   |
| Planned and targeted amortization class      | 184,537                | 183,265     | 201,051           | 3.2  |                                   |
| Other  | 12,670                 | 15,713      | 13,595            | 0.2  |                                   |
| Total residential mortgage-backed securities | 632,955                | 699,108     | 674,182           | 10.8 |                                   |
| Commercial mortgage-backed securities        | 463,504                | 470,474     | 510,819           | 8.1  |                                   |
| Other asset-backed securities                | 485,796                | 538,489     | 489,713           | 7.8  |                                   |
| Total  | \$1,582,255            | \$1,708,071 | \$1,674,714       | 26.7 | %                                 |

The residential mortgage-backed portfolio includes government agency pass-through and collateralized mortgage obligation (CMO) securities. With a government agency pass-through security, we receive a pro rata share of principal payments as payments are made on the underlying mortgage loans. CMOs consist of pools of mortgages divided into sections or "tranches" which provide sequential retirement of the bonds.

The commercial mortgage-backed securities are primarily sequential securities. Commercial mortgage-backed securities typically have cash flows that are less subject to refinance risk than residential mortgage-backed securities principally due to prepayment restrictions on many of the underlying commercial mortgage loans.

The other asset-backed securities are backed by both residential and non-residential collateral. The collateral for residential asset-backed securities primarily consists of second lien fixed-rate home equity loans. The cash flows of these securities are less subject to prepayment risk than residential mortgage-backed securities as the borrowers are less likely to refinance than those with only a first lien mortgage. The collateral for non-residential asset-backed securities primarily includes securities backed by credit card receivables, auto dealer receivables, auto installment loans, aircraft leases, middle market and syndicated business loans, timeshare receivables and trade and account receivables. These securities are high quality, short-duration assets with limited cash flow variability.

Our direct exposure to the Alt-A home equity and subprime first-lien sectors is limited to investments in structured securities collateralized by senior tranches of residential mortgage loans with this exposure. We also have a partnership interest in two funds that own securities backed by Alt-A home equity, subprime first-lien and adjustable rate mortgage collateral. The funds are reported as securities and indebtedness of related parties in our consolidated balances sheets with a fair value of \$26.0 million at September 30, 2013 and \$24.2 million at December 31, 2012. We do not own any direct investments in subprime lenders.

## Mortgage and Asset-Backed Securities by Collateral Type

|                   | September 30, 2013     |                   |                                   |  | December 31, 2012 |                   |                                   |
|-------------------|------------------------|-------------------|-----------------------------------|--|-------------------|-------------------|-----------------------------------|
|                   | Amortized<br>Cost      | Carrying<br>Value | Percent<br>of Fixed<br>Maturities |  | Amortized<br>Cost | Carrying<br>Value | Percent<br>of Fixed<br>Maturities |
|                   | (Dollars in thousands) |                   |                                   |  |                   |                   |                                   |
| Government agency | \$204,969              | \$217,445         | 3.6 %                             |  | \$258,461         | \$285,763         | 4.6 %                             |

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|                     |              |              |      |                |              |      |   |
|---------------------|--------------|--------------|------|----------------|--------------|------|---|
| Prime               | 169,305      | 180,655      | 3.0  | 220,925        | 232,277      | 3.7  |   |
| Alt-A               | 184,464      | 193,515      | 3.1  | 204,712        | 206,847      | 3.3  |   |
| Subprime            | 28,687       | 24,947       | 0.4  | 12,356         | 8,912        | 0.1  |   |
| Commercial mortgage | 407,662      | 426,370      | 6.9  | 463,504        | 510,819      | 8.1  |   |
| Non-mortgage        | 382,911      | 389,962      | 6.3  | 422,297        | 430,096      | 6.9  |   |
| Total               | \$ 1,377,998 | \$ 1,432,894 | 23.3 | % \$ 1,582,255 | \$ 1,674,714 | 26.7 | % |

The mortgage and asset-backed securities can be summarized into three broad categories: residential, commercial and other asset-backed securities.

### Residential Mortgage-Backed Securities by Collateral Type and Origination Year

|                | September 30, 2013  |                   |                            |                   |                            |                   |
|----------------|---|-------------------|----------------------------|-------------------|----------------------------|-------------------|
|                | Government & Prime<br>Amortized<br>Cost<br>(Dollars in thousands) | Carrying<br>Value | Alt-A<br>Amortized<br>Cost | Carrying<br>Value | Total<br>Amortized<br>Cost | Carrying<br>Value |
| 2013-2008      | \$158,375   | \$164,483         | \$1,025                    | \$1,038           | \$159,400                  | \$165,521         |
| 2007           | 33,654  | 38,148            | 28,485                     | 27,678            | 62,139                     | 65,826            |
| 2006           | 23,340  | 26,552            | 29,414                     | 31,633            | 52,754                     | 58,185            |
| 2005           | 13,321  | 14,596            | 3,906                      | 4,555             | 17,227                     | 19,151            |
| 2004 and prior | 131,740   | 140,702           | 86,852                     | 89,757            | 218,592                    | 230,459           |
| Total          | \$360,430   | \$384,481         | \$149,682                  | \$154,661         | \$510,112                  | \$539,142         |

|                | December 31, 2012   |                   |                            |                   |                            |                   |
|----------------|---|-------------------|----------------------------|-------------------|----------------------------|-------------------|
|                | Government & Prime<br>Amortized<br>Cost<br>(Dollars in thousands) | Carrying<br>Value | Alt-A<br>Amortized<br>Cost | Carrying<br>Value | Total<br>Amortized<br>Cost | Carrying<br>Value |
| 2012-2008      | \$201,055   | \$219,120         | \$1,457                    | \$1,511           | \$202,512                  | \$220,631         |
| 2007           | 30,133  | 33,293            | 28,154                     | 27,018            | 58,287                     | 60,311            |
| 2006           | 25,436  | 27,680            | 28,090                     | 28,635            | 53,526                     | 56,315            |
| 2005           | 16,976  | 18,757            | 4,110                      | 4,679             | 21,086                     | 23,436            |
| 2004 and prior | 200,394   | 214,138           | 97,150                     | 99,351            | 297,544                    | 313,489           |
| Total          | \$473,994   | \$512,988         | \$158,961                  | \$161,194         | \$632,955                  | \$674,182         |

### Residential Mortgage-Backed Securities by NAIC Designation and Equivalent Rating

| NAIC<br>Designation | Equivalent Rating | September 30, 2013                          |                     |   | December 31, 2012 |                     |   |
|---------------------|-------------------|---|---------------------|---|-------------------|---------------------|---|
|                     |                   | Carrying<br>Value<br>(Dollars in thousands) | Percent of<br>Total |   | Carrying<br>Value | Percent of<br>Total |   |
| 1                   | AAA, AA, A        | \$486,310                                   | 90.2                | % | \$618,541         | 91.7                | % |
| 2                   | BBB               | 14,061                                      | 2.6                 |   | 12,763            | 1.9                 |   |
| 3                   | BB                | 22,322                                      | 4.1                 |   | 21,255            | 3.2                 |   |
| 4                   | B                 | 16,449                                      | 3.1                 |   | 11,356            | 1.7                 |   |
| 5                   | CCC               | —   | —                   |   | 10,267            | 1.5                 |   |
|                     | Total             | \$539,142                                   | 100.0               | % | \$674,182         | 100.0               | % |

### Commercial Mortgage-Backed Securities by Origination Year

|      | September 30, 2013                          |                | December 31, 2012 |                |
|------|---|----------------|-------------------|----------------|
|      | Amortized<br>Cost<br>(Dollars in thousands) | Carrying Value | Amortized<br>Cost | Carrying Value |
| 2013 | \$14,192                                    | 12,742         | \$—               | —              |
| 2011 | 88,486                                      | 93,002         | 88,483            | 101,251        |

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|                |           |           |           |           |
|----------------|-----------|-----------|-----------|-----------|
| 2010           | 5,000     | 5,324     | 15,206    | 16,042    |
| 2009           | 17,427    | 19,963    | 20,049    | 24,445    |
| 2008 and prior | 282,557   | 295,339   | 339,766   | 369,081   |
| Total          | \$407,662 | \$426,370 | \$463,504 | \$510,819 |

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## Commercial Mortgage-Backed Securities by NAIC Designation and Equivalent Rating

| NAIC Designation       | Equivalent Rating | September 30, 2013 |                  |   | December 31, 2012 |                  |   |
|------------------------|-------------------|--------------------|------------------|---|-------------------|------------------|---|
|                        |                   | Carrying Value     | Percent of Total |   | Carrying Value    | Percent of Total |   |
| (Dollars in thousands) |                   |                    |                  |   |                   |                  |   |
| 1                      | GNMA              | \$206,677          | 48.5             | % | \$223,311         | 43.7             | % |
| 1                      | FNMA              | 14,115             | 3.3              |   | 15,272            | 3.0              |   |
| 1                      | AAA, AA, A        |                    |                  |   |                   |                  |   |
|                        | Generic           | 97,797             | 23.0             |   | 146,143           | 28.6             |   |
|                        | Super Senior      | 54,150             | 12.7             |   | 70,519            | 13.8             |   |
|                        | Mezzanine         | 17,962             | 4.2              |   | 18,043            | 3.5              |   |
|                        | Junior            | 20,555             | 4.8              |   | 20,398            | 4.0              |   |
|                        | Total AAA, AA, A  | 190,464            | 44.7             |   | 255,103           | 49.9             |   |
| 2                      | BBB               | 5,973              | 1.4              |   | 6,348             | 1.3              |   |
| 3                      | BB                | 7,025              | 1.6              |   | 7,863             | 1.5              |   |
| 4                      | B                 | 2,116              | 0.5              |   | 2,922             | 0.6              |   |
|                        | Total             | \$426,370          | 100.0            | % | \$510,819         | 100.0            | % |

Government National Mortgage Association (GNMA) guarantees principal and interest on mortgage backed securities. The guarantee is backed by the full faith and credit of the United States Government. The Federal National Mortgage Association (FNMA) is a government-sponsored enterprise (GSE) that was chartered by Congress to reduce borrowing costs for certain homeowners. GSEs carry an implicit backing of the U.S. Government but do not have explicit guarantees like GNMA.

The AAA, AA and A rated commercial mortgage-backed securities are broken down into categories based on subordination levels. Rating agencies disclose subordination levels, which measure the amount of credit support that the bonds (or tranches) have from subordinated bonds (or tranches). Generic is a term used for securities issued prior to 2005. The super senior securities have subordination levels greater than 27%, the mezzanine securities have subordination levels in the 17% to 27% range and the junior securities have subordination levels in the 9% to 16% range. Also included in the commercial mortgage-backed securities are military housing bonds totaling \$88.8 million at September 30, 2013 and \$95.1 million at December 31, 2012. These bonds are used to fund the construction of multi-family homes on United States military bases. The bonds are backed by a first mortgage lien on residential military housing projects.

## Other Asset-Backed Securities by Collateral Type and Origination Year

|                        | September 30, 2013 |                |                |                |                |                |                |                |                |                |
|------------------------|--------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                        | Government & Prime |                | Alt-A          |                | Subprime       |                | Non-Mortgage   |                | Total          |                |
|                        | Amortized Cost     | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| (Dollars in thousands) |                    |                |                |                |                |                |                |                |                |                |
| 2013                   | \$—                | \$—            | \$—            | \$—            | \$—            | \$—            | \$56,422       | \$56,071       | \$56,422       | \$56,071       |
| 2012                   | —                  | —              | —              | —              | —              | —              | 145,507        | 147,967        | 145,507        | 147,967        |
| 2011                   | —                  | —              | —              | —              | —              | —              | 47,417         | 49,159         | 47,417         | 49,159         |
| 2010                   | —                  | —              | —              | —              | —              | —              | 9,806          | 9,873          | 9,806          | 9,873          |
| 2008 and prior         | 13,844             | 13,619         | 34,782         | 38,854         | 28,687         | 24,947         | 123,759        | 126,892        | 201,072        | 204,312        |



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|       |          |          |          |          |          |          |           |           |           |           |
|-------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|
| Total | \$13,844 | \$13,619 | \$34,782 | \$38,854 | \$28,687 | \$24,947 | \$382,911 | \$389,962 | \$460,224 | \$467,382 |
|-------|----------|----------|----------|----------|----------|----------|-----------|-----------|-----------|-----------|

# Other Asset-Backed Securities by Collateral Type and Origination Year

|                | December 31, 2012      |                |                |                |                |                |                |                |                |                |
|----------------|------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
|                | Government & Prime     |                | Alt-A          |                | Subprime       |                | Non-Mortgage   |                | Total          |                |
|                | Amortized Cost         | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
|                | (Dollars in thousands) |                |                |                |                |                |                |                |                |                |
| 2012           | \$—                    | \$—            | \$—            | \$—            | \$—            | \$—            | \$149,056      | \$152,723      | \$47,781       | \$152,723      |
| 2011           | —                      | —              | —              | —              | —              | —              | 47,781         | 49,416         | 47,781         | 49,416         |
| 2010           | —                      | —              | —              | —              | —              | —              | 63,316         | 63,640         | 63,316         | 63,640         |
| 2009           | —                      | —              | —              | —              | —              | —              | 2,889          | 2,888          | 2,889          | 2,888          |
| 2008 and prior | 5,392                  | 5,052          | 45,751         | 45,653         | 12,356         | 8,912          | 159,255        | 161,429        | 222,754        | 221,046        |
| Total          | \$5,392                | \$5,052        | \$45,751       | \$45,653       | \$12,356       | \$8,912        | \$422,297      | \$430,096      | \$485,796      | \$489,713      |

# Other Asset-Backed Securities by NAIC Designation and Equivalent Rating

| NAIC Designation       | Equivalent Ratings | September 30, 2013 |                  | December 31, 2012 |                  |       |   |
|------------------------|--------------------|--------------------|------------------|-------------------|------------------|-------|---|
|                        |                    | Carrying Value     | Percent of Total | Carrying Value    | Percent of Total |       |   |
| (Dollars in thousands) |                    |                    |                  |                   |                  |       |   |
| 1                      | AAA, AA, A         | \$414,828          | 88.8             | %                 | \$434,160        | 88.7  | % |
| 2                      | BBB                | 14,587             | 3.1              |                   | 21,238           | 4.3   |   |
| 3                      | BB                 | 2,235              | 0.5              |                   | 5,588            | 1.1   |   |
| 4                      | B                  | 7,795              | 1.7              |                   | 11,041           | 2.3   |   |
| 5                      | CCC                | 16,570             | 3.5              |                   | 6,825            | 1.4   |   |
| 6                      | In or near default | 11,367             | 2.4              |                   | 10,861           | 2.2   |   |
|                        | Total              | \$467,382          | 100.0            | %                 | \$489,713        | 100.0 | % |

# State, Municipal and Other Government Securities

State, municipal and other government securities totaled \$1.3 billion, or 21.7% of total fixed maturities at September 30, 2013, and include investments in general obligation, revenue and municipal housing bonds. Our investment strategy is to utilize municipal bonds in addition to corporate bonds, as we believe they provide additional diversification and have historically low default rates compared with similarly rated corporate bonds. We evaluate the credit strength of the underlying issues on both a quantitative and qualitative basis, excluding insurance, prior to acquisition. The majority of the municipal bonds we hold are investment grade credits without consideration of insurance. Our municipal bonds are well diversified by type and geography with the top exposure being water and sewer revenue bonds. We do not hold direct obligations of the City of Detroit, which filed for bankruptcy protection during July 2013. Exposure to the state of Illinois and municipalities within the state accounted for 1.58% of our total invested assets at September 30, 2013. As of September 30, Illinois related holdings held in the portfolio were A-rated or above, and were trading at 102.9% of amortized cost. Our municipal bond exposure had an average rating of AA and was trading at 103.6% of amortized cost at September 30, 2013.

# Equity Securities

Equity securities totaled \$87.4 million at September 30, 2013 and \$86.3 million at December 31, 2012. Gross unrealized gains totaled \$3.4 million and gross unrealized losses totaled \$1.8 million at September 30, 2013. At

December 31, 2012, gross unrealized gains totaled \$4.8 million and gross unrealized losses totaled \$0.7 million on these securities. The unrealized losses are primarily attributable to nonredeemable perpetual preferred securities from issuers in the financial sector. See Note 2 to our consolidated financial statements for further discussion regarding our analysis of unrealized losses related to these securities.

#### Mortgage Loans

Mortgage loans totaled \$573.4 million at September 30, 2013 and \$554.8 million at December 31, 2012. Our mortgage loans are diversified as to property type, location and loan size, and are collateralized by the related properties. The total number of commercial mortgage loans outstanding was 143 at September 30, 2013 and 142 at December 31, 2012. In 2013, new loans ranged from \$1.9 million to \$9.3 million in size, with an average loan size of \$4.3 million, and an average loan term of 14 years and an average yield of 4.33%. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower

and require diversification by geographic location and collateral type. The majority of our mortgage loans amortize principal, with 4.9% that are interest only loans at September 30, 2013. At September 30, 2013, the average loan-to-value of the current outstanding principal balance using the most recent appraised value was 55.2% and the weighted average debt service coverage ratio was 1.5 based on the results of our 2012 annual study. See Note 2 to our consolidated financial statements for further discussion regarding our mortgage loans.

#### Asset-Liability Management

Our asset-liability management program includes (i) designing and developing products that encourage persistency and help ensure targeted spreads are earned and, as a result, create a stable liability structure, and (ii) structuring the investment portfolio with duration and cash flow characteristics consistent with the duration and cash flow characteristics of our insurance liabilities. The weighted average life of the fixed maturity and mortgage loan portfolio based on fair values was approximately 10.3 years at September 30, 2013 and 9.4 years at December 31, 2012. The effective duration of the fixed maturity and mortgage loan portfolios backing our annuity products was 5.9 at September 30, 2013 and 5.5 at December 31, 2012. The effective duration of our annuity liabilities was approximately 6.2 at September 30, 2013 and 6.5 at December 31, 2012. While it can be difficult to maintain asset and liability durations that are closely matched in a dynamic environment, we have identified various strategies that can be implemented if duration mismatches exceed acceptable tolerances.

#### Other Assets

Deferred acquisition costs increased 55.9% to \$318.6 million at September 30, 2013, primarily due to the reduced impact of the change in unrealized appreciation/depreciation on fixed maturity securities. The impact of unrealized appreciation/depreciation on fixed maturity securities decreased deferred acquisition costs \$67.2 million at September 30, 2013 and \$172.3 million at December 31, 2012. Assets held in separate accounts increased 7.5% to \$665.3 million primarily due to the market performance on the underlying investment portfolios. Securities and indebtedness of related parties increased 20.4% to \$121.2 million primarily due to additional investments made in equity investees specializing in low income housing. Cash and cash equivalents decreased 92.2% to \$6.1 million primarily due to the capital deployment actions in the current quarter.

#### Liabilities

Future policy benefits increased 4.5% to \$5,757.7 million at September 30, 2013 primarily due to an increase in the volume of annuity and life business in force. Liabilities related to separate accounts increased 7.5% to \$665.3 million primarily due to the impact of changes in market performance. Deferred income taxes decreased 40.7% to \$123.6 million primarily due to the tax impact of the change in unrealized appreciation/depreciation on investments.

As discussed in Note 6 to our consolidated financial statements, during September 2013, we redeemed our \$50.0 million long-term debt payable to affiliates and received a \$25.0 million advance from the Federal Home Loan Bank.

#### Stockholders' Equity

As discussed in Note 7 to our consolidated financial statements, during the third quarter stockholders' equity was impacted by several capital deployment actions including a 36 percent increase in the quarterly cash dividend to \$0.15 per share, a special cash dividend of \$2.00 per share on Class A and Class B common stock, a repurchase of 1,023,948 shares of Class B common stock and the repayment of \$50.0 million of affiliate debt.

Our stockholders' equity decreased 14.5% to \$1,036.6 million at September 30, 2013, compared to \$1,212.2 million at December 31, 2012, primarily due to the change in unrealized appreciation of fixed maturity securities during the

period, cash dividends and stock repurchases, partially offset by net income.

At September 30, 2013, FBL's common stockholders' equity was \$1,033.6 million, or \$41.82 per share, compared to \$1,209.2 million or \$47.47 per share at December 31, 2012. Included in stockholders' equity per common share is \$5.48 at September 30, 2013 and \$11.38 at December 31, 2012 attributable to accumulated other comprehensive income.

## Liquidity and Capital Resources

### Cash Flows

During 2013, our operating activities generated cash flows totaling \$128.3 million consisting of net income of \$81.5 million adjusted for non-cash operating revenues and expenses netting to \$46.8 million. We used cash of \$237.1 million in our investing activities during the 2013 period. The primary uses were \$905.6 million of investment acquisitions, mostly in fixed maturity securities, partially offset by \$658.4 million in sales, maturities and repayments of investments. Our financing activities provided cash of \$36.8 million during the 2013 period. The primary financing source was \$453.8 million in receipts from interest sensitive products credited to policyholder account balances, which was partially offset by \$288.1 million for return of policyholder account balances on interest sensitive products. Also, we used \$44.8 million for the net repurchase of common stock and \$50.0 million for repayment of long-term debt, partially offset by \$25.0 million from issuance of short-term debt.

### Sources and Uses of Capital Resources

Parent company cash inflows from operations consist primarily of (i) fees that it charges the various subsidiaries and affiliates for management of their operations, (ii) expense reimbursements and tax settlements from subsidiaries and affiliates, (iii) proceeds from the exercise of employee stock options, (iv) proceeds from borrowings, (v) investment income and (vi) dividends from subsidiaries, if declared and paid. Revenue sources for the parent company during the quarter ended September 30, 2013 included management fees from subsidiaries and affiliates of \$2.9 million. Cash outflows are principally for salaries, taxes and other expenses related to providing these management services, dividends on outstanding stock, stock repurchases, interest and principal repayments on our parent company debt and capital contributions to subsidiaries.

During the third quarter of 2013, we took several steps to utilize excess capital, including a 36 percent increase in the quarterly cash dividend to \$0.15 per share, a special cash dividend of \$2.00 per share on Class A and Class B common stock, a tender offer for 99 percent of its Class B common shares and the repayment of \$50.0 million of affiliate debt. The tender offer resulted in repurchase of 1,023,948 Class B common shares for \$46.4 million. These transactions were funded with available cash resources at the parent company and a \$120.0 million dividend from Farm Bureau Life.

During 2011 and 2012, the Board of Directors approved plans to repurchase up to \$230.0 million of our Class A common stock. These repurchase plans authorize us to make repurchases in the open market or through privately negotiated transactions, with the timing and terms of the purchases to be determined by management based on market conditions. Under these plans, we repurchased 363,430 shares for \$14.2 million during the first nine months of 2013 including 3,004 shares for \$0.1 million during the third quarter. At September 30, 2013, \$20.3 million remains available for repurchase under these plans. Completion of the program is dependent on market conditions and other factors. There is no guarantee as to the exact timing of any repurchases or the number of shares that we will repurchase. The share repurchase program may be modified or terminated at any time without prior notice.

Interest payments on our debt totaled \$5.9 million for the nine months ended September 30, 2013 and \$9.4 million for the 2012 period. In September 2013, we redeemed our remaining \$50.0 million in Senior Notes with affiliates. In January 2012, we redeemed \$175.0 million of Senior Notes with non-affiliates with funds from two irrevocable debt defeasance trusts. The 2012 interest payments include \$3.5 million from the debt defeasance trusts for the Senior Notes redeemed in 2012. Interest payments on our debt outstanding at September 30, 2013 are estimated to be \$1.2 million for the remainder of 2013.

Farm Bureau Life's cash inflows primarily consist of premium income, deposits to policyholder account balances, income from investments, sales, maturities and calls of investments and repayments of investment principal. Farm Bureau Life's cash outflows are primarily related to withdrawals of policyholder account balances, investment purchases, payment of policy acquisition costs, policyholder benefits, income taxes, current operating expenses and dividends. Life insurance companies generally produce a positive cash flow which may be measured by the degree to which cash inflows are adequate to meet benefit obligations to policyholders and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business. Continuing operations and financing activities from Farm Bureau Life relating to interest sensitive products provided funds totaling \$316.8 million for the nine months ended September 30, 2013 and \$414.0 million for the 2012 period.

Farm Bureau Life's ability to pay dividends to FBL Financial Group, Inc. is limited by law to earned profits (statutory unassigned surplus) as of the date the dividend is paid, as determined in accordance with accounting practices prescribed by insurance regulatory authorities of the State of Iowa. Due to the \$120.0 million extraordinary dividend paid by Farm Bureau

Life to FBL Financial Group, Inc. during the third quarter of 2013, any further dividend payments for 2013 would require approval of the Iowa Insurance Division.

We paid regular cash dividends on our common and preferred stock during the nine-month period totaling \$9.6 million in 2013 and \$8.5 million in 2012. In addition, we paid a special \$2.00 per common share cash dividend on September 13, 2013 of \$51.4 million. The level of common stock dividends are analyzed quarterly and are dependent upon our capital and liquidity positions. The parent company expects to have sufficient resources and cash flows to meet its interest and dividend payments throughout 2013. The parent company had available cash and investments totaling \$81.0 million at September 30, 2013. FBL Financial Group, Inc. expects to rely on available cash resources and management fee income to make dividend payments to its stockholders and interest payments on its debt. We had no material commitments for capital expenditures as of September 30, 2013.

We manage the amount of capital held by our insurance subsidiaries to ensure we meet regulatory requirements. The primary regulatory capital measure is risk-based capital ("RBC") as developed by the National Association of Insurance Commissioners and adopted by our state of domicile. As of September 30, 2013, we estimate Farm Bureau Life's company action level risk based capital ratio to be 450%, which exceeds all regulatory standards.

On a consolidated basis, we anticipate that funds to meet our short-term and long-term capital expenditures, cash dividends to stockholders and operating cash needs will come from existing capital and internally generated funds. However, there can be no assurance that future experience regarding benefits and surrenders will be similar to historic experience since benefits and surrender levels are influenced by such factors as the interest rate environment, our financial strength ratings, the economy and other factors that impact policyholder behavior. Our investment portfolio at September 30, 2013, included \$55.1 million of short-term investments, \$6.1 million of cash and cash equivalents and \$481.3 million in carrying value of U.S. Government and U.S. Government agency-backed securities that could be readily converted to cash at or near carrying value. Farm Bureau Life is also a member of the FHLB, which provides a source for additional liquidity, if needed. This membership allows us to utilize fixed or floating rate advances offered by the FHLB and secured by qualifying collateral. Our total capacity to utilize such advances is impacted by multiple factors including the market value of eligible collateral, level of statutory admitted assets and excess reserves, and our willingness or capacity to hold activity-based FHLB common stock.

#### Contractual Obligations

In the normal course of business, we enter into insurance contracts, financing transactions, lease agreements or other commitments which are necessary or beneficial to our operations. These commitments may obligate us to certain cash flows during future periods. There have been no material changes to our total contractual obligations since December 31, 2012.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

#### Market Risks of Financial Instruments

There have been no material changes in the market risks from the information provided in "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in our Form 10-K filed February 14, 2013.

### ITEM 4. CONTROLS AND PROCEDURES

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief



Financial Officer concluded that our disclosure controls and procedures were effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our internal control over financial reporting changes from time-to-time as we modify and enhance our systems and processes to meet our dynamic needs. Changes are also made as we strive to be more efficient in how we conduct our business. Any

significant changes in controls are evaluated prior to implementation to help ensure the continued effectiveness of our internal controls and internal control environment. While changes have taken place in our internal controls during the quarter ended September 30, 2013, there have been no changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

#### (c) Issuer Purchases of Equity Securities

The following table sets forth issuer purchases of equity securities for the quarter ended September 30, 2013.

| Period  | (a) Total<br>Number of<br>Shares (or Units)<br>Purchased (1) | (b) Average Price<br>Paid per Share<br>(or Unit) | (c) Total Number of<br>Shares (or Units)<br>Purchased as Part of<br>Publicly Announced<br>Plans or Programs | (d) Maximum<br>Number (or<br>Approximate Dollar<br>Value) of Shares (or<br>Units) that May Yet<br>Be Purchased Under<br>the Plans or<br>Programs |
|---|--|--|---|--|
| July 1, 2013 through July 31, 2013              | —  | \$—  | —   | \$20,440,824   |
| August 1, 2013 through August 31, 2013          | 3,004  | 45.76  | 3,004   | \$20,303,361   |
| September 1, 2013 through<br>September 30, 2013 | —  | —  | —   | \$20,303,361   |
| Total   | 3,004  | \$45.76  |   |  |

Activity in this table represents Class A common shares repurchased by the Company in connection with the repurchase plan announced on November 15, 2012. The plan authorizes us to make up to \$30.0 million in repurchases of Class A common stock in the open market or through privately negotiated transactions, with the (1) timing and terms of the purchases to be determined by management based on market conditions. Completion of the program is dependent on market conditions and other factors. There is no guarantee as to the exact timing of any repurchases or the number of shares, if any, that we will repurchase. The share repurchase program may be modified or terminated at any time without prior notice.

As discussed in Note 7 to our consolidated financial statements, on August 26, 2013, we announced a tender offer for 99% of our non-registered Class B common shares outstanding. We executed the tender offer on September 27, 2013 and repurchased 1,023,948 shares at \$45.33 per share for a total cost of \$46.4 million. No further repurchases of Class B common stock are authorized at this time.

ITEM 6. EXHIBITS

(a) Exhibits:

- 10.1+\* Executive Salary and Bonus Deferred Compensation Plan as amended through August 21, 2013
- 10.2+\* Cash-Based Restricted Stock Unit Plan as amended through August 21, 2013
- 31.1+ Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2+ Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32+ Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101+# Interactive Data Files formatted in XBRL (eXtensible Business Reporting Language) from FBL Financial Group, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2013 as follows: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statement of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) Notes to Financial Statements
- + Filed or furnished herewith
- \* Exhibit relates to a compensatory plan for management or directors.
- # In accordance with Rule 402 of Regulation S-T, the XBRL related information in this report shall not be deemed filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

## SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: October 31, 2013

FBL FINANCIAL GROUP, INC.

By     /s/ James P. Brannen  
James P. Brannen  
Chief Executive Officer (Principal Executive Officer)

By     /s/ Donald J. Seibel  
Donald J. Seibel  
Chief Financial Officer and Treasurer (Principal  
Financial and Accounting Officer)