THE AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS FOR YEAR ENDED DECEMBER 31, 2004
AND 2003 WITH REPORT OF INDEPENDENT AUDITORS

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2004 AND 2003
AND FOR THE YEARS THEN ENDED
AND INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ameritas Acacia Mutual Holding Company
Lincoln, Nebraska

We have audited the accompanying consolidated balance sheets of Ameritas Acacia Mutual Holding Company and subsidiaries (the Company) as of December 31, 2004 and 2003, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Ameritas Acacia Mutual Holding Company and subsidiaries as of December 31, 2004 and 2003, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

Lincoln, Nebraska
March 1, 2005

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

ASSETS	December 31 2004	2003
Investments:		
Fixed maturity securities held to maturity (fair value $389,635 – 2004, $437,106 – 2003)	$ 368,347	$ 407,358
Fixed maturity securities available for sale (amortized cost $2,452,072 – 2004, $2,425,705 – 2003)	2,555,274	2,528,562
Fixed maturity securities trading	20,624	—
Equity securities available for sale (cost $126,071 – 2004, $115,296 – 2003)	155,459	135,520
Equity securities trading	7,020	1,796
Loans receivable, net	1,530,388	1,410,736
Real estate, less accumulated depreciation ($18,044 – 2004, $34,230 – 2003)	40,815	76,104
Other investments	116,998	102,645
Total investments	4,794,925	4,662,721
Cash and cash equivalents	184,540	186,109
Accrued investment income	57,076	61,305
Deferred policy acquisition costs	282,253	290,349
Property and equipment, less accumulated depreciation ($61,396 – 2004, $57,045 – 2003)	47,246	42,770
Reinsurance receivable – affiliate	135	117
Current income taxes	8,482	—
Other assets	118,267	114,296
Separate accounts	2,666,204	2,487,043
Total assets	$8,159,128	$7,844,710

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31 2004	December 31 2003
LIABILITIES AND EQUITY		
Policy and contract reserves	$ 849,887	$ 863,275
Policy and contract claims	47,012	54,586
Accumulated contract values	2,248,017	2,227,929
Unearned policy charges	14,000	13,109
Dividends payable to policyowners	17,120	17,687
Savings deposits	577,511	593,231
Note payable – affiliate	3,359	3,359
Borrowings	290,689	295,642
Current income taxes	—	4,254
Deferred income taxes	44,404	29,771
Other liabilities	163,546	158,267
Separate accounts	2,666,204	2,487,043
Total liabilities	6,921,749	6,748,153
COMMITMENTS AND CONTINGENCIES		
Minority interest in subsidiary	58,294	53,235
Retained earnings	1,123,764	993,884
Accumulated other comprehensive income	55,321	49,438
Total equity	1,179,085	1,043,322
Total liabilities and equity	$8,159,128	$7,844,710

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands)

	Years Ended December 31 2004	2003
INCOME:		
Insurance revenues:		
Premiums:		
Life insurance	$ 66,971	$ 65,935
Accident and health insurance	350,154	351,507
Contract charges	140,739	135,349
Reinsurance, net	23,532	24,592
Reinsurance ceded allowance	11,928	12,638
Mutual fund management and related fees	90,807	78,273
Broker dealer revenues	45,834	46,322
Investment revenues:		
Net investment income	272,129	259,249
Realized gains (losses), net	74,203	(24,156)
Other	27,548	26,799
	1,103,845	976,508
BENEFITS AND EXPENSES:		
Policy benefits:		
Death benefits	50,170	48,457
Surrender benefits	27,038	25,493
Accident and health benefits	296,648	300,106
Interest credited	100,197	108,366
Change in policy and contract reserves	(11,988)	(14,512)
Policyowner dividends	24,514	25,639
Other	17,160	18,082
Sales and operating expenses	333,395	320,200
Interest expense	22,847	19,969
Amortization of deferred policy acquisition costs	45,512	34,983
	905,493	886,783
Income before income taxes, minority interest in earnings of subsidiary and cumulative effect of change in accounting principle	198,352	89,725
Income taxes – current	50,763	32,623
Income taxes – deferred	11,995	1,245
Total income taxes	62,758	33,868
Income before minority interest in earnings of subsidiary and cumulative effect of change in accounting principle	135,594	55,857
Minority interest in earnings of subsidiary	(5,108)	(5,781)
Income before cumulative effect of change in accounting principle	130,486	50,076
Cumulative effect of change in accounting principle (Note 1)	(606)	—
Net income	$ 129,880	$ 50,076

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(in thousands)

	Years Ended December 31	
	2004	2003
Net income	$129,880	$50,076
Other comprehensive income, net of tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during the period (net of deferred tax expense, $1,511 – 2004, $6,647 – 2003)	3,005	12,316
Reclassification adjustment for losses included in net income (net of deferred tax benefit, $1,607 – 2004, $6,781 – 2003)	2,985	12,595
Allocation to Closed Block policyholder dividend obligation (PDO) (net of deferred tax expense, $85 – 2004, $350 – 2003)	(158)	(651)
Minority interest	51	19
	5,883	24,279
Minimum pension liability adjustment (net of deferred tax expense, $0 – 2004, $10,907 – 2003)	—	20,256
Other comprehensive income	5,883	44,535
Comprehensive income	$135,763	$94,611

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EQUITY
(in thousands)

	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
BALANCE, January 1, 2003	$ 943,808	$ 4,903	$ 948,711
Net unrealized investment activity, net	—	24,911	24,911
Minority interest in net unrealized investment activity, net of tax	—	19	19
Allocation to Closed Block PDO	—	(651)	(651)
Minimum pension liability adjustment	—	20,256	20,256
Net income	50,076	—	50,076
BALANCE, December 31, 2003	993,884	49,438	1,043,322
Net unrealized investment activity, net	—	5,990	5,990
Minority interest in net unrealized investment activity, net of tax	—	51	51
Allocation to Closed Block PDO	—	(158)	(158)
Net income	129,880	—	129,880
BALANCE, December 31, 2004	$1,123,764	$55,321	$1,179,085

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31	
	2004	2003
OPERATING ACTIVITIES:		
Net Income	$ 129,880	$ 50,076
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	11,463	12,641
Amortization of deferred policy acquisition costs	45,512	34,983
Policy acquisition costs deferred	(39,409)	(40,559)
Interest credited to accumulated contract values	100,197	108,366
Amortization of discounts or premiums	(767)	(5,459)
Net realized (gains) losses on investment transactions	(73,203)	24,156
Cumulative effect of change in accounting principle (Note 1)	606	—
Unrealized (gain) loss on trading securities and equity method investments	(3,967)	821
Loans receivable held for sale	(708)	4,497
Deferred income taxes	11,995	1,245
Minority interest in earnings of subsidiary	5,108	5,781
Change in assets and liabilities:		
Fixed maturity securities trading	(19,669)	—
Equity securities trading	(4,751)	(1,644)
Accrued investment income	4,229	(691)
Current income taxes	(12,736)	13,158
Other assets	(3,989)	(4,233)
Policy and contract reserves	(11,960)	(13,290)
Policy and contract claims	(7,574)	7,488
Unearned policy charges	891	776
Dividends payable to policyowners	(567)	(505)
Other liabilities	4,511	1,803
Net cash from operating activities	135,092	199,410
INVESTING ACTIVITIES:		
Purchase of investments:		
Fixed maturity securities held to maturity	(75,383)	(25,076)
Fixed maturity securities available for sale	(379,280)	(936,675)
Equity securities available for sale	(49,506)	(50,664)
Loans receivable	(97,254)	(89,018)
Real estate	(2,277)	(17,155)
Other investments	(37,162)	(18,715)
Proceeds from sale of investments:		
Fixed maturity securities available for sale	59,302	88,765
Equity securities available for sale	41,198	51,161
Real estate	112,798	393

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

AMERITAS ACACIA MUTUAL HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Years Ended December 31 2004	2003
INVESTING ACTIVITIES (continued):		
Proceeds from maturities or repayment of investments:		
Fixed maturity securities held to maturity	$ 115,116	$ 136,035
Fixed maturity securities available for sale	289,733	431,620
Loans receivable	71,607	54,467
Other investments	20,863	18,610
Purchase of property and equipment	(21,768)	(26,503)
Proceeds from sale of property and equipment	9,486	12,759
Net change in loans on insurance policies	5,853	6,832
Net change in loans receivable from banking activities	(99,205)	(188,974)
Net cash from investing activities	(35,879)	(552,138)
FINANCING ACTIVITIES:		
Deposits credited to accumulated contract values	1,081,793	2,339,018
Withdrawals from accumulated contract values	(1,161,902)	(2,312,483)
Net change in savings deposits	(15,720)	137,297
Increase in borrowings	513,500	503,250
Net change in repurchase agreements	(20,944)	37,333
Repayment of borrowings	(497,509)	(456,172)
Net cash from financing activities	(100,782)	248,243
CHANGE IN CASH AND CASH EQUIVALENTS	(1,569)	(104,485)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	186,109	290,594
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 184,540	$ 186,109
Supplemental cash flow information:		
Cash paid for income taxes	$ 63,791	$ 19,589
Cash paid for interest	24,294	23,216

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

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

Effective January 1, 1999, Ameritas Mutual Insurance Holding Company (AMIHC) and Acacia Mutual Holding Corporation (AMHC) merged to form Ameritas Acacia Mutual Holding Company (AAMHC) in a business combination accounted for as a pooling of interests. In addition, their two wholly owned subsidiaries, Ameritas Holding Company and Acacia Financial Group, Ltd., were merged to form Ameritas Holding Company (AHC). AHC wholly owns two stock life insurance companies, Ameritas Life Insurance Corp. (Ameritas) and Acacia Life Insurance Company (Acacia).

AAMHC is a mutual insurance holding company structure. Owners of designated policies issued by Ameritas and Acacia have membership interests in AAMHC, while contractual rights remain with each respective insurance company.

Ameritas' insurance operations consist of life and health insurance and annuity and pension contracts. Ameritas and its subsidiaries operate in all 50 states and the District of Columbia. Ameritas wholly owns First Ameritas Life Insurance Corp. of New York, an insurance subsidiary. Ameritas is also a majority owner of AMAL Corporation (AMAL), which wholly owns Ameritas Variable Life Insurance Company (AVLIC), Ameritas Investment Corp., a broker dealer, and The Advisors Group, Inc. (TAG), a broker dealer. Ameritas also conducts other diversified financial service related operations through the following wholly owned subsidiaries: Ameritas Investment Advisors, Inc., an advisor providing investment management services; and Pathmark Administrators Inc., formerly Pathmark Assurance Company which effective September 30, 2003 surrendered its insurance license and now operates as a third-party administrator.

Acacia's insurance operations consist of life and annuity products. Acacia and, prior to January 1, 2004, its wholly owned insurance subsidiary, Acacia National Life Insurance Company (ANLIC), operate in 47 states and the District of Columbia. Effective after the close of business at December 31, 2003, ANLIC was merged into Acacia. Non-insurance products and services are offered by Acacia Financial Corporation (AFCO), a wholly owned subsidiary of Acacia which is a holding company of several financial service companies. Principal subsidiaries of AFCO include: Calvert Group Ltd. (Calvert), a provider of investment advisory, management, and administrative services to The Calvert Group of mutual funds; and Acacia Federal Savings Bank (AFSB), a federally chartered savings bank. Prior to July 15, 2004, Acacia Realty Square, LLC (ARS), a wholly owned subsidiary of Acacia, owned and leased the former Acacia headquarters building to an unrelated party. Effective on July 15, 2004, ARS was dissolved as part of a real estate transaction involving the sale of the Acacia headquarters building.

BASIS OF ACCOUNTING AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Ameritas Acacia Mutual Holding Company and subsidiaries (the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The consolidated financial statements include the accounts of AAMHC and its majority owned subsidiaries, but exclude the effects of all material intercompany transactions.

USE OF ESTIMATES

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates susceptible to significant change include deferred policy acquisition costs, reserves, and income taxes.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

RISKS AND UNCERTAINTIES

The Company operates in a business environment which is subject to various risks and uncertainties. Such risks and uncertainties include, but are not limited to, interest rate risk, market risk, credit risk and legal and regulatory changes.

Interest rate risk is the potential for interest rates to change, which can cause fluctuations in the value of investments, the liabilities for future policy benefits and the carrying amount of deferred policy acquisition costs. Market risk is the potential for market values to change, which can cause fluctuations in certain future policy benefits and contract charges. Credit risk is the risk that issuers of investments owned by the Company may default or that other parties may not be able to pay amounts due to the Company. The Company is also subject to various State and Federal regulatory authorities. The potential exists for changes in regulatory initiatives which can result in additional, unanticipated impacts to the Company.

RECLASSIFICATIONS

Certain items on the prior year financial statements have been reclassified to conform to current year presentation.

INVESTMENTS

The Company classifies its securities into categories based upon the Company's intent relative to the eventual disposition of the securities. The first category, held to maturity, is for fixed maturity securities which the Company has the positive intent and ability to hold to maturity. These securities are carried at amortized cost. The second category, available for sale, is for fixed maturity securities and equity securities that may be sold to address the liquidity and other needs of the Company. Securities classified as available for sale are carried at fair value on the balance sheet with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income, net of related deferred policy acquisition costs and income tax effects. The third category, trading, is for fixed maturity securities and equity securities acquired for the purpose of selling them in the near term and are carried at fair value. Unrealized gains and losses on trading securities are reflected in net investment income. Realized investment gains and losses on sales of securities are determined on the specific identification method.

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

Loans receivable includes mortgage loans on real estate which are carried at amortized cost less an allowance for estimated uncollectible amounts, except impaired loans, which are measured at the present value of expected future cash flows, or alternatively, the loan's observable market price or the fair value of the collateral. Total impaired loans as of December 31, 2004 and 2003 and the associated interest income were not material. Management's periodic evaluation of the adequacy of the allowance is based on past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and the current economic conditions. Loans on insurance policies are also reported as loans receivable, and are recorded at the unpaid principal balance.

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Investment real estate owned directly by the Company is carried at cost less accumulated depreciation. Real estate acquired through foreclosure is carried at the lower of cost or fair value minus estimated costs to sell.

Other investments primarily include investments in venture capital partnerships accounted for using the cost or equity method, depending on ownership percentages, and investments in real estate limited partnerships and real estate limited liability companies accounted for on the equity method.

The Company records write-downs or allowances for its investments based upon an evaluation of specific investments. The Company reviews, on a continual basis, all invested assets to identify investments where the Company may have a decline in fair value below cost.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

CASH EQUIVALENTS

The Company considers all highly liquid debt securities purchased with a remaining maturity of less than three months to be cash equivalents.

As of December 31, 2004 and 2003, the Company had investments classified as cash equivalents of $43,256 and $35,029 respectively, in various money market mutual funds to which Calvert is the advisor. These investments are recorded at their fair value based on net asset values.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost less accumulated depreciation. Property and equipment includes properties occupied by the Company, electronic data processing equipment, software, and furniture and equipment. The Company provides for depreciation of property and equipment using straight-line and accelerated methods over the estimated useful lives of the assets. Depreciation expense for property and equipment is included in sales and operating expenses on the statement of operations at $7,825 and $8,530 in 2004 and 2003, respectively.

SEPARATE ACCOUNTS

The Company operates separate accounts on which the earnings or losses accrue exclusively to policyowners. The assets (principally investments) and liabilities of each account are clearly segregated from other assets and liabilities of the Company. The separate accounts are an investment option for pension, variable life, and variable annuity products which the Company markets. Amounts are reported at fair value.

AVLIC has a variable insurance trust (VIT). The Company offers the VIT as an investment option to policyowners through their separate accounts. The Company had separate account investments of $573,720 and $625,429 in the VIT as of December 31, 2004 and 2003, respectively. Affiliates of the Company provide investment advisory and administrative services to the VIT on a fee basis.

The Company offers Calvert Variable Series, Inc. (CVS) mutual funds, which are affiliates, to policyowners through the separate accounts. Separate account investments in mutual funds offered through CVS were $164,232 and $137,633 as of December 31, 2004 and 2003, respectively.

PREMIUM REVENUE AND BENEFITS TO POLICYOWNERS

PARTICIPATING AND TERM LIFE, ACCIDENT AND HEALTH AND ANNUITY

Participating life insurance products include those products with fixed and guaranteed premiums and benefits on which dividends are paid by the Company. Premiums on participating and term life products and certain annuities with life contingencies (immediate annuities) are recognized as premium revenue when due. Accident and health insurance premiums are recognized as premium revenue over the time period to which the premiums relate. Benefits and expenses are associated with earned premiums so as to result in recognition of profits over the premium-paying period of the contracts. This association is accomplished by means of the provision for liabilities for future policy benefits and the amortization of deferred policy acquisition costs.

UNIVERSAL LIFE-TYPE CONTRACTS

Universal life-type policies are insurance contracts with terms that are not fixed and not guaranteed. The terms that may be changed include one or more of the amounts assessed to the policyowner, premiums paid by the policyowner or interest accrued to the policyowner's balance. Amounts received as payments for such contracts are reflected as deposits in accumulated contract values and are not reported as premium revenues.

Revenues for universal life-type policies consist of charges assessed against policy account values for deferred policy charges, mortality risk expense, the cost of insurance and policy administration. Policy benefits and claims that are charged to expense include interest credited to contracts and benefit claims incurred in the period in excess of related policy account balances.

(in thousands)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

INVESTMENT CONTRACTS

Contracts that do not subject the Company to risks arising from policyowner mortality or morbidity are referred to as investment contracts. Deposit administration plans and certain deferred annuities are considered investment contracts. Amounts received as payments for such contracts are reflected as deposits in accumulated contract values and are not reported as premium revenues.

Revenues for investment products consist of investment income and policy administration charges. Contract benefits that are charged to expense include benefit claims incurred in the period in excess of related contract balances, and interest credited to contract balances.

RECOGNITION OF MUTUAL FUND MANAGEMENT AND RELATED FEES

Mutual fund management and related fees are accrued daily and consist of advisory, transfer agency, shareholder account servicing, distribution, and fees for services. Fees for advisory and administrative services provided to mutual funds are determined based on the net assets of the funds, the number of shareholder accounts and transactions, and sales, as contractually determined with the specific mutual fund. Fees for brokerage of depository accounts are negotiated with the respective banks and/or savings institutions and are accrued daily.

RECOGNITION OF BROKER DEALER REVENUES

Broker dealer revenues consist of commissions, underwriting income and service and advisory fees. Commissions are based on set rates and are recognized at the time the trade is executed. Underwriting income is recognized at the time the underwriting is completed and the income is reasonably determinable. Fees for general financial services and personal investment advisory services are recognized as they are earned.

DEFERRED POLICY ACQUISITION COSTS

Those costs of acquiring new business, which vary with and are directly related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future premiums. Such costs include commissions, certain costs of policy issuance and underwriting, and certain agency expenses.

Costs deferred related to term life insurance are amortized over the premium-paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumptions used for computing liabilities for future policy benefits.

Costs deferred related to participating life, universal life-type policies and investment contracts are generally amortized over the lives of the policies, in relation to the present value of estimated gross profits from mortality, investment and expense margins. The estimated gross profits are reviewed and adjusted periodically based on actual experience and changes in assumptions.

A roll-forward of the amounts reflected in the consolidated balance sheets as deferred policy acquisition costs is as follows:

	Years Ended December 31	
	2004	2003
Beginning balance	$290,349	$284,225
Change in accounting principle (Note 1)	(2,360)	—
Acquisition costs deferred	39,409	40,559
Amortization of deferred policy acquisition costs	(45,512)	(34,983)
Adjustment for unrealized investment loss	367	548
Ending balance	$282,253	$290,349

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

DEFERRED POLICY ACQUISITION COSTS, (continued)

To the extent that unrealized gains or losses on available for sale securities would result in an adjustment of deferred policy acquisition costs had those gains or losses actually been realized, the related unamortized deferred policy acquisition costs are recorded as an adjustment to the unrealized investment gains or losses included in accumulated other comprehensive income.

FUTURE POLICY AND CONTRACT BENEFITS

Liabilities for future policy and contract benefits for participating and term life contracts and additional coverages offered under policy riders are calculated using the net level premium method and assumptions as to investment yields, mortality, withdrawals and dividends. The assumptions are based on projections of past experience and include provisions for possible unfavorable deviation. These assumptions are made at the time the contract is issued. These liabilities are shown as policy and contract reserves.

Liabilities for future policy and contract benefits on universal life-type and investment contracts are based on the policy account balance, and are shown as accumulated contract values.

DIVIDENDS PAYABLE TO POLICYOWNERS

A portion of the Company's business has been issued on a participating basis. The amount of policyowners' dividends to be paid is determined annually by the respective insurance subsidiaries' Board of Directors.

INCOME TAXES

Beginning in 2004, AAMHC and its subsidiaries, with the exception of AMAL and its subsidiaries, will join in the filing of a life/non-life consolidated federal income tax return. Prior to 2004, AAMHC, AHC and the former AMIHC, with the exception of AMAL and its subsidiaries, joined in the filing of a consolidated federal income tax return with their common parent, Acacia and its wholly owned subsidiary, ANLIC, filed a life consolidated income tax return and AFCO and its wholly owned subsidiaries filed a non-life consolidated return.

An agreement among the members of each consolidated group generally provides for distribution of consolidated income tax results as if filed on a separate income tax return basis. The provision for income taxes includes amounts currently payable and deferred income taxes resulting from the cumulative differences in assets and liabilities determined on a tax return and financial statement basis at the current enacted tax rates.

The Company is subject to tax-related audits in the normal course of operations. In accordance with Financial Accounting Standards Board Statement No. 5, *Accounting for Contingencies* (FAS 5), the Company records a contingency for these tax-related matters when it is probable that a liability has been incurred and the amount of the loss can be reasonably estimated. The Company reviews its loss contingencies on an ongoing basis to ensure that the Company has appropriate reserves recorded on the balance sheet. These reserves are based on judgment made by management with respect to the likely outcome of these matters. The Company's judgment could change based on new information, Internal Revenue Service examinations and changes in laws or regulations.

Federal tax returns have been examined by the Internal Revenue Service (IRS) for the former AMIHC group, with the exception of AMAL and it subsidiaries, through 1998. The federal tax returns of AMAL and its subsidiaries have been examined by the IRS through 1995. Federal tax returns have been examined by the IRS for the former AMHC group through 1995. The IRS has notified AAMHC and its subsidiaries they plan to begin an examination for tax years 2002 and 2003 beginning in 2005.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

CREDIT RELATED FINANCIAL INSTRUMENTS

In the ordinary course of business, AFSB has entered into commitments to extend credit, including commitments under commercial letters of credit, standby letters of credit, and forward sales commitments of residential mortgages to various investors. Such financial instruments are recorded when they are funded.

RELATED PARTY TRANSACTIONS

The Company engages in various transactions with related parties. Transactions with related parties are not necessarily indicative of revenues and expenses which would have occurred had the parties not been related.

ACCOUNTING PRONOUNCEMENTS

VARIABLE INTEREST ENTITIES AND IMPLEMENTATION OF INTERPRETATION NO. 46

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

The Company has evaluated its investments and other interests in entities that may be VIEs under the provisions of FIN 46R. The Company holds limited partnership interests and member interests in various real estate limited partnerships and real estate limited liability companies (LLCs) that engage in the acquisition, development, management and disposal of real estate investments. Some of these investments are considered VIEs however, the Company is not required to consolidate any of these interests as it is not the primary beneficiary. At December 31, 2004 the total assets and liabilities of the entities identified as VIEs are approximately $76,900 and $45,500, respectively. The creditors of these entities have no recourse to the assets of the Company. The maximum exposure to loss represents the recorded investment in these real estate limited partnerships and LLCs totaling approximately $28,400.

The Company holds interests in limited partnerships that invest in low income housing projects that qualify for tax credits under the Internal Revenue Code. These housing projects are VIEs but the Company will not consolidate these partnerships as it is not the primary beneficiary. As of December 31, 2004, the total assets and liabilities of the partnerships are approximately $132,000 and $87,000, respectively. The creditors of these entities have no recourse to the assets of the Company. The maximum exposure to loss is the carrying value of $2,900 in these type of investments.

GUARANTEED MINIMUM DEATH BENEFITS AND SEPARATE ACCOUNTS AND IMPLEMENTATION OF STATEMENT OF POSITION 03-1

On January 1, 2004, the Company adopted Statement of Position 03-1, *Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts* (SOP 03-1). SOP 03-1 addresses a number of topics; one of which is the accounting for contracts with guaranteed minimum death benefits (GMDB). As a result, the cumulative effect of the change in accounting principle from implementing SOP 03-1 was a loss of $606, after-tax ($932 pre-tax). It was comprised of a reduction of $1,428 (pre-tax) to policy and contract reserves and a decrease of $2,360 (pre-tax) to deferred policy acquisition costs. Prior period has not been restated as it is not permitted by SOP 03-1.

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

ACCOUNTING PRONOUNCEMENTS, (continued)

GUARANTEED MINIMUM DEATH BENEFITS AND SEPARATE ACCOUNTS AND IMPLEMENTATION OF STATEMENT OF POSITION 03-1 (continued)

SOP 03-1 requires consideration of a range of potential results to estimate the cost of variable annuity death benefits and income benefits, which generally necessitates the use of stochastic modeling techniques. To maintain consistency with the assumptions used in the establishment of reserves for variable annuity guarantees, the Company utilized the results of this stochastic modeling to estimate expected gross profits, which form the basis for determining the amortization of deferred policy acquisition costs. This new modeling approach resulted in a lower estimate of expected gross profits, and therefore results in a write-down of deferred policy acquisition costs.

PENSION AND POSTRETIREMENT BENEFIT DISCLOSURES AND IMPLEMENTATION OF REVISED STATEMENT OF FINANCIAL ACCOUNTING STANDARD NO. 132(R)

In December 2003, the FASB issued revised Statement of Financial Accounting Standards No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* ("SFAS No. 132(R)"), that changes existing financial statement disclosure requirements for pension plans and for other postretirement benefit plans. It requires additional disclosures about the assets, obligations, cash flows, and net periodic benefit cost of defined benefit pension plans and other defined benefit postretirement plans. The required information is to be provided separately for pension plans and for other postretirement benefit plans. SFAS No. 132(R) has been adopted by the Company in 2004.

MEDICARE PRESCRIPTION DRUG, IMPROVEMENT AND MODERNIZATION ACT AND FASB STAFF POSITION NO. 106-1 and 106-2

In January 2004, the FASB issued FASB Staff Position No. 106-1 (FSP No. 106-1), Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003 ("Act"). The Act was signed into law in December 2003 and introduces a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The post-retirement benefit obligation and net periodic post-retirement benefit cost in the financial statements and accompanying notes do not reflect the effects of the Act on the Ameritas and Acacia plans. In accordance with the provisions of FSP No. 106-1, the Company elected to defer the recognition of the accounting impact of the Act as specific authoritative guidance on the accounting for the federal subsidy was pending and that guidance, when issued, could require the Company to change previously reported information.

In May 2004, the FASB issued FASB Staff Position No. 106-2 (FSP No. 106-2), which supercedes FSP No. 106-1, to provide guidance on accounting for the effects of the Act to sponsors of postretirement health care plans that provide prescription drug benefits. FSP No. 106-2 requires reporting entities that 1) elected deferral under FSP No. 106-1 and 2) are able to determine if their plans are actuarially equivalent to recognize the impact of the Act no later than the first annual reporting period beginning after June 15, 2004. The measures of benefit obligations and net periodic postretirement benefit cost included in these financial statements do not reflect the effects of the Act. The Company does not expect the adoption of FSP No. 106-2 to have a material impact on the results of operations or balance sheet of the Company.

2. CLOSED BLOCK

Effective October 1, 1998 (the Effective Date) Ameritas formed a closed block (the Closed Block) of policies, under an arrangement approved by the Insurance Department of the State of Nebraska, to provide for dividends on policies that were in force on the Effective Date and which were within the classes of individual policies, for which Ameritas had a dividend scale in effect at the Effective Date. The Closed Block was designed to give reasonable assurance to owners of affected policies that the assets will be available to support such policies, including maintaining dividend scales in effect at the Effective Date, if the experience underlying such scales continues. The assets, including income thereon, will accrue solely to the benefit of the owners of policies included in the block until the block is no longer in effect.

(in thousands)

2. CLOSED BLOCK, (continued)

The financial results of the Closed Block, while prepared in accordance with GAAP, reflect the provisions of the approved arrangement and not the actual results of operations and financial position. The arrangement provides for the level of expenses charged to the Closed Block, actual expenses related to the Closed Block operations are charged outside of the Closed Block; therefore, the contribution or loss from the Closed Block does not represent the actual operations of the Closed Block.

Summarized financial information for the Closed Block included in the consolidated financial statements as of and for the years ended December 31, 2004 and 2003 is as follows:

	December 31	
	2004	2003
Liabilities:		
Policy and contract reserves	$255,226	$254,835
Policy and contract claims	1,837	1,591
Accumulated contract values	57,709	58,040
Dividends payable to policyowners	10,455	10,369
Other liabilities (including PDO $8,002 – 2004, $8,571 – 2003)	10,693	11,047
Total Closed Block liabilities	335,920	335,882
Assets:		
Fixed maturity securities held to maturity (fair value $53,439 – 2004; $78,800 – 2003)	50,242	67,466
Fixed maturity securities available for sale (amortized cost $162,045 – 2004; $143,949 – 2003)	169,555	151,216
Mortgage loans on real estate	43,311	41,384
Loans on insurance policies	32,981	34,598
Cash and cash equivalents	4,478	4,936
Accrued investment income	4,891	4,851
Deferred policy acquisition costs	7,878	8,289
Other assets	3,594	3,121
Total Closed Block assets	316,930	315,861
Excess of reported Closed Block liabilities over Closed Block assets	18,990	20,021
Increase in unrealized investment gains, net of tax	158	651
Allocation to policyowner dividend obligation, net of tax	(158)	(651)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$ 18,990	$ 20,021

(in thousands)

2. CLOSED BLOCK, (continued)

	Years Ended December 31	
	2004	2003
Change in policyowner dividend obligation:		
Balance at beginning of period	$8,571	$7,888
Impact on net income before income taxes	(812)	(318)
Unrealized investment gains	243	1,001
Balance at end of period	$8,002	$8,571

	Years Ended December 31	
	2004	2003
Income:		
Premiums	$14,537	$14,775
Net investment income	18,268	19,024
Total Closed Block income	32,805	33,799
Benefits and expenses:		
Policy benefits	18,110	19,002
Policyowner dividends	10,788	10,425
Sales and operating expenses	2,154	2,259
Amortization of deferred policy acquisition costs	411	726
Total Closed Block benefits and expenses	31,463	32,412
Closed Block revenues, net of closed block benefits and expenses, before income taxes	1,342	1,387
Income taxes	311	592
Closed Block revenues, net of closed block benefits and expenses and income taxes	$ 1,031	$ 795

3. LIABILITIES FOR CONTRACT GUARANTEES

The Company offers various guaranteed death benefits to variable annuity policyowners including a return of no less than (1) the account value at death; (2) the sum of all premium payments less prior withdrawals; (3) the sum of all premium payments less prior withdrawals plus a minimum return minus a partial withdrawal adjustment; or (4) the highest account value on a specified anniversary date plus any premium payments since the anniversary minus any withdrawals following the anniversary and, in most cases, minus a partial withdrawal adjustment. The Company currently reinsures those death benefits greater than the sum of all premium payments less prior withdrawals.

The table below presents information regarding the Company's variable annuity contracts with guarantees. The Company's variable annuity contracts may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive. For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit in excess of the current account value at the balance sheet date.

(in thousands)

3. LIABILITIES FOR CONTRACT GUARANTEES, (continued)

	December 31, 2004
Return of Net Deposits	
Account value	$1,761,326
Net amount at risk	$ 69,176
Average attained age of policyowners	61
Return of Net Deposits Plus a Minimum Return	
Account value	$ 31,297
Net amount at risk	$ 404
Average attained age of policyowners	59
Highest Specified Anniversary Account Value Minus Withdrawals Post Anniversary	
Account value	$1,170,955
Net amount at risk	$ 4,704
Average attained age of policyowners	61

The following table summarizes the liabilities for guarantees on variable annuity contracts:

	Minimum Guaranteed Death Benefit
Balance at January 1, 2004	$ 1,160
Less reinsurance recoverable	(53)
Net balance at January 1, 2004	1,107
Incurred guarantee benefits	1,507
Paid guarantee benefits	(1,593)
Net balance at December 31, 2004	1,021
Plus reinsurance recoverable	34
Balance at December 31, 2004	$ 1,055

The liability for variable annuity death benefit guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less contract benefit payments. The benefit ratio is calculated as the estimated present value of all expected contract benefits divided by the present value of all expected contract charges. For guarantees in the event of death, benefits represent the current guaranteed minimum death payments in excess of the current account balance.

Projected benefits and contract charges used in determining the liability are based on models that involve a range of scenarios and assumptions, including those regarding expected market rates of return and volatility. The assumptions used are consistent with those used in determining estimated gross profits for purposes of amortizing deferred policy acquisition costs. The Company regularly evaluates estimates used and adjusts the additional liability balance, with a related charge or credit to benefit expense, if actual experience or other evidence suggests that earlier assumptions should be revised.

Assumptions used in determining the GMDB liability included:

- Data used were 50 deterministic scenarios derived from actual historical experience of the 20th century. For each 15 year period beginning with even numbered calendar years, historical returns reflected a 50% investment in equities (S&P 500 as the proxy), 35% in fixed income (Ibbotson LT Corporate Total Return) and 15% in cash (T-bills).
- Mortality was assumed to be 50% of the 1980 CSO table.
- Lapse rates varied by contract type and duration and range from 7.5% to 45%.

(in thousands)

3. LIABILITIES FOR CONTRACT GUARANTEES, (continued)

Variable and non-variable universal life-type contracts are sold with secondary guarantees that guarantee that the policy will not lapse, even if the account value is reduced to zero, as long as the policyowner makes scheduled premium payments. Although there was no method prescribed under GAAP for universal life secondary guarantee reserving until the issuance of SOP 03-1, the Company had been recording a reserve for these guarantees. At December 31, 2004 and 2003, the Company's estimated reserve for these guarantees was $1,335 and $1,750, respectively. Mortality assumptions reflect actual Company experience.

The Company has no deferred sales inducements at this time.

4. INVESTMENTS

Investment income summarized by type of investment is as follows:

	Years Ended December 31	
	2004	2003
Fixed maturity securities held to maturity	$ 28,032	$ 33,206
Fixed maturity securities available for sale	138,584	138,803
Fixed maturity securities trading	1,188	—
Equity securities available for sale	3,279	2,544
Equity securities trading	555	174
Loans receivable	90,345	81,158
Real estate	14,038	21,743
Other investments and cash and cash equivalents	16,741	11,322
Gross investment income	292,762	288,950
Investment expenses	20,633	29,701
Net investment income	$272,129	$259,249

The gain recognized during 2004 and 2003 on equity securities trading still held at December 31, 2004 and 2003 was $136 and $216, respectively. There were no losses recognized on equity securities trading still held at December 31, 2004 or 2003.

Net pretax realized investment gains (losses) were as follows:

	Years Ended December 31	
	2004	2003
Net gains (losses) on disposals, including calls and writedowns, of investments		
Fixed maturity securities held to maturity	$ (909)	$ (341)
Fixed maturity securities available for sale	(2,587)	(17,761)
Equity securities available for sale	2,475	(1,369)
Real estate	78,742	203
Other investments	(3,438)	(4,831)
	74,283	(24,099)
Provisions for losses on investments		
Loans receivable	(62)	(89)
Other investments	(18)	32
Net pretax realized investment gains (losses)	$74,203	$(24,156)

(in thousands)

4. INVESTMENTS, (continued)

The Company recorded other than temporary impairments on fixed maturity securities and equity securities of $8,824 in 2004 and $18,148 in 2003. In addition, the Company recorded other than temporary impairments on other investments of $4,220 in 2004 and $6,431 in 2003.

On July 15, 2004, Acacia sold real estate property located at 51 Louisiana Avenue NW in the District of Columbia, which served as its former home office, to an unaffiliated third party. This property had been developed and leased to an unaffiliated third party by Acacia's subsidiary, ARS. Concurrent with the real estate sale in Acacia, ARS was dissolved, as there was no other activity in this limited liability corporation. The realized gain from the sale was $73,073.

Proceeds from sales of securities and gross gains and losses realized on those sales were as follows:

	Year Ended December 31, 2004		
	Proceeds	Gains	Losses
Fixed maturity securities available for sale	$59,302	$3,107	$3,814
Equity securities available for sale	41,198	5,123	2,636

	Year Ended December 31, 2003		
	Proceeds	Gains	Losses
Fixed maturity securities available for sale	$88,765	$3,200	$6,467
Equity securities available for sale	51,161	9,813	9,274

The amortized cost and fair value of investments in securities by type of investment were as follows:

	December 31, 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities held to maturity				
U.S. corporate	$ 163,225	$ 11,322	$ 256	$ 174,291
Mortgage-backed	58,387	2,042	—	60,429
U.S. Treasury securities and obligations of U.S. government agencies	24,287	3,168	21	27,434
Foreign	122,448	5,690	657	127,481
Total fixed maturity securities held to maturity	$ 368,347	$ 22,222	$ 934	$ 389,635
Fixed maturity securities available for sale				
U.S. corporate	$1,319,863	$ 80,798	$5,325	$1,395,336
Mortgage-backed	463,789	7,972	1,309	470,452
Asset-backed	41,531	4,168	13	45,686
U.S. Treasury securities and obligations of U.S. government agencies	428,760	9,285	1,384	436,661
Foreign	198,129	10,241	1,231	207,139
Total fixed maturity securities available for sale	$2,452,072	$112,464	$9,262	$2,555,274
Equity securities available for sale	$ 126,071	$ 30,529	$1,141	$ 155,459

At December 31, 2004, the Company had fixed maturity securities with a carrying amount of $24,055 on deposit with various state insurance departments.

(in thousands)

4. INVESTMENTS, (continued)

	December 31, 2003			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturity securities held to maturity				
U.S. corporate	$ 205,582	$ 15,895	$ 1,620	$ 219,857
Mortgage-backed	86,980	3,940	1	90,919
Asset-backed	5,682	179	18	5,843
U.S. Treasury securities and obligations of U.S. government agencies	30,584	4,161	6	34,739
Foreign	78,530	7,258	40	85,748
Total fixed maturity securities held to maturity	$ 407,358	$ 31,433	$ 1,685	$ 437,106
Fixed maturity securities available for sale				
U.S. corporate	$1,349,322	$ 96,130	$11,443	$1,434,009
Mortgage-backed	460,441	7,555	2,157	465,839
Asset-backed	56,357	2,144	6,196	52,305
U.S. Treasury securities and obligations of U.S. government agencies	387,770	8,582	1,864	394,488
Foreign	171,815	11,003	897	181,921
Total fixed maturity securities available for sale	$2,425,705	$125,414	$22,557	$2,528,562
Equity securities available for sale	$ 115,296	$ 22,293	$ 2,069	$ 135,520

During 2000, the Company purchased $30,000 of corporate fixed maturity securities at par value from an affiliate. During 2001, the issuing company declared bankruptcy and the bonds were unpaid at maturity. The fair value of the fixed maturity securities available for sale as of December 31, 2003, was $31,049. During 2004, the Company settled these bonds and were paid in full after the issuing company emerged from bankruptcy.

An aging of unrealized losses on the Company's investments in fixed maturity securities classified as held to maturity and available for sale and equity securities classified as available for sale as of December 31, 2004 is as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. Corporate	$143,558	$1,863	$ 76,955	$3,718	$220,513	$ 5,581
Mortgage-backed	124,619	740	31,028	569	155,647	1,309
Asset-backed	137	—	785	13	922	13
U.S. Treasury securities and obligations of U.S. government agencies	129,763	1,168	10,462	237	140,225	1,405
Foreign	64,430	1,075	17,700	813	82,130	1,888
Total fixed maturity securities	462,507	4,846	136,930	5,350	599,437	10,196
Equity securities	6,183	500	4,510	641	10,693	1,141
Total	$468,690	$5,346	$141,440	$5,991	$610,130	$11,337

(in thousands)

4. INVESTMENTS, (continued)

The Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other than temporary. Based on an evaluation of the prospects of the issuers, including, but not limited to, the company's intentions to sell or ability to hold the investments; the length of time and magnitude of the unrealized loss; and the credit ratings of the issuers of the investments in the above fixed maturity securities, the Company has concluded that the declines in the fair values of the Company's investments in fixed maturity securities at December 31, 2004 are temporary.

For substantially all equity securities above with an unrealized loss greater than 12 months, such unrealized loss was less than 20% of the Company's carrying value of each equity security. The Company considers various factors when considering if a decline in the fair value of an equity security is other than temporary, including but not limited to, the length of time and magnitude of the unrealized loss; the volatility of the investment; analyst recommendations and price targets; opinions of the Company's investment managers; market liquidity; and the Company's intentions to sell or ability to hold the investments. Based on an evaluation of these factors, the Company has concluded that the declines in the fair values of the Company's investments in equity securities at December 31, 2004 are temporary.

The amortized cost and fair value of fixed maturity securities by contractual maturity at December 31, 2004 are shown below. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 112,425	$ 114,074	$ 22,595	$ 22,974
Due after one year through five years	567,618	597,693	101,004	107,283
Due after five years through ten years	842,195	879,121	128,986	134,991
Due after ten years	424,514	448,248	57,375	63,958
Mortgage-backed and asset-backed securities	505,320	516,138	58,387	60,429
Total	$2,452,072	$2,555,274	$368,347	$389,635

Loans receivable are summarized as follows:

	December 31	
	2004	2003
Residential mortgages	$ 612,307	$ 522,198
Commercial and commercial real estate mortgages	597,725	564,093
Construction loans	144,074	130,215
Consumer loans and others	26,096	38,026
Net deferred loan costs	2,494	2,236
Allowances for losses on loans	(5,390)	(4,972)
Loans on insurance policies	153,082	158,940
	$1,530,388	$1,410,736

The majority of the Company's residential and construction loans are with customers located in the Washington, D.C. metropolitan area. The ability of the Company's debtors to honor their contracts is dependent upon real estate valuation and general economic conditions in this area.

Commercial, commercial real estate, and construction loans are evaluated individually for impairment.

The Company requires collateral on residential real estate loans and originates loans generally with loan-to-value ratios of no greater than 80% at the time of origination, unless appropriate private mortgage insurance is obtained. For commercial real

(in thousands)

4. INVESTMENTS, (continued)

estate mortgages, the Company requires collateral on original loans with a loan-to-value ratio of no greater than 75% at the time of origination. The amount of collateral on non-real estate loans is based on management's credit assessment of the customer.

Loans held for sale at December 31, 2004 and 2003, were $2,649 and $1,941, respectively. These loans are included within the residential mortgage loans noted above.

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage and other loans serviced for others was $103,788 and $85,942, respectively, at December 31, 2004 and 2003.

The activity in the allowance for loan losses is summarized as follows:

	Years Ended December 31	
	2004	2003
Balance, beginning of year	$4,972	$4,952
Net charge-offs	(35)	(69)
Provision for loan losses	453	89
Balance, end of year	$5,390	$4,972

5. SAVINGS DEPOSITS

Savings deposits include demand deposits of $127,912 and $128,155 and time deposits of $449,599 and $465,076, at December 31, 2004 and 2003, respectively. Time deposits with individual balances in excess of $100 totaled approximately $39,860 and $45,211, respectively, at December 31, 2004 and 2003. Interest on deposits paid by the Company totaled $14,573 in 2004 and $13,035 in 2003.

The scheduled maturities of the time deposits are summarized as follows:

	December 31, 2004
2005	$243,475
2006	119,412
2007	63,649
2008	12,430
2009	10,495
Thereafter	138
	$449,599

6. BORROWINGS

Borrowings consist of repurchase agreements and long-term debt.

The Company sells securities under agreements to repurchase as part of its banking operations. These repurchase agreements are classified as secured borrowings and generally mature within one to ninety days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. Collateral for the repurchase agreements consists of mortgage-backed securities.

The Company's long term debt consists of fixed and floating rate long-term advances from the Federal Home Loan Bank (FHLB) of Atlanta and a mortgage loan in 2003 only.

(in thousands)

6. BORROWINGS, (continued)

The Company's total fixed-rate FHLB advances were $249,300 and $164,200 at December 31, 2004 and 2003, respectively. At December 31, 2004 and 2003, the interest rates on fixed-rate FHLB advances ranged from 2.38% to 7.94% and from 1.21% to 7.94%, respectively. At December 31, 2004 and 2003, the weighted average interest rate was 3.80% and 4.10%, respectively.

The Company's total floating rate FHLB advances were $33,000 at December 31, 2003. The Company had no floating rate FHLB advances at December 31, 2004. The floating rate is based on the FHLB of Atlanta's overnight deposit rate. At December 31, 2003, the interest rate on floating rate, FHLB advances was 1.15%.

Collateral for the Company's long-term FHLB advances consists of mortgage loans with principal balances totaling approximately $569,563 and $328,131 at December 31, 2004 and 2003, respectively.

In 1997, Acacia obtained a commitment to finance renovations to its headquarters building with a $40,000 mortgage loan from Northwestern Mutual Life Insurance Company (Northwestern). Interest-only payments, at 8.35%, were required through the completion of the renovation. In November 1999, the loan was converted to a permanent mortgage, with the home office property serving as collateral. Monthly principal and interest payments were due on the first day of each month until the mortgage expires and a balloon payment of $14,158 was due on June 1, 2014. The interest rate was fixed at 8.35%. Monthly payments were due to Northwestern in the amount of $354 with scheduled increases to $398 at November 1, 2011. This mortgage was paid off in July 2004 upon the sale of the real estate property.

During 2000, AMAL Corporation entered into an unsecured loan agreement to borrow up to $20,000 from its parents. The note was amended in 2002 to borrow up to $15,000 and came due August 15, 2003. At that time, the maturity date of the promissory note was amended to be August 13, 2004. During 2004, the promissory note was renewed until August 11, 2005. The note carries an interest rate of LIBOR plus 0.625% (2.90625% at December 31, 2004 and 1.8125% at December 31, 2003). The note payable-affiliate of $3,359 at December 31, 2004 and 2003 represents the amount due to AMAL Corporation's minority owner as the portion due to the Company's subsidiaries has been eliminated in consolidation.

Principal payments due on borrowings are as follows:

	December 31, 2004			
	Repurchase Agreements	Fixed Rate Advances	Total	Note Payable-Affiliate
Due in 2005	$41,389	$ 76,200	$117,589	$3,359
Due in 2006	—	35,400	35,400	—
Due in 2007	—	41,400	41,400	—
Due in 2008	—	41,400	41,400	—
Due in 2009	—	29,900	29,900	—
2010 and thereafter	—	25,000	25,000	—
Total borrowings	$41,389	$249,300	$290,689	$3,359

(in thousands)

7. INCOME TAXES

The items that give rise to deferred tax assets and liabilities relate to the following:

	Years Ended December 31	
	2004	2003
Net unrealized investment gains	$ 37,101	$ 24,566
Equity in subsidiaries	23,043	22,516
Deferred policy acquisition costs	74,719	78,906
Prepaid expenses	13,366	12,518
Other	6,416	5,400
Gross deferred tax liability	154,645	143,906
Future policy and contract benefits	73,776	72,766
Deferred future revenues	6,756	6,888
Policyowner dividends	5,988	6,184
Pension and post-retirement benefits	9,796	9,570
Policyholder dividend obligation	2,801	4,188
Other	10,841	9,612
Net operating/capital losses and credits	283	4,927
Gross deferred tax asset	110,241	114,135
Net deferred tax liability	$ 44,404	$ 29,771

The difference between the U.S. federal income tax rate and the consolidated tax provision rate is summarized as follows:

	Years Ended December 31	
	2004	2003
Federal statutory tax rate	35.00%	35.00%
Equity in subsidiaries	1.72	4.40
Tax credits	(0.79)	(2.07)
Release of federal income tax reserve	(4.00)	—
Other	(0.29)	.42
Effective tax rate	31.64%	37.75%

AVLIC has approximately $808 of gross capital loss carryforwards as of December 31, 2004. AVLIC's gross capital loss carryforward of approximately $138 and $670 will expire in 2005 and 2009, respectively.

The Company files income tax returns with the Internal Revenue Service and various state tax jurisdictions. From time to time, the Company is subject to routine audits by those agencies and those audits may result in proposed adjustments. The Company has considered the alternative interpretations that may be assumed by the various taxing agencies and believes its positions taken regarding its filings are valid. Based upon review of the Company's tax contingencies, the reserve held for tax related contingencies was reduced by $7,935 in 2004.

(in thousands)

8. EMPLOYEE AND AGENT BENEFIT PLANS

DEFINED BENEFIT PLAN

AHC sponsors a non-contributory defined benefit plan (the Plan or Pension Plan). The Plan was formerly sponsored by Ameritas as a non-contributory defined benefit pension plan covering substantially all employees of Ameritas and AMAL (Ameritas Plan). During 2000, the Ameritas Plan was merged with the Acacia Retirement Plan (Acacia Plan), sponsored by Acacia.

Upon the merger of the Ameritas and Acacia Plans, accumulated benefits of the Plan were frozen, and AHC became the Plan sponsor. While their pension plans were merged, the separate benefit formulas of the Ameritas Plan and Acacia Plan still exist within the Plan and are used to determine the amount of expense to allocate to the participating subsidiaries.

AHC uses a December 31 measurement date for its plans.

Obligations and Funded Status At December 31

	Pension Benefits	
	2004	2003
Projected benefit obligation	$108,322	$102,848
Fair value of plan assets	102,593	97,078
Funded status	(5,729)	(5,770)
Employer contributions	5,000	12,000
Benefit payments	8,006	7,341
Accumulated benefit obligation	94,537	90,477
Net periodic benefit cost	4,024	5,618
Amounts recognized in the balance sheet consist of:		
Prepaid benefit cost	$ 34,424	$ 33,448

Investment Policies And Strategies

The investment objective for the Plan shall be to maximize the real rate of return (adjusted for inflation) within prudent limits and with the diversity to which a prudent investor would adhere. At a minimum, the investment objective is to generate a positive real rate of return. The targeted total asset allocation mix between Equity and Fixed Income asset classes is 60% Equity and 40% Fixed Income. This allocation ratio should be maintained on a continuous basis with an allowable range of 45% to 65% in Equities and 35% to 55% in Fixed Income.

The long term expected return for the plan assets is 8%. The expected return was based on 10 years of historical data of Equity and Fixed Income benchmarks. It was also based on current market valuations and forecasted market returns. The allocation ranges are determined to be the most consistent at providing the expected return, limiting risk and covering the Plan's benefit obligation considering the size, duration, and nature of the Plan's obligations.

The actual allocation ratio was:

	Equities Affiliated	Equities Unaffiliated	Fixed Income Affiliated	Fixed Income Unaffiliated
2004	37.8%	22.3%	23.7%	16.2%
2003	40.6%	13.7%	25.5%	20.2%

A portion of the separate account assets is invested in mutual funds, which are advised by Calvert.

(in thousands)

8. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED BENEFIT PLAN (continued)

AHC made contributions to the retirement plan totaling $5,000 in 2004 and $12,000 in 2003. The Pension Plan is subject to the minimum funding requirements of ERISA. AHC's funding policy is to contribute annually an amount that satisfies the funding standard account requirements of ERISA. Contributions are intended to provide not only for benefits attributed to service to date but also for those expected to be earned in the future. AHC is expected to contribute $3,300 to the plan in fiscal year 2005. The annual funding contributions are determined by the Plan's enrolled actuary. No voluntary contributions by participants were permitted.

Estimated Future Benefit Payments

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Fiscal Year	Amount
2005	$ 7,605
2006	9,133
2007	8,643
2008	9,408
2009	11,297
2010 – 2014	53,194

Assumptions

Weighted-average assumptions used to determine benefit obligations and net periodic pension cost at December 31:

	Pension Benefits	
	2004	2003
Discount rate	6.00%	6.25%
Rate of compensation increase	4.50%	4.50%
Expected long term Rate of Return on Assets	8.00%	8.00%

At December 31, 2003, the accumulated benefit obligation did not exceed the fair value of the Plan assets. As a result, the Company reversed its 2002 recognition of the additional minimum pension liability, the deferred tax asset, and the intangible asset. Accounting for the minimum pension liability resulted in a credit of $20,256 in 2003 to accumulated other comprehensive income.

DEFINED CONTRIBUTION PLANS

Substantially all full-time employees and agents participate in defined contribution plans sponsored by AHC. Company matching contributions under the defined contribution plan ranged from 0.5% to 3.0% in 2004 and 2003. In addition, AHC makes an additional contribution of 6.0% of the participants' eligible compensation on a quarterly basis. Contributions by AHC to the employee and agents defined contribution plans were $5,867 and $6,018 in 2004 and 2003, respectively.

The defined contribution plan's assets also include investments in a deposit administration contract with Ameritas and investments in two pension separate accounts of Ameritas. The carrying value of the assets of the Plan invested in Ameritas and its separate accounts were approximately $170,849 and $153,442 at December 31, 2004 and 2003, respectively. A portion of the separate account assets is invested in mutual funds, which are advised by Calvert.

(in thousands)

8. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POST-RETIREMENT BENEFIT PLANS

Ameritas provides certain health care benefits to retired employees. For associates eligible to retire at January 1, 2000, these benefits are a specified percentage of premium until age 65 and a flat dollar amount thereafter. For associates eligible for retirement after January 1, 2000, benefits will be provided until the associate becomes eligible for Medicare. Employees become eligible for these benefits upon the attainment of age 55, 15 years of service and participation in the Ameritas medical plan for the immediately preceding five years.

Acacia also provides certain life insurance and medical benefits to employees who retired before December 31, 1992.

Ameritas and Acacia use a December 31 measurement date for their plans.

Obligations and Funded Status

	Ameritas		Acacia	
	2004	2003	2004	2003
Benefit obligation	$ 7,537	$ 4,179	$ 14,050	$ 14,796
Fair value of plan assets	2,713	2,385	—	—
Funded status	(4,823)	(1,794)	(14,050)	(14,796)
Employer contributions	505	415	—	—
Participant contributions	277	283	218	215
Benefit payments	757	725	1,301	1,217
Net periodic benefit cost	414	138	645	526

Amounts recognized in the balance sheet consist of:

	Ameritas		Acacia	
	2004	2003	2004	2003
Accrued benefit cost	$ 2,953	$ 3,218	$ 18,061	$ 18,499

Plan assets are invested in 100% fixed income investments. The expected rate of return on these investments is 6%.

Estimated Future Benefit Payments

The following net benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

	Expected Net Benefit Payments	
Fiscal Year	Ameritas	Acacia
2005	$ 537	$1,127
2006	559	1,131
2007	585	1,120
2008	604	1,094
2009	622	1,059
2010 – 2014	3,119	4,684

Assumptions

Weighted-average assumptions used to determine post retirement benefit obligations at December 31:

	Ameritas		Acacia	
	2004	2003	2004	2003
Discount rate	6.00%	6.25%	6.00%	6.25%
Expected long term rate of return on assets	6.00%	7.50%	N/A	N/A

(in thousands)

8. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POST-RETIREMENT BENEFIT PLANS, (continued)

Assumed Health Care Trend rates at December 31

	Ameritas		Acacia	
	2004	2003	2004	2003
Health care cost trend rate assumed for next year	8.0%	9.0%	8.0%	9.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%	5.0%	5.0%
Year that rate reaches the ultimate trend rate	2008	2008	2008	2008

OTHER PLANS

Separate supplemental retirement agreements totaling approximately $22,000 and $21,000 included in other liabilities at December 31, 2004 and 2003, respectively, cover certain active and retired employees. These plans are unfunded.

9. REGULATORY MATTERS

Combined net income of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices prescribed or permitted by the Insurance Departments of the states of Nebraska, New York and the District of Columbia, as applicable, was $117,026 for 2004 and $46,607 for 2003 and combined statutory surplus was $941,089 and $811,343 at December 31, 2004 and 2003, respectively. Insurance companies are required to maintain a certain level of surplus to be in compliance with state laws and regulations. Surplus is monitored by state regulators to ensure compliance with risk based capital requirements.

Under statutes of the Insurance Departments of Nebraska, New York, and the District of Columbia, the amount of dividends payable to stockholders are limited.

AFSB is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on AFSB. As of September 30, 2003, the most recent notification from AFSB's bank regulator categorized AFSB as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed AFSB's category.

10. REINSURANCE

The effect of reinsurance on premiums earned is as follows:

	Years Ended December 31	
	2004	2003
Assumed	$ 79,454	$ 85,213
Ceded	(55,922)	(60,621)
Reinsurance, net	$ 23,532	$ 24,592

The Company is not relieved of its primary liability in the event that a reinsurer is unable to meet the obligations ceded under the reinsurance agreement.

AmerUs Life Insurance Company (AmerUs), a minority owner of AMAL, through assumption reinsurance, has assumed approximately 99% of AVLIC's equity indexed annuity business as of December 31, 2004 and 2003. A receivable of $135 and $117 as of December 31, 2004 and 2003, respectively, from this affiliate supports the remaining co-insurance obligation. As a condition to assumption reinsurance, certain states have required that AVLIC remain contingently liable in the event the assuming reinsurer is unable to fulfill its obligations. AVLIC was contingently liable for $5,832 and $10,504 of additional reserves as of December 31, 2004 and 2003, respectively.

(in thousands)

11. POLICY AND CONTRACT CLAIMS

The change in the liability for unpaid accident and health claims and claim adjustment expenses is summarized as follows:

	Years Ended December 31	
	2004	2003
Balance at January 1	$ 41,277	$ 39,023
Reinsurance reserves, net	(11,372)	(12,703)
	29,905	26,320
Incurred related to:		
Current year	261,896	262,464
Prior year	(9,786)	(7,943)
Total incurred	252,110	254,521
Paid related to:		
Current year	236,832	232,559
Prior year	20,119	18,377
Total paid	256,951	250,936
	25,064	29,905
Reinsurance reserves, net	9,955	11,372
Balance at December 31	35,019	41,277
Life insurance policy and contract claims	11,993	13,309
Total policy and contract claims	$ 47,012	$ 54,586

As a result of favorable settlement of prior years' estimated claims, the provision for claims and claim adjustment expenses decreased by $9,786 and $7,943 for the years ended December 31, 2004 and 2003, respectively.

12. COMMITMENTS AND CONTINGENCIES

LEASES

Acacia and affiliates lease office space and equipment under operating leases that expire at various dates through 2015. Rent expense was $6,427 for 2004 and $6,730 for 2003. Future minimum payments under noncancellable operating leases consist of the following:

	December 31, 2004
2005	$ 6,290
2006	5,914
2007	5,658
2008	2,709
2009	2,625
Thereafter	5,396
	$28,592

LINE OF CREDIT

At December 31, 2004, Ameritas and Acacia each have an unsecured line of credit available in the amount of $15,000 and $10,000, respectively. No balance was outstanding at any time during 2004 or 2003.

(in thousands)

12. COMMITMENTS AND CONTINGENCIES, (continued)

OFF BALANCE SHEET INSTRUMENTS

Financial Instruments – Commitments on financial instruments were as follows:

	December 31	
	2004	2003
Securities commitments	$57,550	$35,354
Loan and real estate commitments	44,903	74,020
Unfunded commitments under lines of credit	112,687	109,120

These commitments have been made in the normal course of business. The Company's exposure to credit loss is represented by the contractual notional amount of these instruments. The Company uses the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer based upon the customer's fulfilling certain conditions as established in the loan agreement. These conditions are dependent on the type of loan. Commitments to extend credit under consumer lines of credit are generally dependent upon payments in accordance with the loan agreement. Adherence to the loan agreement as to prompt payment is also required for commercial and construction lines of credit. In addition, most of these credit lines require that collateral be identified and evaluated according to the terms of the loan agreement in order for additional amounts to be advanced. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements

In the normal course of business the Company's brokerage activities involve, principally through its clearing firm, various securities transactions. These activities may expose the Company to off balance sheet risk in the event the customer or clearing firm is unable to fulfill its contractual obligations.

Derivative Financial Instruments – AFSB utilizes interest rate caps for asset liability management purposes, and these transactions involve both credit and market risk. The notional amounts are amounts on which calculations and payments are based. Notional amounts do not represent direct credit exposure. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any.

In 2003, AFSB had an interest rate cap which expired in June 2003. The interest rate cap was used to mitigate some aspects of its interest rate risk exposure. Interest rate caps are options contracts that modify or reduce interest rate risk in exchange for a purchase premium when the contract is issued. The notional amount on which the premium and/or any interest payments are based is not exchanged. In particular, the cap contracts will increase in value as interest rates increase, partly offsetting the market value losses that the underlying financial instruments would experience. There is no interest payment due from AFSB's counterparty unless the actual index rate exceeds the cap rate. In that case the counterparty (the Federal Home Loan Bank of Atlanta) would pay quarterly to AFSB the excess of the actual rate over the cap rate times the notional amount.

No interest rate caps were carried on the books at December 31, 2004 and 2003.

STATE LIFE AND HEALTH GUARANTY FUNDS

As a condition of doing business, all states and jurisdictions have adopted laws requiring membership in life and health insurance guaranty funds. Member companies are subject to assessments each year based on life, health or annuity premiums collected in the state. In some states these assessments may be applied against premium taxes. The Company has estimated its costs related to past insolvencies and has provided a reserve included in other liabilities of $1,641 and $1,446 as of December 31, 2004 and 2003, respectively.

12. COMMITMENTS AND CONTINGENCIES, (continued)

LITIGATION

From time to time, the Company and its subsidiaries are subject to litigation in the normal course of business. Management does not believe that the Company is party to any such pending litigation which would have a material adverse effect on its financial statements or future operations.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS

The following disclosures are made regarding fair value information about certain financial instruments for which it is practicable to estimate fair value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates, in many cases, could not be realized on immediate settlement of the instrument. All nonfinancial instruments are excluded from disclosure requirements.

Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2004 and 2003. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these financial statements since that date; therefore, current estimates of fair value may differ significantly from the amounts presented herein.

The following methods and assumptions were used by the Company in estimating its fair value disclosures for each class of financial instrument for which it is practicable to estimate a value:

Fixed maturity securities – For publicly traded securities, fair value is determined using an independent pricing source. For securities without a readily ascertainable fair value, the value has been determined using an interest rate spread matrix based upon quality, weighted average maturity and U.S. Treasury yields.

Equity securities – Fair value is determined using prices from an independent pricing source.

Loans receivable – For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for fixed rate loans are estimated using a discounted cash flow analyses at interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Fair values for nonperforming loans are estimated using discounted cash flow analyses or underlying collateral values, where applicable.

Other investments – Fair value for venture capital partnerships is estimated based on values as last reported by the partnership and discounted for their lack of marketability. Real estate partnerships are carried on the equity method and are excluded from the fair value disclosure.

Cash and cash equivalents, reinsurance receivable – affiliate and accrued investment income – The carrying amounts approximate fair value due to the short maturity of these instruments.

Accumulated contract values – Funds on deposit with a fixed maturity are valued at discounted present value using market interest rates. Funds on deposit which do not have fixed maturities are carried at the amount payable on demand at the reporting date, which approximates fair value.

Savings deposits – The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts, and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

(in thousands)

13. FAIR VALUE OF FINANCIAL INSTRUMENTS, (continued)

Borrowings – The carrying amounts of borrowings under repurchase agreements, and other short-term borrowings maturing within ninety days, approximate their fair values. The fair values of long-term borrowings are estimated using discounted cash flow analyses based on current incremental borrowing rates for similar types of borrowing arrangements.

Note payable – affiliate – As the note payable – affiliate is a variable rate note that reprices frequently, fair value is based on the carrying amount.

Separate account assets and liabilities – The fair value of separate account assets are based upon quoted market prices. Separate account liabilities are carried at the fair value of the underlying assets.

Commitments – The estimated fair value of commitments approximates carrying amount because the fees currently charged for these arrangements and the underlying interest rates approximate market.

Estimated fair values are as follows:

	December 31			
	2004		2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Fixed maturity securities:				
Held to maturity	$ 368,347	$ 389,635	$ 407,358	$ 437,106
Available for sale	2,555,274	2,555,274	2,528,562	2,528,562
Trading	20,624	20,624	—	—
Equity securities:				
Available for sale	155,459	155,459	135,520	135,520
Trading	7,020	7,020	1,796	1,796
Loans receivable	1,530,388	1,559,862	1,410,736	1,438,572
Other investments	70,172	65,752	60,688	58,660
Cash and cash equivalents	184,540	184,540	186,109	186,109
Accrued investment income	57,076	57,076	61,305	61,305
Reinsurance receivable – affiliate	135	135	117	117
Assets related to separate accounts	2,666,204	2,666,204	2,487,043	2,487,043
Financial liabilities:				
Accumulated contract values excluding amounts held under insurance contracts	1,470,654	1,479,012	1,466,409	1,478,469
Savings deposits	577,511	574,923	593,231	594,749
Borrowings	290,689	289,461	295,642	303,191
Note payable – affiliate	3,359	3,359	3,359	3,359
Liabilities related to separate accounts	2,666,204	2,666,204	2,487,043	2,487,043

14. SUBSEQUENT EVENT

In January 2005, the Boards of Directors of AAMHC and The Union Central Life Insurance Company (Union Central) voted to merge their mutual insurance holding companies in a business combination accounted for as a pooling of interests. Union Central is currently organized as a mutual insurance company. Union Central will form a mutual holding company which will simultaneously merge with AAMHC to form UNIFI Mutual Holding Company. UNIFI Mutual Holding Company will be a Nebraska domiciled company located in Lincoln, Nebraska. The intermediate holding company, AHC, will continue with the same name and remain under the laws of the State of Nebraska. The merger is anticipated to be effective late in 2005 subject to various approvals.