AMERITAS MUTUAL
HOLDING COMPANY
AND SUBSIDIARIES

(formerly known as UNIFI Mutual Holding Company)

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2012 AND 2011 AND FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012 AND INDEPENDENT AUDITORS' REPORT

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Ameritas Mutual Holding Company and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2012 and 2011, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2012, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design 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. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Ameritas Mutual Holding Company and its subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for the three years in the period ended December 31, 2012, in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 1 to the consolidated financial statements, in 2012, the Company adopted new accounting guidance of the Financial Accounting Standards Board Accounting Standard Update (ASU) No. 2010-26 *Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts* and of ASU 2011-05 *Presentation of Comprehensive Income*. The financial statements have been retrospectively adjusted for all years presented as required by the ASUs. Our opinion is not modified with respect to these matters.

Deloitte & Touche LLP

Omaha, Nebraska
March 11, 2013

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

	December 31	
	2012	**2011**
ASSETS		
Investments:		
Fixed maturity securities held to maturity (fair value $90,540 - 2012, $116,729 – 2011)	$ 83,012	$ 106,210
Fixed maturity securities available for sale (amortized cost $6,923,922 - 2012, $6,930,895 – 2011)	7,643,682	7,510,144
Fixed maturity securities trading (amortized cost $49,119 - 2012, $48,129 – 2011)	53,266	49,087
Equity securities available for sale (cost $231,965 - 2012, $239,053 – 2011)	274,487	255,519
Equity securities trading	46,799	40,566
Mortgage loans on real estate, net	1,480,256	1,987,846
Loans on insurance policies	328,800	326,729
Real estate, less accumulated depreciation	64,158	68,644
Restricted cash	3,809	34,879
Other investments	181,481	193,329
Total investments	10,159,750	10,572,953
Cash and cash equivalents	297,851	270,842
Accrued investment income	93,757	99,465
Deferred policy acquisition costs (DPAC) (Note 1)	634,918	637,323
Property and equipment, less accumulated depreciation	62,657	64,122
Current income taxes	23,672	25,170
Deferred income taxes	107	600
Reinsurance receivables	456,449	439,928
Other assets	191,817	204,866
Separate accounts	5,796,152	5,257,959
Assets held for sale (Note 2)	785,066	-
Total assets	$ 18,502,196	$ 17,573,228

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

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

	December 31	
	2012	**2011**
LIABILITIES AND EQUITY		
Policy and contract liabilities	$ 2,418,135	$ 2,336,777
Accumulated contract values	6,330,561	6,150,298
Dividends payable to policyowners	15,439	15,580
Savings deposits	-	654,751
Borrowings	28,314	208,480
Surplus notes payable	49,880	49,871
Deferred income taxes	130,274	61,750
Loss contingency (Note 2)	60,121	-
Other liabilities	538,205	514,936
Separate accounts	5,796,152	5,257,959
Liabilities held for sale (Note 2)	665,405	-
Total liabilities	16,032,486	15,250,402
COMMITMENTS AND CONTINGENCIES (Note 14)		
Retained earnings	2,189,996	2,112,006
Accumulated other comprehensive income	277,290	208,714
Total members' equity	2,467,286	2,320,720
Noncontrolling interest	2,424	2,106
Total equity	2,469,710	2,322,826
Total liabilities and equity	$ 18,502,196	$ 17,573,228

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

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

	Years Ended December 31		
INCOME:	**2012**	**2011**	**2010**
Insurance revenues:			
Premium income	$ 976,158	$ 897,369	$ 846,411
Contract charges	334,970	319,260	396,710
Reinsurance, net	(96,479)	(95,300)	(104,993)
Reinsurance ceded allowance	16,890	18,691	19,180
Mutual fund management and related fees	108,413	125,232	132,830
Broker dealer revenues	106,006	99,159	85,971
Other income	54,734	51,348	50,573
Net investment income	461,098	492,978	474,601
Realized capital gains and (losses):			
Total other-than-temporary impairment losses	(14,409)	(22,368)	(25,230)
Portion recognized in other comprehensive income	(4,583)	(3,078)	1,636
Net other-than-temporary impairment losses recognized in earnings	(18,992)	(25,446)	(23,594)
Sales and other realized capital gains	54,839	24,870	30,101
Total realized capital gains and (losses)	35,847	(576)	6,507
	1,997,637	1,908,161	1,907,790
BENEFITS AND EXPENSES:			
Policy benefits	830,599	843,440	735,216
Interest credited to accumulated contract values	230,033	234,859	239,218
Policyowner dividends	25,973	26,227	27,997
Sales and operating expenses	640,405	624,271	581,868
Interest expense	3,440	6,108	5,471
Amortization of deferred policy acquisition costs	99,182	60,814	142,649
	1,829,632	1,795,719	1,732,419
Income from continuing operations before income taxes	168,005	112,442	175,371
Income tax expense	55,292	34,927	17,527
Income from continuing operations, net of taxes	112,713	77,515	157,844
Income (loss) from discontinued operations, net of taxes	(34,605)	1,297	2,318
Income before noncontrolling interest	78,108	78,812	160,162
Less net (income) loss attributable to noncontrolling interest	(118)	(82)	221
Net income attributable to members	$ 77,990	$ 78,730	$ 160,383

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

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

	Years Ended December 31		
	2012	**2011**	**2010**
Income before noncontrolling interest	$ 78,108	$ 78,812	$ 160,162
Other comprehensive income, net of tax:			
Unrealized gains (losses) on securities:			
Unrealized holding gains arising during the period, (net of deferred tax expense of $67,704 – 2012, $76,723 – 2011, $97,244 – 2010)	127,244	141,299	158,331
Reclassification adjustment for (gains) losses included in net income, (net of deferred tax (expense) benefit of $(13,411) – 2012, $284 – 2011, $1,959 – 2010)	(24,906)	528	3,637
Allocation to Closed Block policyholder dividend obligation (PDO) (net of deferred tax expense of $(4,515) – 2012, $(3,403) – 2011, $(1,266) – 2010)	(8,384)	(6,321)	(2,352)
Unrealized adjustments to DPAC (net of deferred tax benefit of $(4,861) – 2012, $(24,238) – 2011, ($18,011) – 2010)	(9,028)	(45,015)	(33,448)
Other-than-temporary impairments (net of deferred tax expense of $1,152 – 2012, $3,693 – 2011, $10,458 – 2010)	2,139	6,858	40,616
Unrecognized defined benefit plans obligation (net of deferred tax (expense) benefit of $(12,477) – 2012, $(18,290) – 2011, $5,265 – 2010)	(18,489)	(28,052)	7,709
Other comprehensive income	68,576	69,297	174,493
Comprehensive income before noncontrolling interest	146,684	148,109	334,655
Less comprehensive (income) loss attributable to noncontrolling interest	(118)	(82)	221
Comprehensive income attributable to members	$ 146,566	$ 148,027	$ 334,876

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

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

	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Non-controlling Interest	Total Equity
BALANCE, January 1, 2010 (Note 1)	$ 1,874,004	$ (35,076)	$ 2,245	$ 1,841,173
Net income (loss)	160,383	-	(221)	160,162
Other comprehensive income	-	174,493	-	174,493
Common control transaction	(1,111)	-	-	(1,111)
BALANCE, December 31, 2010	2,033,276	139,417	2,024	2,174,717
Net income	78,730	-	82	78,812
Other comprehensive income	-	69,297	-	69,297
BALANCE, December 31, 2011	2,112,006	208,714	2,106	$ 2,322,826
Net income	77,990	-	118	78,108
Other comprehensive income	-	68,576	-	68,576
Capital contribution – noncontrolling interest	-	-	200	200
BALANCE, December 31, 2012	$ 2,189,996	$ 277,290	$ 2,424	$ 2,469,710

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

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

	Years Ended December 31		
	2012	**2011**	**2010**
OPERATING ACTIVITIES:			
Net income before noncontrolling interest	$ 78,108	$ 78,812	$ 160,162
Income (loss) from discontinued operations, net of tax	(34,605)	1,297	2,318
Income from continuing operations, net of tax	112,713	77,515	157,844
Adjustments to reconcile net income from continuing operations to net cash provided by operating activities of continuing operations:			
Depreciation and amortization	18,227	16,057	17,769
Amortization of deferred policy acquisition costs	99,182	60,814	142,649
Policy acquisition costs deferred	(96,607)	(94,375)	(91,144)
Interest credited to accumulated contract values	230,033	234,859	239,218
Amortization of discounts or premiums, net	(2,240)	309	7,029
Net realized capital losses (gains) on investment transactions	(35,847)	576	(6,507)
Unrealized losses (gains) on other investments	953	9,214	(726)
Unrealized losses (gains) on trading securities	(7,623)	3,455	(6,261)
Deferred income taxes	50,130	34,757	1,103
Change in assets and liabilities:			
Securities trading	(2,777)	(11,513)	2,849
Accrued investment income	2,566	(1,071)	8,320
Current income taxes	1,127	7,168	46,484
Reinsurance receivables	(16,521)	(22,067)	(44,348)
Other assets	190	(8,172)	4,805
Policy and contract liabilities	81,358	156,510	33,523
Dividends payable to policyowners	(141)	(919)	(217)
Other liabilities	(29,625)	20,060	8,340
Net cash from operating activities of continuing operations	405,098	483,177	520,730
Net cash from operating activities of discontinued operations	(27,849)	19,075	12,158
Net cash from operating activities	377,249	502,252	532,888
INVESTING ACTIVITIES:			
Purchase of investments:			
Securities available for sale	(1,088,042)	(1,097,717)	(1,038,197)
Mortgage loans on real estate	(187,910)	(146,469)	(131,834)
Real estate	(3,663)	(2,746)	(1,707)
Other investments	(53,115)	(48,017)	(32,529)
Proceeds from sales, maturities or repayment of investments:			
Securities held to maturity	20,315	37,263	28,121
Securities available for sale	1,067,343	758,819	710,831
Securities other	-	1,239	3,169
Mortgage loans on real estate	130,071	122,751	115,015
Real estate	9,370	18,165	(17,216)
Other investments	46,768	35,798	37,478

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

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

	Years Ended December 31		
	2012	**2011**	**2010**
INVESTING ACTIVITIES (continued):			
Purchase of property and equipment	(11,884)	(10,293)	(11,274)
Proceeds from sale of property and equipment	1,223	330	898
Net change in loans on insurance policies	(2,071)	(949)	(4,887)
Net change in restricted cash	31,070	(34,879)	-
Acquisition of subsidiary, net of cash received	-	(21,785)	-
Net cash from investing activities of continuing operations	(40,525)	(388,490)	(342,132)
Net cash from investing activities of discontinued operations	133,668	121,100	196,261
Net cash from investing activities	93,143	(267,390)	(145,871)
FINANCING ACTIVITIES:			
Deposits credited to accumulated contract values	1,501,719	1,466,959	953,137
Withdrawals from accumulated contract values	(1,551,490)	(1,535,731)	(1,118,615)
Proceeds from borrowings	32,500	-	-
Repayment of borrowings	(5,459)	-	-
Capital contribution from noncontrolling interest	200	-	-
Net cash from financing activities of continuing operations	(22,530)	(68,772)	(165,478)
Net cash from financing activities of discontinued operations	(196,070)	(175,292)	(218,866)
Net cash from financing activities	(218,600)	(244,064)	(384,344)
CHANGE IN CASH INCLUDED IN ASSETS HELD FOR SALE	(224,783)	-	-
CHANGE IN CASH AND CASH EQUIVALENTS	27,009	(9,202)	2,673
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	270,842	280,044	277,371
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 297,851	$ 270,842	$ 280,044
Supplemental cash flow information from continuing operations:			
Cash paid (received) for income taxes, net	$ 4,428	$ (7,766)	$ (6,445)
Cash paid for interest	3,440	4,100	4,100
Supplemental cash flow information from discontinued operations:			
Cash paid (received) for income taxes, net	$ (699)	$ (952)	$ (6,128)
Cash paid for interest	20,164	27,255	38,054
Non-cash transactions from continuing operations:			
Conversion of mortgage loans to real estate	$ 5,755	$ 3,079	$ 2,403
Change in collateral under security lending agreements	-	2,682	22,488
Non-cash transactions from discontinued operations:			
Conversion of mortgage loans to real estate	$ 4,227	$ 17,168	$ 23,224

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

AMERITAS MUTUAL HOLDING COMPANY AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(in thousands)

1. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION AND NATURE OF OPERATIONS

Ameritas Mutual Holding Company (AMHC or the Company) (prior to May 3, 2012 was named UNIFI Mutual Holding Company (UNIFI)), is a mutual insurance holding company. AMHC's wholly-owned holding company, Ameritas Holding Company (AHC), owns one stock life insurance company, Ameritas Life Insurance Corp. (Ameritas). AHC also wholly owns Summit Investment Advisors, Inc. (Summit), an advisor providing investment management services. On December 31, 2011, Summit formed a new corporation, Ameritas Mortgage Funding Inc. (AMFI), to provide mortgage banking business to the 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. On December 31, 2011 (Acquisition Date) Ameritas formed a wholly-owned company, Ameritas Life Holdings, Inc. (ALH) which was simultaneously merged with BNL Financial Corp., (BNL Financial) an Iowa corporation, whereby BNL Financial was the surviving company and a wholly-owned subsidiary of Ameritas. On the Acquisition Date, Ameritas acquired all of the issued and outstanding capital stock of BNL Financial for a total purchase price of $34,889. The Company provided accounts on deposit with a paying agent for the payment to the BNL Financial shareholders and a contingency reserve equal to the purchase price of $34,889 less $10 for the capitalization of ALH which is included in other liabilities. The acquisition of BNL Financial broadened the Company's group dental and vision customer base, enabled these policyowners expanded preferred provider access, and provided a strategic opportunity for the Company. Ameritas liquated BNL Financial at the close of business on December 31, 2012. BNL Financial wholly-owned Brokers National Life Assurance Company (BNL Assurance), an Arkansas domiciled life insurance subsidiary, which is directly owned by Ameritas as of December 31, 2012. Ameritas also wholly-owns Acacia Life Insurance Company (Acacia), a District of Columbia domiciled life insurance subsidiary, The Union Central Life Insurance Company (Union Central), a Nebraska domiciled life insurance subsidiary, and Ameritas Life Insurance Corp. of New York (Ameritas-NY), a New York domiciled life insurance subsidiary. Ameritas owns 80% of Ameritas Investment Corp. (AIC), a broker dealer, and the remaining 20% ownership is with Centralife Annuities Services, Inc., a wholly-owned subsidiary of Aviva USA.

Acacia's insurance operations consist of life and annuity products. Acacia operates in 47 states and the District of Columbia. Non-insurance products and services were offered by Acacia Financial Corporation (AFCO), a wholly-owned subsidiary of Acacia until May 1, 2010 when it was liquidated into its parent, which was a holding company of several financial service companies. Principal subsidiaries of AFCO (which are now direct subsidiaries of Acacia) are Calvert Group Ltd. (Calvert), a provider of investment advisory, distribution, administrative, and investor servicing services to The Calvert Group of mutual funds and Acacia Federal Savings Bank (AFSB), a thrift chartered institution (see Note 2 – Discontinued Operations). On March 31, 2010, Acacia formed a new limited liability company, Griffin Realty LLC (Griffin), to purchase certain owned real estate and commercial loans from AFSB for investment. As of December 21, 2012, Griffin formed a new limited liability company, The Estate of Marlboro Riding, LLC, to hold a commercial loan Griffin purchased from AFSB.

Union Central's insurance operations consist of life and health insurance and annuity and pension contracts. Union Central and its subsidiaries operate in all 50 states and the District of Columbia. Union Central's wholly-owned subsidiaries include Summit Investment Partners, Inc., an investment advisor (SIP) (liquidated as of June 30, 2010); PRBA, Inc., the holding company of a pension administration company; and Union Central Mortgage Funding, Inc., a mortgage banking business (liquidated as of January 1, 2012).

Owners of designated policies issued by Ameritas, Acacia, Union Central and Ameritas-NY have membership interests in AMHC, while contractual rights remain with each respective insurance company.

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

BASIS OF ACCOUNTING AND PRINCIPLES OF CONSOLIDATION

The accompanying consolidated financial statements of Ameritas Mutual Holding Company and subsidiaries 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 AMHC and its majority owned subsidiaries, mutual funds, and all variable interest entities (VIEs) for which the Company is the primary beneficiary, but exclude the effects of all material intercompany transactions as these amounts have been eliminated in consolidation.

The Company invests through normal investment activities in entities that are considered VIEs. The Company is also involved in one VIE by owning an equity interest in a Collateralized Bond Obligation (CBO) in which the Company also manages the underlying collateral. A VIE is an entity that has insufficient equity to finance its activities without additional subordinated financial support or has equity investors that, as a group, lack either the power to direct the activities that most significantly impact the entity's economic performance, the obligation to absorb the expected losses of the entity, or the right to receive residual returns of the entity.

The Company performs an ongoing assessment to identify the primary beneficiary of its VIEs. The Company is deemed to be the primary beneficiary when it has both the power to direct the activities of the VIE that most significantly impact the economic performance of the VIE and the obligation to absorb losses, or the right to receive benefits, that could potentially be significant to the VIE. If the Company is deemed to be the primary beneficiary, the Company consolidates the VIE in the Company's consolidated financial statements.

The Company elected the fair value option for the Summit CBO I, Limited in order to apply a consistent accounting model for the VIE's assets and liabilities. The Summit CBO I, Limited is a Company managed CBO that holds various subordinated debt securities as collateral, which include other CBOs, in a trust. The trust issued securities to investors that bear the risk of the investment and have no recourse against the Company. The fair value of assets was determined based on observable market data including quoted prices for similar assets. The fair value of liabilities was based on internal valuation models that include inputs that are observable. Fair value of the assets and liabilities for the Summit CBO I, Limited were each determined to be $0 and as such, were not required to be consolidated. The unpaid principal balance of long term debt instruments held within the Summit CBO I, Limited was $252,230 and $225,939 at December 31, 2012 and 2011, respectively.

The Company has no exposure to loss as the investors have no recourse against the Company in the event of default by the VIE and the Company has no obligation to provide funding to the VIE in the future.

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

BASIS OF ACCOUNTING AND PRINCIPLES OF CONSOLIDATION, (continued)

Nonconsolidated VIEs

The following table presents the carrying value of assets and liabilities, and the maximum exposure to loss related to VIEs for which the Company is not the primary beneficiary. The Company determined the maximum exposure to loss was equivalent to the carrying value of the assets as the Company is not required to provide additional financial support in the future and other investors have no recourse against the Company in the event of a default.

	December 31, 2012		*December 31, 2011*	
	Total Assets	*Maximum Exposure To Loss*	*Total Assets*	*Maximum Exposure To Loss*
Other Investments:				
Real estate partnerships	$ 9,773	$ 9,773	$ 7,135	$ 7,135
Low-income housing partnerships	3,149	3,149	3,406	3,406
Total	$ 12,922	$ 12,922	$ 10,541	$ 10,541

Other investments in the above table represent real estate partnerships and low-income housing partnerships for which the Company does not have a controlling financial interest, and therefore is not the primary beneficiary, as it does not have the ability to manage the activities of the partnership that most significantly impact the VIE's economic performance. The Company has provided equity financing to these partnerships since the mid 1990s and, in return, the Company has and will continue to receive cash flows and/or income tax credits based on the economic performance of the partnerships. The carrying value of the largest VIE in which the Company is not the primary beneficiary is not material to the Company's total assets or equity as of December 31, 2012. The Company has not provided financial or other support in addition to its equity financing and has no obligation to provide additional financial support in the future.

Through normal investment activities, the Company makes passive investments in structured securities issued by VIEs for which the Company is not the manager. The securities are included in residential mortgage-backed securities, commercial mortgage-backed securities, asset-backed securities and collateralized debt obligations which are presented in the fixed maturity securities section of the cost/amortized cost and fair value table presented in Note 5. The Company has not provided financial or other support with respect to these investments other than its original investment. The Company determined that it is not the primary beneficiary of these investments after considering the relative size of the Company's investment in comparison to the principal amount of the structured securities issued by the VIEs and the Company's inability to direct the activities that most significantly impact the economic performance of the VIEs. The Company's maximum exposure to loss on these investments is limited to the amount of the Company's investment.

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 investment valuations, deferred policy acquisition costs, unearned revenue, pension plan assumptions, policy and contract liabilities, and income taxes.

RECLASSIFICATIONS

Certain amounts for the years ended December 31, 2011 and 2010 in the consolidated statements and related footnotes have been reclassified to conform with current year presentation as discussed throughout the Notes to Consolidated Financial Statements. The consolidated statements of operations and cash flows and notes to the consolidated financial statements have been retrospectively adjusted due to adoption of new accounting standards and discontinued operations. The consolidated balance sheet as of December 31, 2011 has been impacted by the accounting adoption, but not discontinued operations. See "Accounting Pronouncements" for discussion of accounting pronouncements adopted during 2012 which were retrospectively applied, and see Note 2 "Discontinued Operations" for comparative impact.

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.

SUBSEQUENT EVENTS

The Company has evaluated events subsequent to December 31, 2012 and through March 11, 2013, the date the consolidated financial statements were available to be issued. The Company has not evaluated subsequent events after that date for presentation in these consolidated financial statements.

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 consolidated balance sheets with unrealized gains and losses excluded from operations and reported as a component of accumulated other comprehensive income (loss), 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 in the consolidated statements of operations. A portion of equity securities trading is invested in mutual funds, which are advised by affiliates. Realized investment gains and losses on sales of securities are determined on the specific identification method.

Other fixed maturity securities represent the underlying assets of an affiliated mutual fund. The Company records these other fixed maturity securities on the equity method with changes in value recorded in net investment income.

For residential and commercial 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.

Mortgage loans on real estate 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.

Mortgage loans held for sale in the secondary market of $0 and $13,161 as of December 31, 2012 and 2011, respectively, are carried at the lower of cost or estimated fair value on an individual basis. Net unrealized losses, if any, are recognized through a valuation allowance by charges to net investment income.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings and reflected in sales and other realized capital gains on the consolidated statements of operations. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

INVESTMENTS, (continued)

The allowance for loan losses includes management's estimate of the amounts expected to be uncollectible on specific and unidentified loans. It is evaluated on a regular basis by management and is based upon management's periodic review of loan collectability in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to revisions, as additional information becomes available.

Interest income is accrued on the unpaid principal balance of mortgage loans. Loan origination fees, net of direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest or straight-line methods. The accrual of interest on mortgage loans is placed on nonaccrual status when collection of principal and interest is considered doubtful. Interest received on nonaccrual loans is accounted for on the cash basis or cost-recovery method until returned to accrual status. Mortgage loans are returned to accrual status when collectability of past due and future payments is reasonably assured.

Loans on insurance policies are recorded at the unpaid principal balance.

Real estate held for investment, including related improvements, is carried at cost less accumulated depreciation of $23,418 and $24,159 at December 31, 2012 and 2011, respectively. Real estate held for sale of $12,692 and $13,529 as of December 31, 2012 and 2011, respectively, is carried at the lower of depreciated cost or fair value minus expected disposition costs. Real estate is not depreciated while it is classified as held for sale. Real estate acquired through, or in lieu of, loan foreclosure is classified on an individual loan basis and is initially recorded at the lower of the amount of the loan satisfied or fair value less selling costs at the time of the foreclosure or other proceeding. Subsequent to foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of initial book value or fair value less cost to sell. Market write-downs and losses on sales of foreclosed real estate are charged to net income when incurred.

Assets are held by the Federal Home Loan Banks (FHLB) of Topeka and Atlanta, as custodians, to use as collateral to support the issuance of funding agreements and lines of credit. The Company maintains control over these assets and the estimated fair value at December 31, 2012 and 2011 is $316,636 and $156,111, respectively, which are reported in fixed maturity securities available for sale in the consolidated balance sheets. As of December 31, 2012 and 2011, the Company had $150,000 and $100,000, respectively, of funding agreements outstanding with the FHLB of Topeka.

Other investments primarily include investments in venture capital partnerships accounted for using the cost or equity method, depending on ownership percentages, investments in real estate limited partnerships and real estate limited liability companies accounted for on the equity method, Federal Home Loan Bank stock accounted for at cost, call options carried at fair value and private equity securities carried at fair value.

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 an other-than-temporary decline in fair value below cost.

Restricted cash are amounts held by a paying agent to satisfy BNL Financial shareholders and to provide a contingent reserve from major shareholders where carry value is amortized cost.

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, 2012 and 2011 the Company had investments classified as cash equivalents of $24,657 and $12,864 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.

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

DEFERRED POLICY ACQUISITION COSTS

Those costs of acquiring new business, which are only costs related directly to successful acquisition of new or renewal contracts, 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 and disability income 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. During the year ended December 31, 2010, $59,989 of the increase in amortization was due to changes in mortality risk, lapse rates, maintenance expenses, interest spreads and asset yields used to calculate estimated gross profits which additionally impacted unearned revenues (see Universal Life-Type Contracts within this Note).

Prior year amounts have been restated as required upon adoption of new accounting guidance. A rollforward of the amounts reflected in the consolidated balance sheets as deferred policy acquisition costs is as follows:

	Years Ended December 31		
	2012	*2011*	*2010*
Beginning balance	$ 637,323	$ 672,819	$ 775,783
Acquisition costs deferred	96,607	94,375	91,144
Amortization of deferred policy acquisition costs	(99,182)	(60,814)	(142,649)
Adjustment for unrealized investment loss	170	(69,253)	(51,459)
Other addition due to acquisition	-	196	-
Ending balance	$ 634,918	$ 637,323	$ 672,819

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.

PROPERTY AND EQUIPMENT

Property and equipment are carried at cost of $225,601 and $223,761 less accumulated depreciation of $162,944 and $159,639 at December 31, 2012 and 2011, respectively. Property and equipment primarily includes properties occupied by the Company of $34,285 (net) as of December 31, 2012 and also includes electronic data processing equipment, 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 consolidated statements of operations at $7,250, $7,296, and $7,497 in 2012, 2011 and 2010, respectively.

Union Central's home office building was completed in 1958. Sprayed on asbestos was applied to the underside of more than half of the floor and roof of the building, a common construction procedure at the time for fire-retardant and insulation purposes. Regulations are currently in place that require Union Central to handle and dispose of this type of asbestos in a special manner if a major renovation is undertaken or if the building is demolished. The Company has a reasonable estimate of the potential cost and timing of the settlement of this asset retirement obligation. As such, included in other liabilities on the consolidated balance sheets is $4,132 and $3,935 at December 31, 2012 and 2011, respectively, with accretion expense of $197, $187 and $187 recorded in sales and operating expenses in the consolidated statements of operations in 2012, 2011 and 2010, respectively.

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

PROPERTY AND EQUIPMENT, (continued)

CAPITALIZATION OF SOFTWARE COSTS

Software development costs of $5,314 and $4,652 were capitalized in 2012 and 2011, respectively. Amortization expense of $4,380, $6,299 and $6,896, respectively, was recorded in sales and operating expenses in the consolidated statements of operations in 2012, 2011 and 2010. Amortization is computed using the straight-line method over the estimated useful life of the software, not to exceed 5 years. Unamortized software costs included in property and equipment in the consolidated balance sheets were $8,780 and $8,443 at December 31, 2012 and 2011, respectively.

REINSURANCE RECEIVABLES

Reinsurance receivables include amounts due from reinsurers relating to paid and unpaid losses, reinsurance ceded reserves and the unexpired or unearned portion of reinsured policies.

OTHER ASSETS

Goodwill is calculated as the excess of the consideration transferred for acquisitions of businesses over the net assets recognized and represents the future economic benefits arising from other assets acquired and liabilities assumed that could not be individually identified. Goodwill is not amortized but is tested for impairment on an annual basis, or more frequently if events or changes in circumstances indicate that the asset might be impaired. The Company tests goodwill by performing a qualitative assessment with factors including but not limited to overall financial performance and market or competitive environment conditions where it has concluded that it is more likely than not that the fair value amount is greater than the carrying amount. At December 31, 2012 and 2011, there was no impairment indicated for goodwill.

The changes in the carrying amount of goodwill reported and included in other assets on the consolidated balance sheets were as follows:

	December 31	
	2012	*2011*
Gross carrying amount	$ 23,739	$ 11,685
Accumulated amortization	(11,648)	(7,689)
Acquisition of subsidiary	-	12,054
Disposition of subsidiary	(94)	-
Net carrying amount	$ 11,997	$ 16,050
Amortization expense	$ 3,959	$ 1,117

Also included in other assets are identifiable intangible assets which primarily consist of the value of business acquired (VOBA) and the value of customer relationships acquired in subsidiary acquisitions. The VOBA relates to variable individual life and annuity policies and is being amortized over 15 years in proportion to the gross margins realized on the block of business and to group dental and vision policies that are being amortized over 1 year in proportion to the policy renewal period. The majority of the identifiable intangible assets are the value of customer relationships which is amortized in relation to customer persistency not to exceed ten years. If actual gross margins or customer persistency differs from the expected experience, the amortization of intangible assets will be adjusted accordingly. There were no adjustments in 2012 and 2011.

The identifiable amortized intangible assets were as follows:

	December 31	
	2012	*2011*
Gross carrying amount	$ 23,645	$ 11,685
Accumulated amortization	(11,648)	(7,689)
Acquisition of subsidiary	-	12,054
Net carrying amount	$ 11,997	$ 16,050
Amortization expense	$ 3,959	$ 1,117

At December 31, 2012 and 2011, there was no impairment indicated for intangible assets.

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

OTHER ASSETS, (continued)

Future amortization of the intangible assets is estimated to be recognized as follows:

	December 31, 2012
2013	$ 2,488
2014	1,948
2015	1,804
2016	1,672
2017	1,228
2018 and thereafter	2,857

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 and are reported at fair value.

The Company offers Calvert Variable Series, Inc. (CVS) mutual funds and Calvert Variable Products, Inc. (CVP), which are affiliates, to policyowners through the separate accounts. Separate account investments in mutual funds offered through CVS and CVP were $1,694,410 and $1,601,535 as of December 31, 2012 and 2011, respectively.

PREMIUM INCOME AND POLICY BENEFITS

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 income when due. Accident and health insurance premiums are recognized as premium income 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 and contract 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, not guaranteed and contain policyowner mortality. 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 income.

Revenues for universal life-type policies consist of contract charges assessed against policy account values for deferred policy charges, mortality risk expense, the cost of insurance and policy administration. During the year ended December 31, 2010 $66,739 of the increase in contract charges was due to a change in assumptions for mortality risk, lapse rates, maintenance expenses, interest spreads and asset yields. 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.

INVESTMENT CONTRACTS

Contracts that do not subject the Company to significant risks arising from policyowner mortality or morbidity are referred to as investment contracts. Deposit administration plans and certain deferred annuities, including funding agreements, 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 contracts 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.

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

RECOGNITION OF MUTUAL FUND MANAGEMENT AND RELATED FEES

Mutual fund management and related fees are contractually based charges accrued daily and consist of advisory, administrative services and distribution services. Fees for shareholder services are determined based on the number of shareholder accounts and shareholder transactions processed and are accrued as earned. Mutual fund fees may be subject to periodic approval by the Board of Trustees/Directors and/or shareholders of the respective mutual funds. Fees for brokerage of depository accounts are negotiated with the respective banks and/or savings institutions and are based on the average daily account balances. The fees are recognized as earned.

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.

POLICY AND CONTRACT LIABILITIES

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 and disability income policies are calculated using the net level premium method and assumptions as to investment yields, mortality or morbidity, withdrawals and dividends. The term life 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 liabilities. Interest assumptions for participating traditional life reserves for all policies ranged from 2.0% to 6.0% for the years ended December 31, 2012 and 2011.

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. Policy account balances are comprised primarily of deposits received and interest credited for the benefit of the policyowner less surrenders and withdrawals, mortality charges and administrative expenses.

POLICY CLAIM RESERVES

Policy claim reserves represent the estimated ultimate net cost of all reported and unreported claims incurred. In addition, a claim adjustment expense reserve is held to account for the expense associated with administering these claims. The reserves for unpaid claims are estimated using individual case basis valuations and statistical analysis. The claim adjustment expense reserve is estimated using statistical analysis. These estimates are subject to the effects of trends in claim severity and frequency. The estimates are reviewed and adjusted as experience develops or new information becomes known and such adjustments are included in current operations. Policy claim reserves are included in policy and contract liabilities on the consolidated balance sheets.

DIVIDENDS PAYABLE TO POLICYOWNERS

A portion of the Company's business has been issued on a participating basis which is 8.7% and 7.7% of in force at December 31, 2012 and 2011, respectively. The amount of policyowners' dividends to be paid is determined annually by the respective insurance subsidiaries' Board of Directors.

INCOME TAXES

The Company recognizes taxes payable or refundable for the current year and deferred taxes for the tax consequences of differences between the financial reporting and tax basis of assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse. The principal assets and liabilities giving rise to such differences are unrealized capital gains and losses on certain investments, policy and contract liabilities, deferred policy acquisition costs and employee benefits. A deferred tax asset valuation allowance is established when there is uncertainty that such assets will be realized.

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

INCOME TAXES, (continued)

The Company reports a liability for unrecognized tax benefits resulting from uncertain tax positions taken or expected to be taken in a tax return. Uncertain tax positions are evaluated based upon the facts and circumstances that exist at each reporting period. Subsequent changes in judgment based upon new information may lead to changes in recognition, derecognition, and measurement. Adjustments may result from new information, resolution of an issue with the taxing authorities, or changes in laws or regulations.

The Company recognizes interest and penalties related to unrecognized benefits within the income tax expense line in the consolidated statements of operations. Accrued interest and penalties are included within the related tax liability line in the consolidated balance sheets.

The Company files a life/non-life consolidated federal income tax return with its eligible affiliates. A life company may not be included in the consolidated income tax return until it has been a member of the consolidated group for five years. For the tax years 2012, 2011 and 2010, AMHC, AHC, Ameritas and Acacia and their includible affiliates have joined in one consolidated federal income tax return with Union Central and their affiliates included in 2011 and 2012 only. Separate federal income tax returns have been filed for Union Central and each of its affiliates for the tax years 2006 through 2010. BNL Financial and its eligible affiliates filed a consolidated life/non-life return through 2011. In 2012, BNL Financial will join in AMHC consolidated federal income tax return; BNL Assurance will file a separate federal income tax return.

An agreement among the members of the consolidated group generally provides for distribution of consolidated income tax results as if filed on a separate income tax return basis.

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.

ACCOUNTING PRONOUNCEMENTS

FAIR VALUE MEASUREMENTS

In April 2009, the FASB issued fair value guidance to clarify the determination of fair value when the volume and level of activity for the asset or liability have significantly decreased and to clarify the identification of transactions that are not orderly. The Company adopted the provisions of this guidance as of December 31, 2009. In January 2010, the FASB issued fair value guidance that expanded disclosure requirements. The guidance added requirements for disclosing amounts and reasons for significant transfers into and out of Level 1 and Level 2, clarified that fair value measurement disclosures are required for each class of assets and liabilities and required disclosures about the valuation techniques and inputs used for fair value measurements that fall within Level 2 and Level 3. The Company adopted the provisions of this guidance as of December 31, 2010. The guidance also required for years beginning after December 15, 2010 gross rather than net disclosures about purchases, sales, issuances and settlements related to Level 3 measurements. The Company adopted the provisions of this guidance as of December 31, 2011. The adoption of the new fair value guidance did not have a material effect on the Company's financial position or results of operations (see Note 15).

ACCOUNTING FOR COSTS ASSOCIATED WITH ACQUIRING OR RENEWING INSURANCE CONTRACTS

In October 2010, the FASB issued guidance modifying the definition of the types of costs incurred by insurance entities that can be capitalized in the acquisition of new and renewal contracts. The new guidance is effective for reporting periods beginning after December 15, 2011 and should be applied prospectively, with retrospective application permitted. On January 1, 2012, the Company adopted new guidance regarding accounting for DPAC, which was retrospectively applied. The guidance specifies that only costs related directly to successful acquisition of new or renewal contracts can be capitalized as DPAC; all other acquisition-related costs must be expensed as incurred. Under the new guidance, advertising costs may only be included in DPAC if the capitalization criteria in the direct-response advertising guidance are met. As a result, sales manager compensation, certain administrative costs and direct marketing costs previously capitalized by the Company were no longer deferred. The cumulative effect of the adoption on January 1, 2010 to retained earnings was a decrease of $152,879 and an increase to accumulated other comprehensive income of $1,795.

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

ACCOUNTING PRONOUNCEMENTS, (continued)

The following table presents the effects of the retrospective application of the adoption of such new accounting guidance to the Company's previously reported consolidated balance sheet:

	As of December 31, 2011		
	As Previously Reported	*Impact of DPAC Adjustment*	*As Adjusted*
Deferred policy acquisition costs	$ 810,269	$ (172,946)	$ 637,323
Total assets	17,746,174	(172,946)	17,573,228
Policy and contract liabilities	$ 2,335,922	$ 853	$ 2,336,775
Deferred income taxes	122,579	(60,829)	61,750
Total liabilities	15,310,376	(59,976)	15,250,400
Retained earnings	$ 2,254,384	$ (142,376)	$ 2,112,008
Accumulated other comprehensive income	179,308	29,406	208,714
Total members' equity	2,433,692	(112,970)	2,320,722
Total equity	2,435,798	(112,970)	2,322,828
Total liabilities and equity	$ 17,746,174	$ (172,946)	$ 17,573,228

The following table presents the effects of the retrospective application of the adoption of such new accounting guidance to the Company's previously reported consolidated statements of operations and comprehensive income and impacts from discontinued operations for these balances (see Note 2 Discontinued Operations):

	Year Ended December 31, 2011				
	As Previously Reported	*Adjustment for Discontinued Operations*	*Adjusted As Previously Reported*	*Impact of DPAC Adjustment*	*As Adjusted*
BENEFITS AND EXPENSES:					
Sales and operating expenses	$ 619,454	$ (16,730)	$ 602,724	$ 21,547	$ 624,271
Amortization of deferred policy acquisition costs	77,118	-	77,118	(16,304)	60,814
Income from continuing operations before income taxes (1)	119,693	(2,008)	117,685	(5,243)	112,442
Income tax expense	37,473	(711)	36,762	(1,835)	34,927
Income from continuing operations, net of taxes (2)	82,220	(1,297)	80,923	(3,408)	77,515
Other comprehensive income	$ 59,290	$ -	$ 59,290	$ 10,007	$ 69,297

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

ACCOUNTING PRONOUNCEMENTS, (continued)

	Year Ended December 31, 2010				
	As Previously Reported	*Adjustment for Discontinued Operations*	*Adjusted As Previously Reported*	*Impact of DPAC Adjustment*	*As Adjusted*
BENEFITS AND EXPENSES:					
Sales and operating expenses	$ 577,744	$ (20,139)	$ 557,605	$ 24,263	$ 581,868
Amortization of deferred policy acquisition costs	188,309	-	188,309	(45,660)	142,649
Income from continuing operations before income taxes (1)	157,893	(3,919)	153,974	21,397	175,371
Income tax expense	11,640	(1,601)	10,039	7,488	17,527
Income from continuing operations, net of taxes (2)	146,253	(2,318)	143,935	13,909	157,844
Other comprehensive income	$ 156,889	$ -	$ 156,889	$ 17,604	$ 174,493

(1) The description for this line above was not used in the previously issued report, however is comparable to the previous report description of "Income before income taxes".

(2) The description for this line above was not used in the previously issued report, however is comparable to the previous report description of "Net income".

The following table presents the effects of the retrospective application of the adoption of such new accounting guidance to the Company's previously reported consolidated statements of cash flows and impacts from discontinued operations for these balances (see Note 2 Discontinued Operations):

	Year Ended December 31, 2011				
	As Previously Reported	*Adjustment for Discontinued Operations*	*Adjusted As Previously Reported*	*Impact of DPAC Adjustment*	*As Adjusted*
OPERATING ACTIVITIES:					
Income from continuing operations, net of taxes (1)	$ 82,220	$ (1,297)	$ 80,923	$ (3,408)	$ 77,515
Amortization of deferred policy acquisition costs	77,118	-	77,118	(16,304)	60,814
Policy acquisition costs deferred	(116,506)	-	(116,506)	22,131	(94,375)
Deferred income taxes	38,281	(1,689)	36,592	(1,835)	34,757
Policy and contract liabilities	157,094	-	157,094	(584)	156,510

	Year Ended December 31, 2010				
	As Previously Reported	*Adjustment for Discontinued Operations*	*Adjusted As Previously Reported*	*Impact of DPAC Adjustment*	*As Adjusted*
OPERATING ACTIVITIES:					
Income from continuing operations, net of taxes (1)	$ 146,253	$ (2,318)	$ 143,935	$ 13,909	$ 157,844
Amortization of deferred policy acquisition costs	188,309	-	188,309	(45,660)	142,649
Policy acquisition costs deferred	(115,945)	-	(115,945)	24,801	(91,144)
Deferred income taxes	(3,216)	(3,169)	(6,385)	7,488	1,103
Policy and contract liabilities	34,061	-	34,061	(538)	33,523

(1) The description for this line above was not used in the previously issued report, however is comparable to the previous report description of "Net income".

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

ACCOUNTING PRONOUNCEMENTS, (continued)

DISCLOSURES ABOUT THE CREDIT QUALITY OF FINANCING RECEIVABLES AND THE ALLOWANCE FOR CREDIT LOSSES

In July 2010, the FASB issued new guidance regarding disclosures about the credit quality of financing receivables and the allowance for credit losses. This guidance requires additional disclosures about the credit quality of financing receivables, such as aging information and credit quality indicators. In addition, disclosures must be disaggregated by portfolio segment or class based on how a company develops its allowance for credit losses and how it manages its credit exposure. This guidance was effective for fiscal periods ending on or after December 15, 2011 and was adopted by the Company as of December 31, 2011. The guidance affected disclosures only on a prospective basis (see Note 5) and therefore did not impact the Company's financial position or results of operations.

A CREDITOR'S DETERMINATION OF WHETHER A RESTRUCTURING IS A TROUBLED DEBT RESTRUCTURING (TDR)

In April 2011, the FASB issued new guidance intended to clarify for a creditor when a restructuring constitutes a troubled debt restructuring by clarifying the factors that may indicate the creditor has given a concession to a borrower and that a borrower need not be in payment default in order for the creditor to conclude that the borrower is experiencing financial difficulties. The guidance is effective for fiscal years ending on or after December 15, 2012 and was adopted by the Company as of December 31, 2012. The adoption did not have a material effect on the Company's financial position or results of operations.

TESTING GOODWILL FOR IMPAIRMENT

In September 2011, the FASB issued new guidance regarding goodwill impairment testing, which gives entities the option of performing a qualitative assessment before calculating the fair value of a reporting unit in Step 1 of the goodwill impairment test. If entities determine, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. Otherwise, further testing would not be needed. The guidance was effective for all entities for annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011 and early adoption was permitted. The Company elected to early adopt this new guidance effective January 1, 2011. The adoption did not have a material effect on the Company's financial position or results of operations.

PRESENTATION OF COMPREHENSIVE INCOME

On January 1, 2012, the Company adopted new guidance regarding comprehensive income, which was retrospectively applied, that provides companies with the option to present the total of comprehensive income, components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements in annual financial statements. The objective of the standard is to increase the prominence of items reported in other comprehensive income and to facilitate convergence of GAAP and International Financial Reporting Standards ("IFRS"). The standard eliminates the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this guidance do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified in net income. The Company adopted the two-statement approach for the December 31, 2012 consolidated financial statements.

ACHIEVE COMMON FAIR VALUE MEASUREMENT AND DISCLOSURE REQUIREMENTS

Effective January 1, 2012, the Company adopted new guidance regarding fair value measurements that establishes common requirements for measuring fair value and for disclosing information about fair value measurements in accordance with GAAP and IFRS. Some of the amendments clarify the FASB's intent on the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The adoption did not have a material impact on the Company's consolidated financial statements. See also expanded disclosures in Note 15.

2. DISCONTINUED OPERATIONS

During June of 2012, a definitive agreement was reached to sell 100 percent of the stock of AFSB, a wholly owned subsidiary of the Company, to Customers Bancorp, Inc., a public company listed on the OTC US exchange, upon regulatory approval. The sale is expected to occur in early 2013. The following tables present the amounts related to the operations and financial position of AFSB that have been reflected as discontinued operations in the consolidated statements of operations and as assets and liabilities held for sale in the consolidated balance sheet:

	Years Ended December 31		
	2012	*2011*	*2010*
Other income	$ 1,442	$ 1,726	$ 2,116
Net investment income	22,173	38,622	50,017
Sales and other realized capital gains	20,816	4,630	7,775
	44,431	44,978	59,908
Sales and operating expenses	24,166	16,730	20,139
Interest expense	19,008	26,240	35,850
	43,174	42,970	55,989
Income before taxes	1,257	2,008	3,919
Income tax expense	252	711	1,601
Net income	$ 1,005	$ 1,297	$ 2,318

	December 31, 2012
Total assets held-for-sale	$ 785,066
Total liabilities held-for-sale	$ 665,405
Major classes of assets and liabilities included above:	
Fixed maturity securities available for sale	$ 34,583
Cash and cash equivalents	$ 224,783
Mortgage loans on real estate, net	$ 495,354
Savings deposits	$ 654,208
Borrowings	$ 4,465

Additionally, the Company recognized a pre-tax impairment loss on the anticipated sale of $61,084 and a federal income tax benefit of $26,479 on the consolidated statement of operations under "Income (loss) from discontinued operations, net of tax". Included in the pre-tax impairment loss on the anticipated sale were $7,617 of estimated selling costs. The Company has included in liabilities a loss contingency of $60,121 related to the pending sale comprised of accrued consulting and legal expenses, severance liabilities, lease terminations, and the loss amount related to the estimated sale proceeds.

3. FAIR VALUE HEDGING INSTRUMENTS

The Company purchases and sells call options (Index call options) to hedge insurance contracts whose credited interest is linked to returns in Standard & Poor's 500 Stock Index (Index) based on a formula which applies participation rates to the returns in the Index. Call options are contracts, which give the option purchaser the right, but not the obligation, to buy securities at a specified price during a specified period. The Index call options expire monthly until November 29, 2013. The Company paid and received initial fees (the option premium) to enter the option contracts. The purchased Index call options give the Company the right to receive cash at settlement if the closing Index value is above the strike price, while the written Index call options require the Company to pay cash at settlement if the closing Index value is above the strike price.
The Company sells Index call options to effectively offset the proceeds the Company would receive on its purchased Index call options that represent a return above the amount that would be credited to insurance contracts electing a capped return in the Index.

3. FAIR VALUE HEDGING INSTRUMENTS, (continued)

In 2012, the Company began purchasing and selling exchange traded index call options (Exchange traded index call options) based on multiple equity indices to hedge equity index annuity contracts. The Company has purchased and written Exchange traded index call options that expire through December 21, 2013. The Company paid and received initial fees (the option premium) to enter the option contracts. The purchased Exchange traded index call options give the Company the right to receive cash at settlement if the closing index value is above the strike price, while the written Exchange traded index call options require the Company to pay cash at settlement if the closing index value is above the strike price. If the closing index value is below the strike price, the Exchange traded index call options expire without value.

The Company purchases and sells call options (Volatility call options) to hedge volatility risk for variable annuity contracts with a guaranteed lifetime withdrawal benefit rider attached. If option volatility increases, the Company will receive cash from or pay cash to the counterparty based on the expiration value. If option volatility decreases, the Volatility call options will expire without value. The Company has purchased and written Volatility call options that expire through March 20, 2013.

In 2012, the Company began purchasing and selling exchange traded put options (Equity put options) based on multiple equity indices to hedge variable annuity contracts with a guaranteed lifetime withdrawal benefit rider attached. Put options are contracts, which give the option purchaser the right, but not the obligation, to sell securities at a specified price during a specified period. The Company has purchased and written Equity put options that expire through September 21, 2013. The Company paid and received initial fees (the option premium) to enter the option contracts. The purchased Equity put options give the Company the right to receive cash at settlement if the closing index value is below the strike price, while the written Equity put options require the Company to pay cash at settlement if the closing index value is below the strike price. If the closing index value is above the strike price, the Equity put options expire without value.

The Equity call options (Index call options and Exchange traded index call options), Volatility call options, and Equity put options are carried at their fair value (See Note 15).

The Company is exposed to credit-related losses in the event of nonperformance by counter-parties to the Index call options. To minimize this risk, the Company only enters into private options contracts with counterparties having Standard & Poor's credit ratings of AA- or above or listed contracts guaranteed by the Chicago Board Options Exchange. The Company is required to post collateral to the brokering bank. To comply with this requirement, the Company has posted a long-term Agency CMO with the bank. The collateral (Agency CMO) of $2,894 and $2,838 is recorded as an asset by the Company and included in fixed maturity securities available for sale on the consolidated balance sheets as of December 31, 2012 and 2011, respectively. The notional amount of the Equity call options (Index call options and Exchange traded index call options) at December 31, 2012 and 2011 was $34,418 and $44,295, respectively. The notional amount of the Volatility call options at December 31, 2012 was an asset of $3,100. At December 31, 2011, the notional amount of the Volatility call options was a liability of $8,323. The notional amount of the Equity put options at December 31, 2012 was $35,275. The credit exposure is limited to the fair value of the options as follows:

3. FAIR VALUE HEDGING INSTRUMENTS, (continued)

	Fair Values of Derivative Instruments		
	Asset Derivatives		
		Fair Value	
	Consolidated Balance Sheets Location	*2012*	*2011*
Derivatives Not Designated as Hedging Instruments:			
Equity call option contracts owned	Other investments	$ 25,779	$ 18,854
Equity call option contracts written	Other investments	(13,714)	(10,492)
Volatility call option contracts owned	Other investments	404	-
Volatility call option contracts written	Other investments	(125)	-
Equity put option contracts owned	Other investments	1,664	-
Equity put option contracts written	Other investments	(199)	-
Total asset derivatives		$ 13,809	$ 8,362

The liabilities for the hedged insurance contracts are adjusted based on the fair value of the related embedded derivatives as follows:

	Fair Values of Derivative Instruments		
	Liability Derivatives		
		Fair Value	
	Consolidated Balance Sheets Location	*2012*	*2011*
Derivatives Not Designated as Hedging Instruments:			
Equity index annuity	Policy and contract liabilities	$ 45,140	$ 45,959
Equity index universal life	Policy and contract liabilities	1,479	339
Variable annuity with guaranteed lifetime withdrawal benefit	Policy and contract liabilities	46,909	57,025
Volatility call option contracts written	Other liabilities	-	680
Total liability derivatives		$ 93,528	$ 104,003

The Company sells futures contracts to hedge against principal losses on variable annuity contracts with a guaranteed lifetime withdrawal benefit rider attached. Futures contracts are a standardized contractual agreement to buy or sell a particular financial instrument at a pre-determined price in the future. The gains and losses of futures contracts are derived from the daily movement of the underlying markets. These gains and losses are settled in cash through a daily variation margin. The Company also sells futures contracts on certain equity indices with expiration dates of less than 6 months as well as buys and sells futures contracts on certain treasury notes and bonds, ranging in maturities between 1 and 30 years, with expiration dates of less than 6 months. In 2011, the Company began buying and selling futures contracts to hedge volatility risk with expiration dates of less than 6 months. The Company does not receive cash on the initial purchase or sale of futures contract, but will receive or pay cash daily based on the movement of the underlying indices or Treasury notes. The hedging strategy entails selling futures contracts that are not owned and buying them back at a lower price in the event of a market downturn related to the risks identified above.

The Company is required to post collateral to the brokering bank. To comply with this requirement, the Company usually posts a short-term Treasury bill with the bank. The bank acts as an intermediary to the futures transactions and takes initial margins from both parties to limit the counterparty risk. The collateral (Treasury bill) of $30,984 and $32,997 is recorded as an asset by the Company and included in fixed maturity securities available for sale on the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

Since the futures contracts are not considered an effective hedge, the total variation margin on open and closed contracts is reflected in net investment income on the consolidated statements of operations.

3. FAIR VALUE HEDGING INSTRUMENTS, (continued)

The gain (loss) on call options and futures is as follows:

	Consolidated Statements of Operations Location	*Amount Recognized in Income*	
		2012	2011
Derivatives Not Designated as Hedging Instruments:			
Call options contract - open	Net investment income	$ 460	$ (7,578)
Call options contract - closed	Net investment income	4,020	4,362
Futures contracts - open	Net investment income	(5,083)	5,783
Futures contracts - closed	Net investment income	(10,616)	22,164
Total		$ (11,219)	$ 24,731

The Company had no derivatives not designated as hedging instruments in 2010.

Information on derivatives is also disclosed in Note 13 (Liabilities for Contract Guarantees), Note 15 (Fair Value Measurements) and Note 16 (Fair Value of Financial Instruments).

4. CLOSED BLOCKS

The Company has established three Closed Blocks of policies: (a) the first on October 1, 1998 in connection with the reorganization of Ameritas from a mutual company to a stock company, (b) the second on July 1, 2005 in connection with the reorganization of Union Central from a mutual company to a stock company, and (c) the third on July 1, 2007, in connection with the reorganization of Acacia that occurred in 1999 from a mutual company to a stock company (collectively, the Closed Blocks). The Company formed these closed blocks of policies, under arrangements approved by the Insurance Departments of the State of Nebraska, Ohio or the District of Columbia, as appropriate, to provide for dividends on policies that were in force on each respective effective date and which were within the classes of individual policies, for which the Company had a dividend scale in effect at those dates. The Closed Blocks were 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 dates, 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 each block until the respective block is no longer in effect.

The financial results of the Closed Blocks, 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 Blocks, actual expenses related to the Closed Blocks' operations are charged outside of the Closed Blocks; therefore, the contribution or loss from the Closed Blocks does not represent the actual operations of the Closed Blocks.

4. CLOSED BLOCKS, (continued)

Summarized financial information for the Closed Blocks included in the consolidated financial statements is as follows:

	December 31	
	2012	*2011*
Liabilities:		
Policy and contract liabilities	$ 998,181	$ 1,028,691
Accumulated contract values	66,442	68,792
Dividends payable to policyowners	14,499	14,933
Other liabilities (including PDO $48,107 - 2012, $35,208 - 2011	56,673	43,609
Total Closed Block liabilities	1,135,795	1,156,025
Assets:		
Fixed maturity securities held to maturity (fair value $24,119 - 2012, $26,835 - 2011)	22,421	24,428
Fixed maturity securities available for sale (amortized cost $669,530 - 2012, $693,691 - 2011)	740,944	757,166
Mortgage loans on real estate	116,399	110,550
Loans on insurance policies	107,440	113,194
Cash and cash equivalents	12,878	8,335
Accrued investment income	12,335	13,246
Other assets	11,758	11,676
Total Closed Block assets	1,024,175	1,038,595
Excess of reported Closed Block liabilities over Closed Block assets	111,620	117,430
Amounts included in accumulated other comprehensive income:		
Unrealized investment gains, net of tax	46,418	41,258
Allocated to PDO, net of tax	(31,269)	(22,885)
Maximum future earnings to be recognized from Closed Block assets and liabilities	$ 126,769	$ 135,803

4. CLOSED BLOCKS, (continued)

	Years Ended December 31		
	2012	*2011*	*2010*
Change in policyowner dividend obligation:			
Balance at beginning of period	$ 35,208	$ 25,484	$ 22,289
Impact on net income before income taxes	-	-	(423)
Net unrealized investment activity	12,899	9,724	3,618
Balance at end of period	$ 48,107	$ 35,208	$ 25,484
Income:			
Premiums	$ 49,033	$ 53,649	$ 58,514
Net investment income	57,045	55,058	58,080
Total Closed Block income	106,078	108,707	116,594
Benefits and expenses:			
Policy benefits	61,794	65,220	70,108
Policyowner dividends	24,224	25,160	26,960
Sales and operating expenses	6,151	6,578	7,420
Total Closed Block benefits and expenses	92,169	96,958	104,488
Closed Block income, net of closed block benefits and expenses, before income taxes	13,909	11,749	12,106
Income taxes	4,872	4,110	4,384
Closed Block income, net of closed block benefits and expenses and income taxes	$ 9,037	$ 7,639	$ 7,722

5. INVESTMENTS

Investment income from continuing operations summarized by type of investment is as follows:

	Years Ended December 31		
	2012	*2011*	*2010*
Fixed maturity securities held to maturity	$ 5,891	$ 7,614	$ 10,404
Fixed maturity securities available for sale	358,333	363,197	356,923
Fixed maturity securities trading	5,163	(231)	3,865
Fixed maturity securities other	-	171	892
Equity securities available for sale	5,761	5,079	4,433
Equity securities trading	5,015	(696)	4,471
Mortgage loans on real estate, net	73,784	73,900	74,212
Loans on insurance policies	20,370	19,545	19,915
Real estate	10,866	12,912	21,679
Other investments and cash and cash equivalents	10,483	41,860	19,419
Gross investment income	495,666	523,351	516,213
Investment expenses	34,568	30,373	41,612
Net investment income	$ 461,098	$ 492,978	$ 474,601

5. INVESTMENTS, (continued)

The net gains (losses) recognized during 2012, 2011 and 2010 on fixed maturity securities trading and equity securities trading held at December 31, 2012, 2011 and 2010 were $7,597, $(3,320) and $5,863, respectively.

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

	Years Ended December 31		
	2012	*2011*	*2010*
Net gains (losses) on disposals, including calls of investments			
Fixed maturity securities held to maturity	$ (41)	$ -	$ -
Fixed maturity securities available for sale	35,275	8,800	13,185
Equity securities available for sale	13,392	5,852	5,907
Equity securities trading	-	-	22
Mortgage loans on real estate, net	-	(259)	-
Real estate	2,189	9,093	4,080
Real estate held for sale	1,112	925	(95)
Other investments	2,911	754	7,555
Property and equipment	1	(295)	(553)
Net losses on writedowns			
Fixed maturity securities available for sale	(10,298)	(15,582)	(19,742)
Mortgage loans on real estate, net	(7,311)	(742)	(1,675)
Real estate	(393)	(5,258)	(998)
Real estate held for sale	(485)	-	-
Other investments	(505)	(3,864)	(1,179)
Net pretax realized investment gains (losses)	$ 35,847	$ (576)	$ 6,507

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

	Year Ended December 31, 2012		
	Proceeds	*Gains*	*Losses*
Fixed maturity securities available for sale	$ 365,729	$ 37,183	$ 2,088
Equity securities available for sale	140,602	24,636	11,610

	Year Ended December 31, 2011		
	Proceeds	*Gains*	*Losses*
Fixed maturity securities available for sale	$ 131,559	$ 7,358	$ 230
Equity securities available for sale	117,185	16,182	10,408

	Year Ended December 31, 2010		
	Proceeds	*Gains*	*Losses*
Fixed maturity securities available for sale	$ 194,008	$ 12,290	$ 77
Equity securities available for sale	76,172	9,512	3,721

5. INVESTMENTS, (continued)

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

	December 31, 2012			
	Cost/ Amortized Cost	*Gross Unrealized*		*Fair Value*
		Gains	*Losses*	
Fixed maturity securities held to maturity				
U.S. Treasury securities and obligations of U.S. government agencies	$ 5,919	$ 1,586	$ -	$ 7,505
Foreign government securities	54	-	-	54
U.S. corporate securities	30,343	2,627	77	32,893
Residential mortgage-backed securities	847	109	-	956
Foreign corporate securities	45,849	3,283	-	49,132
Total fixed maturity securites held to maturity	$ 83,012	$ 7,605	$ 77	$ 90,540
Fixed maturity securities available for sale				
U.S. Treasury securities and obligations of U.S. government agencies	$ 217,774	$ 19,660	$ 4	$ 237,430
Debt securities issued by state of the U.S. and political subdivisions of the states	33,828	4,939	-	38,767
Foreign government securities	2,617	7	-	2,624
U.S. corporate securities	3,832,566	456,677	3,366	4,285,877
Residential mortgage-backed securities	1,057,182	96,729	7,374	1,146,537
Commercial mortgage-backed securities	128,826	8,435	22	137,239
Asset-backed securities	232,563	8,279	2,535	238,307
Collateralized debt obligations	9,137	563	73	9,627
Foreign corporate securities	1,409,429	140,840	2,995	1,547,274
Total fixed maturity securities available for sale	$ 6,923,922	$ 736,129	$ 16,369	$ 7,643,682
Equity securities available for sale	$ 231,965	$ 46,409	$ 3,887	$ 274,487

At December 31, 2012, the Company had fixed maturity securities with a carrying amount of $22,274 on deposit with various state insurance departments.

5. INVESTMENTS, (continued)

	December 31, 2011			
	Cost/ Amortized Cost	*Gross Unrealized*		*Fair Value*
		Gains	*Losses*	
Fixed maturity securities held to maturity				
U.S. Treasury securities and obligations of U.S. government agencies	$ 6,382	$ 2,015	$ -	$ 8,397
Foreign government securities	171	4	-	175
U.S. corporate securities	38,681	3,434	-	42,115
Residential mortgage-backed securities	4,119	293	-	4,412
Foreign corporate securities	56,857	4,773	-	61,630
Total fixed maturity securites held to maturity	$ 106,210	$ 10,519	$ -	$ 116,729
Fixed maturity securities available for sale				
U.S. Treasury securities and obligations of U.S. government agencies	$ 289,192	$ 23,243	$ -	$ 312,435
Debt securities issued by state of the U.S. and political subdivisions of the states	34,830	3,541	-	38,371
Foreign government securities	8,299	141	1	8,439
U.S. corporate securities	3,794,017	383,430	6,063	4,171,384
Residential mortgage-backed securities	1,150,683	99,383	18,707	1,231,359
Commercial mortgage-backed securities	138,538	8,399	10	146,927
Asset-backed securities	209,535	3,098	9,210	203,423
Collateralized debt obligations	9,012	-	934	8,078
Foreign corporate securities	1,296,789	106,893	13,954	1,389,728
Total fixed maturity securities available for sale	$ 6,930,895	$ 628,128	$ 48,879	$ 7,510,144
Equity securities available for sale	$ 239,053	$ 34,113	$ 17,647	$ 255,519

At December 31, 2011, the Company had fixed maturity securities with a carrying amount of $25,103 on deposit with various state insurance departments.

5. INVESTMENTS, (continued)

An aging of unrealized losses on the Company's investments except those classified as trading were as follows:

	December 31, 2012					
	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. Treasury securities and obligations of U.S. government agencies	$ 988	$ 4	$ -	$ -	$ 988	$ 4
U.S. corporate securities	115,018	2,979	10,737	464	125,755	3,443
Residential mortgage-backed securities	20,168	947	59,981	6,427	80,149	7,374
Commercial mortgage-backed securities	2,240	22	-	-	2,240	22
Asset-backed securities	12,501	233	37,726	2,302	50,227	2,535
Collateralized debt obligations	-	-	4,926	73	4,926	73
Foreign corporate securities	48,455	573	24,478	2,422	72,933	2,995
Total fixed maturity securities	199,370	4,758	137,848	11,688	337,218	16,446
Equity securities	28,914	2,176	17,224	1,711	46,138	3,887
Cost method investments	352	65	1,717	546	2,069	611
Total	$ 228,636	$ 6,999	$ 156,789	$ 13,945	$ 385,425	$ 20,944

	December 31, 2011					
	Less than 12 months		*12 months or more*		*Total*	
	Fair Value	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*	*Fair Value*	*Unrealized Losses*
Fixed maturity securities:						
Foreign government securities	$ 753	$ 1	$ -	$ -	$ 753	$ 1
U.S. corporate securities	187,904	4,778	14,910	1,285	202,814	6,063
Residential mortgage-backed securities	24,658	3,363	105,515	15,344	130,173	18,707
Commercial mortgage-backed securities	88	10	-	-	88	10
Asset-backed securities	60,578	2,178	62,141	7,032	122,719	9,210
Collateralized debt obligations	3,858	154	4,221	780	8,079	934
Foreign corporate securities	96,164	3,462	54,557	10,492	150,721	13,954
Total fixed maturity securities	374,003	13,946	241,344	34,933	615,347	48,879
Equity securities	96,617	15,525	4,844	2,122	101,461	17,647
Cost method investments	-	-	2,662	295	2,662	295
Total	$ 470,620	$ 29,471	$ 248,850	$ 37,350	$ 719,470	$ 66,821

5. INVESTMENTS, (continued)

Of the $16,446 and $48,879 of total unrealized losses on fixed maturity securities as of December 31, 2012 and 2011, approximately $10,465 and $35,595 was related to unrealized losses on investment grade fixed maturity securities. Investment grade is defined as a security with a rating from the National Association of Insurance Commissioners ("NAIC") of 1 or 2, a rating of Aaa, Aa, A or Baa from Moody's, a rating of AAA, AA, A, or BBB from Standard and Poor's ("S&P"), a rating of AAA, AA, or A from Fitch, or an equivalent internal rating if an external rating is not available. Of the $11,688 and $34,933 of unrealized losses of 12 months or more as of December 31, 2012 and 2011, approximately $7,266 and $25,964 was related to unrealized losses on investment grade securities.

For the securities in the prior two tables, the Company does not intend to sell the fixed maturity securities and it is not more likely than not the Company will be required to sell the fixed maturity security with unrealized losses before recovery of the amortized cost. The Company has the intent and ability to hold the equity securities and cost method investments with unrealized losses for a period of time sufficient for them to recover.

The Company regularly reviews its securities in an unrealized loss position to determine if OTTI exists. Under the current OTTI accounting model, if the Company has the intent to sell a security or it is more likely than not that the Company will be required to sell the security before recovery, an OTTI loss will be recognized in net income equal to the difference between fair value and amortized cost. If the Company does not intend to sell the security before recovery and it is not more likely than not that the Company will be required to sell the security before recovery, the Company must evaluate the security for credit losses. If a credit loss exists, only the amount of impairment associated with the credit loss is recognized in net income. The portion of unrealized loss relating to all other factors is recorded in accumulated other comprehensive income.

The following paragraphs describe the Company's OTTI process for the fixed maturity securities and equity securities with significant unrealized losses and the assumptions used to estimate potential credit losses:

Fixed maturity securities:

- For other than residential and commercial mortgage-backed and asset-backed fixed maturity securities, the Company monitors several factors to determine if an unrealized loss should be recognized as OTTI. Based on the evaluation of the prospects of the issuers, including, but not limited to, the Company's intentions to sell or whether it is more likely than not that the Company will be required to sell the security prior to recovery, the length of time and magnitude of the unrealized loss, credit ratings of the issuers, failure of the issuer to make contractual payments, management judgment of future performance, and relevant independent research, the Company has concluded that the declines in fair values of the Company's investments in U.S. corporate, foreign, U.S. Treasury securities and obligations of U.S. government agencies fixed maturity securities at December 31, 2012 and 2011 were temporary.

- For residential and commercial mortgage-backed and asset-backed fixed maturity securities, credit impairment is assessed by estimating future cash flows from the underlying collateral. The cash flow estimates are based on actual cash flows through the current period and projections of the remaining cash flows. Projections of the remaining cash flows are developed using assumptions for prepayment rate, default rate, loss severity, rating agency action, and other credit performance by security type based on the underlying collateral and vintage. The estimated future cash flows are discounted to present value. If the present value of future cash flows is less than amortized cost, the Company recognizes the estimated credit loss in earnings, with the remaining unrealized loss recognized in accumulated other comprehensive income. Based on the evaluation of estimated future cash flows, the Company has identified the non-credit component of OTTI losses of $(4,583), $(3,078) and $1,636 on residential mortgage backed securities at December 31, 2012, 2011 and 2010, respectively, which were recognized coming (from) or going to accumulated other comprehensive income. Additionally based on the evaluation of estimated future cash flows, the Company has concluded that all other declines in fair values of the Company's investments in mortgage-backed fixed maturity securities at December 31, 2012 and 2011 were temporary.

5. INVESTMENTS, (continued)

Equity securities

- For public equity securities and retail and institutional mutual fund investments with an unrealized loss greater than 12 months, such unrealized loss was less than 25% of the Company's carrying value of each equity security. The Company considers various factors when considering if a decline in 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 intent and ability to hold the investments until recovery. Based on an evaluation of these factors, the Company has concluded that the declines in the fair values of the Company's investments in these public equity securities and retail and institutional mutual fund investments at December 31, 2012 and 2011 were temporary.

The table below presents a rollforward of the cumulative credit loss component of OTTI loss recognized in net income on fixed maturity residential mortgage-backed securities still held by the Company at December 31, 2012 and 2011 for which a portion of the OTTI was recognized in accumulated other comprehensive income:

	Credit Losses	
	2012	*2011*
Cumulative credit loss at beginning of period	$ 61,485	$ 51,872
Additions:		
Previously other-than-temporarily impaired securities	6,938	5,591
Securities without prior impairments	1,953	8,565
Total additions	8,891	14,156
Reductions		
Sales and repayments of fixed maturity securities on which credit losses were recognized	(19,015)	(4,543)
Cumulative credit loss at end of period	$ 51,361	$ 61,485

The total aggregate cost of the Company's cost method investments was $22,481 and $39,216 at December 31, 2012 and 2011, respectively. All cost method investments were evaluated for impairment at December 31, 2012, and $2,069 of such investments had unrealized losses which totaled $611. In 2011, $2,662 of cost method investments had unrealized losses which totaled $295. Based on the Company's ability and intent to hold the investments until recovery and management's evaluation of the investments, the Company does not consider such investments with unrealized losses to be other-than-temporarily impaired at December 31, 2012 and 2011.

The Company has exposure to subprime mortgage loans within its total investments in non-agency residential mortgage-backed securities (RMBS) and asset-backed securities (ABS). The Company manages its exposure to non-agency subprime mortgage loans in several ways. First, the Company monitors its exposure level to non-agency RMBS and ABS against defined restrictions prescribed by its Investment Policy. Restrictions include exposure at the aggregate level to non-agency RMBS and ABS along with exposure to ratings classes and subsectors. Also, the Company continually tracks non-agency subprime RMBS and ABS for factors including credit performance, rating agency actions, prepayment trends and de-levering. Loans with trends that may indicate underperformance are monitored closely for any further deterioration that may result in action by the Company.

5. INVESTMENTS, (continued)

As of December 31, 2012 and 2011, the Company's total investment in non-agency RMBS and ABS represents securities with an adjusted cost basis of $171,000 and $236,589, respectively, and a fair value of $175,717 and $228,436, respectively. As of December 31, 2012 and 2011, the Company's subprime exposure related to non-agency subprime RMBS and ABS represents securities with an adjusted cost basis of $79,685 and $93,484, respectively, and a fair value of $82,356 and $86,517, respectively. The difference related to the non-agency subprime RMBS and ABS of $(2,671) and $6,967, respectively, is recognized as an unrealized investment loss in accumulated other comprehensive income.

The amortized cost and fair value of fixed maturity securities by contractual maturity at December 31, 2012 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	$ 333,083	$ 339,412	$ 9	$ 9
Due after one year through five years	1,592,261	1,762,923	64,483	70,111
Due after five years through ten years	2,929,202	3,292,957	304	442
Due after ten years	460,654	518,710	-	-
Mortgage-backed and asset-backed securities	1,427,708	1,531,710	847	956
Other securities with multiple repayment dates	181,014	197,970	17,369	19,022
Total	$ 6,923,922	$ 7,643,682	$ 83,012	$ 90,540

Comparability of the following mortgage loan related disclosures are impacted by the classification of AFSB assets held for sale (see Note 2 – Discontinued Operations).

Mortgage loans on real estate are summarized as follows:

	December 31	
	2012	*2011*
Residential first mortgages	$ 261,118	$ 714,013
Commercial real estate	1,196,803	1,199,034
Construction and land development	-	24,166
Second trusts and home equity	27,696	32,040
Consumer loans	-	990
Commercial loans	-	15,978
Total loans	1,485,617	1,986,221
Loans held for sale	-	13,161
Net deferred loan costs	1,610	1,176
Allowances for losses on loans	(6,971)	(12,712)
Loans - net	$ 1,480,256	$ 1,987,846

5. INVESTMENTS, (continued)

A summary of the characteristics of the Company's mortgage loans on real estate portfolio follows:

	December 31, 2012		*December 31, 2011*	
	Carrying Amount	*Percent of Carrying Amount*	*Carrying Amount*	*Percent of Carrying Amount*
Region:				
New England and Mid Atlantic	$ 74,326	5.0 %	$ 79,694	4.0 %
South Atlantic	484,863	32.7	974,688	49.0
North Central	382,065	25.8	357,192	18.0
South Central	210,146	14.2	207,086	10.4
Mountain	166,586	11.3	178,544	9.0
Pacific	162,270	11.0	190,642	9.6
Total loans	1,480,256	100.0 %	$ 1,987,846	100.0 %
Property Type:				
Apartment and residential	$ 368,437	24.9 %	$ 826,958	41.6 %
Construction	-	-	21,334	1.1
Warehouses and industrial	434,480	29.3	401,105	20.2
Retail and shopping center	274,962	18.6	303,102	15.2
Office	346,163	23.4	357,013	18.0
Other	56,214	3.8	78,334	3.9
Total loans	1,480,256	100.0 %	$ 1,987,846	100.0 %

Commercial, commercial real estate, and construction loans are evaluated individually for impairment, while residential mortgage loans are evaluated collectively for impairment. Loans are considered impaired when it is probable, based on review of key credit quality indicators including payment status, collateral value and prevailing economic conditions, that the Company will not collect contractual principal and interest. Valuation allowances are established for impaired loans based on the fair value of the collateral less costs to sell or the present value of the loans expected future cash flows discounted at the loan's original effective interest rate. Loan losses are charged against the reserve when uncollectability of the loan balance is confirmed.

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 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. Construction, commercial business and commercial real estate loans with principal balances totaling $60,038 served as collateral for access to the Federal Reserve Bank Discount Window as of December 31, 2011.

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 $249,631 at December 31, 2011.

5. INVESTMENTS, (continued)

The Company's key credit quality indicators as discussed below for its loans are summarized as follows:

		December 31, 2012
Debt service coverage ratio grade	$	1,178,247
Loan to value grade		15,782
Loans by internally assigned grade		2,774
Loans based on payment activity grade		288,814
Total - gross	$	1,485,617

		December 31, 2011
Debt service coverage ratio grade	$	1,125,058
Loan to value grade		13,032
Loans by internally assigned grade		101,088
Loans based on payment activity grade		747,043
Total - gross	$	1,986,221

For the commercial mortgage loans, debt service coverage ratio (DSCR) is considered a key credit quality indicator for loans that are income dependent while loan to value and borrower financial strength are considered key credit quality indicators for borrower-occupied loans. Debt service coverage ratios compare a property's net operating income to the borrower's principal and interest payments. Loan to value and debt service coverage ratios are updated annually or as warranted by economic conditions or impairment considerations.

Debt service coverage ratios for income dependent loans at December 31, 2012 and 2011 are summarized as follows:

December 31, 2012		*Construction and Land Development*		*Commercial Real Estate*
DSCR Distribution				
Below 1.0	$	-	$	104,359
1.0 - 1.2		-		162,107
1.2 - 1.8		-		636,756
Greater than 1.8		-		275,025
	$	-	$	1,178,247

December 31, 2011		*Construction and Land Development*		*Commercial Real Estate*
DSCR Distribution				
Below 1.0	$	-	$	137,055
1.0 - 1.2		1,268		139,294
1.2 - 1.8		7,300		638,799
Greater than 1.8		-		204,342
	$	8,568	$	1,116,490

Mortgage loans with a debt service coverage ratio below 1.0 that are not considered impaired primarily relate to instances where the borrower has the financial capacity to fund the revenue shortfalls from the properties for the foreseeable future, the decrease in cash flows is considered temporary, or there are other risk mitigating factors.

5. INVESTMENTS, (continued)

Loan to value for borrower-occupied commercial loans is summarized as follows:

	December 31, 2012	*December 31, 2011*
Loan to Value		
Below 60%	$ 15,782	$ 13,032

The Company has no nonperforming commercial or construction mortgage loans as of December 31, 2012 and 2011.

A risk grading matrix is used to assign grades to commercial real estate, construction and land development, commercial loans and commercial equipment loans held by Griffin at December 31, 2012 and AFSB at December 31, 2011. Loans are graded at inception, quarterly thereafter, and at other times when there is an indication that a credit may have weakened or improved. Loans are graded on a scale of 1 to 8.

Ratings 1 thru 4 - Pass
Ratings 1 thru 4 have asset risks ranging from excellent low risk to adequate. The specific rating assigned considers customer history of earnings, cash flows, liquidity, leverage, capitalization, consistency of debt service coverage, the nature and extent of customer relationship and other relevant specific business factors such as the stability of the industry or market area, changes to management, litigation or unexpected events that could have an impact on risks.

Rating 5 - Special Mention
These assets contain some weakness as defined under the substandard category, but do not contain the risk level associated with an adverse classification.

Rating 6 - Substandard
A substandard asset is inadequately protected by the current sound worth or paying capacity of the obligor or of the collateral pledged. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that some loss will be sustained if the deficiencies are not corrected.

Rating 7 - Doubtful
An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Rating 8 - Loss
Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future. The Company had no loans assigned this rating at 2012 or 2011.

An asset subject to adverse classification may be split into more than one adverse category, if analysis shows a portion of the asset to clearly exhibit a greater loss potential. Analysis may also result in only a portion of an asset being deemed to have a substantial risk of loss and, therefore only that portion is adversely graded.

All assets are reviewed as appropriate to their size and presentation of risk. In general, large, individual loans which represent a greater element of risk will be reviewed quarterly. Other loans such as residential mortgage loans will be reviewed based upon asset size and payment history. Any asset not reviewed in detail as a single item will be reviewed as part of an asset class.

5. INVESTMENTS, (continued)

Management regularly reviews credit quality indicators including the composition of the loan portfolio, net charge-offs, nonperforming loans, performance of TDRs and general economic conditions in its market. This review process is assisted by frequent internal reporting of loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans.

Credit quality indicators for loans held by Griffin were as follows:

Credit risk profile by internally assigned grade

	Year Ended December 31, 2012		
	Commercial Real Estate	*Construction and Land* Development	*Commercial Loans*
Pass	$ -	$ -	$ -
Special mention	-	-	-
Substandard	2,774	-	-
Doubtful	-	-	-
Total	$ 2,774	$ -	$ -

Credit quality indicators for loans held by AFSB were as follows (see Note 2 Discontinued Operations):

Credit risk profile by internally assigned grade

	Year Ended December 31, 2011		
	Commercial Real Estate	*Construction and Land* Development	*Commercial Loans*
Pass	$ 63,056	$ 4,142	$ 13,391
Special mention	-	5,661	-
Substandard	6,456	4,000	1,937
Doubtful	-	1,795	650
Total	$ 69,512	$ 15,598	$ 15,978

Credit quality indicators for loans held by the Company were as follows:

Credit risk profile based on payment activity

December 31, 2012	*Residential First Mortgages*	*Second Trusts and Home Equity*	*Consumer Loans*
Performing	$ 238,148	$ 27,670	$ -
Nonperforming	22,970	26	-
Total	$ 261,118	$ 27,696	$ -

December 31, 2011	*Residential First Mortgages*	*Second Trusts and Home Equity*	*Consumer Loans*
Performing	$ 683,753	$ 31,973	$ 989
Nonperforming	30,260	67	1
Total	$ 714,013	$ 32,040	$ 990

Residential mortgage loans which are delinquent as to principle and or interest 90 days or more and consumer loans 60 days or more are classified as nonperforming loans.

5. INVESTMENTS, (continued)

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

At December 31, 2012	*Residential First Mortgages*	*Commerical Real Estate*	*Construction and Land Development*	*Second Trusts and Home Equity*	*Consumer Loans*	*Commercial Loans*	*Total*
Allowance for loan losses:							
Balance at January 1	$ (10,742)	$ (818)	$ (182)	$ (276)	$ (33)	$ (661)	$ (12,712)
Allowance held for sale[1]	10,742	818	182	276	33	661	12,712
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-
Provisions	(6,320)	(651)	-	-	-	-	(6,971)
Balance at December 31	$ (6,320)	$ (651)	$ -	$ -	$ -	$ -	$ (6,971)
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ (6,320)	$ (651)	$ -	$ -	$ -	$ -	$ (6,971)
Loan receivables:							
Ending balance - net	$ 261,118	$ 1,196,803	$ -	$ 27,696	$ -	$ -	$ 1,485,617
Ending balance: individually evaluated for impairment	$ 15,887	$ 1,196,803	$ -	$ 26	$ -	$ -	$ 1,212,716
Ending balance: collectively evaluated for impairment	$ 245,231	$ -	$ -	$ 27,670	$ -	$ -	$ 272,901

[1] The release of the allowance is included within the Assets held for sale.

At December 31, 2011	*Residential First Mortgages*	*Commerical Real Estate*	*Construction and Land Development*	*Second Trusts and Home Equity*	*Consumer Loans*	*Commercial Loans*	*Total*
Allowance for loan losses:							
Balance at January 1	$ (15,218)	$ (754)	$ (537)	$ (322)	$ (60)	$ (309)	$ (17,200)
Charge-offs	11,027	-	543	197	27	650	12,444
Recoveries	(2,048)	-	-	(7)	-	(2)	(2,057)
Provisions	(4,503)	(64)	(188)	(144)	-	(1,000)	(5,899)
Balance at December 31	$ (10,742)	$ (818)	$ (182)	$ (276)	$ (33)	$ (661)	$ (12,712)
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ (10,742)	$ (818)	$ (182)	$ (276)	$ (33)	$ (661)	$ (12,712)
Loan receivables:							
Ending balance - net	$ 714,013	$ 1,199,034	$ 24,166	$ 32,040	$ 990	$ 15,978	$ 1,986,221
Ending balance: individually evaluated for impairment	$ 31,026	$ 1,132,770	$ 14,363	$ 67	$ 1	$ 2,587	$ 1,180,815
Ending balance: collectively evaluated for impairment	$ 682,987	$ 66,263	$ 9,803	$ 31,973	$ 989	$ 13,391	$ 805,406

5. INVESTMENTS, (continued)

The activity in the allowance for loan losses (continued):

		2010
Balance, beginning of year	$	(24,761)
Charge-offs, net of recoveries		16,511
Provision for loan losses		(8,950)
Balance, end of year	$	(17,200)

An aging analysis of the loans held by the Company at December 31, 2012 and 2011 is summarized as follows:

December 31, 2012	*Current*	*31-59 days*	*60-89 days*	*90 days and greater*	*Total Past Due*	*Total Gross*	*Loans>90 days and accruing*
Residential First Mortgage	$ 228,095	$ 4,217	$ 5,836	$ 22,970	$ 33,023	$ 261,118	$ -
Commercial Real Estate	1,178,842	6,306	2,273	9,382	17,961	1,196,803	6,608
Second Trusts & Home Equity	27,266	317	87	26	430	27,696	-
Total	$ 1,434,203	$ 10,840	$ 8,196	$ 32,378	$ 51,414	$ 1,485,617	$ 6,608

December 31, 2011	*Current*	*31-59 days*	*60-89 days*	*90 days and greater*	*Total Past Due*	*Total Gross*	*Loans>90 days and accruing*
Residential First Mortgage	$ 656,434	$ 19,522	$ 7,797	$ 30,260	$ 57,579	$ 714,013	$ -
Commercial Real Estate	1,189,603	3,715	-	5,716	9,431	1,199,034	2,467
Construction & Land Development	18,370	-	5,795	-	5,795	24,166	-
Second Trusts & Home Equity	31,864	109	-	68	177	32,040	-
Consumer	983	6	1	-	7	990	-
Commercial	15,978	-	-	-	-	15,978	-
Total	$ 1,913,232	$ 23,352	$ 13,593	$ 36,044	$ 72,989	$ 1,986,221	$ 2,467

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls are generally not classified as impaired. Management determines the significance of payment delays and shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial, commercial real estate, and construction loans by the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of collateral if the loan is collateral dependent.

5. INVESTMENTS, (continued)

A summary of information pertaining to impaired loans held at December 31, 2012 and 2011 is as follows:

December 31, 2012	*Unpaid Contractual Principal Balance*	*Recorded Investment with No Allowance*	*Recorded Investment with Allowance*	*Total Recorded Investment*	*Related Allowance*	*Average Recorded Investment*	*Year to date Interest Income Recognized*
Residential First Mortgage	$ 44,205	$ 35,295	$ -	$ 35,295	$ -	$ 28,319	$ 767
Commercial Real Estate	11,139	9,464	-	9,464	-	9,668	608
Construction	-	-	-	-	-	3,008	-
Second Trusts & Home Equity	197	113	-	113	-	43	5
Total	$ 55,541	$ 44,872	$ -	$ 44,872	$ -	$ 41,038	$ 1,380

December 30, 2011	*Unpaid Contractual Principal Balance*	*Recorded Investment with No Allowance*	*Recorded Investment with Allowance*	*Total Recorded Investment*	*Related Allowance*	*Average Recorded Investment*	*Year to date Interest Income Recognized*
Residential Mortgage	$ 62,868	$ 51,179	$ -	$ 51,179	$ -	$ 55,367	$ 1,487
Commercial Real Estate	9,730	7,680	-	7,680	-	7,844	495
Construction	-	-	-	-	-	4,601	87
Second Trusts & Home Equity	146	67	-	67	-	70	5
Consumer	1	1	-	1	-	5	-
Commercial	-	-	-	-	-	-	-
Total	$ 72,745	$ 58,927	$ -	$ 58,927	$ -	$ 67,887	$ 2,074

The Company considers all TDRs to be impaired and defines TDRs as loans whose terms have been modified to provide for a reduction of either interest or principal because of deterioration in the financial condition of the borrower. A loan extended or renewed at a stated interest rate equal to the current interest rate for new debt with similar risk is not considered a TDR. Once an obligation has been classified as a TDR it continues to be considered a TDR until paid in full or until the loan returns to performing status and yields a market interest rate equal to the current interest rate for new debt with similar risk. TDRs are evaluated by management on a regular basis utilizing the Company's risk grading matrix. TDRs are evaluated for impairment on a loan-by-loan basis in accordance with the Company's impairment methodology. The Company does not participate in any specific government or Company-sponsored loan modification programs. All restructured loan agreements are individual contracts negotiated with a borrower.

The Company had one new TDR and no short sales in 2012.

TDRs related to residential mortgage loans were $8,241 and $18,513 and commercial mortgage loans were $2,273 and $0 as of December 31, 2012 and 2011, respectively. The Company had no other TDR balances in 2012 and 2011.

At December 31, 2012 and 2011, $8,499 and $15,549, respectively, or 80.84% and 83.99%, respectively, of TDRs were performing according to the terms of their restructured agreements. In 2011, $862 TDR agreements defaulted, representing $42 in charge-offs and $820 in transfers to foreclosed real estate. In addition, the Company accepted short sales on loans totaling $976, resulting in charge offs of $91 in 2011.

6. SAVINGS DEPOSITS

Savings deposits include demand deposits of $126,283 and time deposits of $528,468, at December 31, 2011. Time deposits with individual balances in excess of $100 totaled approximately $214,713 at December 31, 2011. Interest on deposits paid by the Company totaled $18,311 in 2011 and $28,137 in 2010. (See Note 2 – Discontinued Operations)

7. BORROWINGS

Borrowings consist of repurchase agreements and long-term debt. The Company's long term debt consists of fixed and floating rate long-term advances from the FHLB of Atlanta.

The Company's total fixed-rate FHLB advances were $204,000 at December 31, 2011 and paid off in 2012. At December 31, 2011, the interest rates on fixed-rate FHLB advances ranged from 2.44% to 5.14%. At December 31, 2011, the weighted average interest rate on fixed-rate FHLB advances was 4.33%.

The Company has additional FHLB advances (lines of credit) available up to $350,000 if an emergency liquidity need would arise. The Company had outstanding balance of $28,000 and $0 as of December 31, 2012 and 2011, respectively, related to these lines of credit.

Collateral for the Company's long-term FHLB advances consists of mortgage loans with principal balances totaling approximately $596,317 at December 31, 2011. Collateral for the Company's lines of credit consists of fixed maturity securities of $47,040 at December 31, 2012.

The Company's total variable rate participating loans were $3,207 at December 31, 2011. See Note 2 – Discontinued Operations for related 2012 amount of $4,465.

From the acquisition of BNL Financial, the Company has bonds of $314 and $1,273 at December 31, 2012 and 2011, respectively, that were issued in conjunction with a settlement with certain shareholders of BNL Financial in 2001. The bonds are for a term of twelve years, effective December 13, 2002, with principal payable at maturity and bear interest at the rate of 6% per annum payable annually from the previous fiscal year's earnings. The bonds are fully callable and redeemable at par at any time. The Company called these bonds in January 2012 at which time accruing for interest ceased. The Company continues efforts to actively locate bond owners to redeem their certificates.

8. INCOME TAXES

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

	Years Ended December 31	
	2012	*2011*
Future policy and contract liabilities	$ 101,240	$ 99,839
Financing contracts	-	9,919
Investment in subsidiary held for sale	6,235	-
Policyowner dividends	5,366	5,372
Pension and post-retirement benefits	73,833	65,036
Policyowner dividend obligation	16,837	12,323
Provision for loan losses	2,438	6,228
Loss contingency	20,193	-
Other	29,411	34,388
Net operating/capital losses and credits	46,574	74,463
Gross deferred tax asset	302,127	307,568
Deferred policy acquisition costs	141,479	145,508
Net unrealized investments gains	274,965	207,064
Other	15,850	16,146
Gross deferred tax liability	432,294	368,718
Net deferred tax liability	$ (130,167)	$ (61,150)

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

	Years Ended December 31		
	2012	*2011*	*2010*
Federal statutory tax rate	35.00 %	35.00 %	35.00 %
Valuation allowance	-	-	(9.35)
Dividend received deduction	(3.00)	(3.76)	(2.35)
Tax credits	(0.72)	(1.16)	(1.02)
Change in uncertain tax positions	(0.23)	0.40	(12.83)
Other	1.86	0.58	0.54
Effective tax rate	32.91 %	31.06 %	9.99 %

Union Central has a $1,225 foreign tax credit carryover as of December 31, 2012. The foreign tax credit carryforward of $410, $373, $368 and $74, will expire in 2019, 2018, 2017 and 2016, respectively. BNL Assurance and Ameritas Mutual Holding Company have alternative minimum tax credits of $204 and $1,575, respectively, as of December 31, 2012 with no expiration date. Ameritas has a low income housing tax credit of $713 which will expire in 2032.

As of December 31, 2012, Union Central and its affiliates had approximately $42,857 of deferred taxes relating to loss carryforwards available to reduce future taxable income. Life net operating loss carryforwards of $5,937, $21,137 and $95,377 will expire in 2026, 2025, and 2024, respectively.

A valuation allowance is established to reduce deferred tax assets to the amounts expected to be realized. Union Central provided a valuation allowance in the amount of $16,358 as of December 31, 2009. The valuation allowance was provided primarily for unrealized losses on available for sale securities due to other-than-temporary impairment and for capital loss carryforwards as these deferred tax assets were not expected to be realized. As a result of Union Central and the Company recording unrealized gains at December 31, 2010 and based upon Union Central joining in the AMHC consolidated federal income tax return in 2011, the valuation allowance was released in 2010. The Company believes it is more likely than not that the deferred tax assets associated with unrealized losses and the capital loss carryforward will be realized along with other deferred tax assets.

8. INCOME TAXES, (continued)

At December 31, 2012 and 2011, other liabilities on the consolidated balance sheets include $1,044 and $1,386, respectively, for unrecognized tax benefits. Over the next twelve months management believes that it is reasonably possible that there could be no reduction of the unrecognized tax benefits due to settlement of an uncertain tax position with the taxing authorities.

The Company recognizes interest accrued related to unrecognized tax benefits and penalties as income tax expense. At December 31, 2012 and 2011, respectively, the Company accrued $404 and $401 for the payments of interest and penalties in the consolidated balance sheets and $3, $294 and $(4,949) were recognized for the years ended December 31, 2012, 2011 and 2010, respectively, for interest and penalties in the consolidated statements of operations.

The Company has recorded an income tax (benefit) expense from continuing operations of $5,162, $170 and $16,424 for the years ended December 31, 2012, 2011 and 2010, respectively. Additionally, the Company has recognized a change in the current period for deferred tax items from continuing operations as a (benefit) expense of $50,130, $34,757 and $1,103 for the years ended December 31, 2012, 2011 and 2010, respectively.

In 2012, the Internal Revenue Service completed its field examination of AMHC consolidated federal income tax returns for years 2007-2009. AMHC has accepted the IRS field examination report. The IRS field examiner forwarded the agreed examination report to the Joint Committee on Taxation (Joint Committee) in late 2012. AMHC does not expect Joint Committee's review will have a material effect on the Company's financial condition or results of operation. The IRS completed a field examination of Union Central for tax year 2008 and limited scope examinations for tax years 2009-2010. The Union Central examinations also included a review of amended returns filed for tax years 2003-2008, which had been at IRS appeals, along with the IRS field examination reports for tax years 2004-2007. Union Central is in agreement with all the IRS field examinations reports forwarded to IRS appeals in January 2013. Union Central does not expect IRS appeals review will have a material effect on the Company's financial condition or results of operations. In 2010, the IRS settled an examination for the federal income tax returns of liquidated Ameritas subsidiaries for the tax years 2002-2004. The Company's management has determined that the settlement is not material.

The Company is subject to taxation in the United States and various states. As of December 31, 2012, the Company's tax years, generally, for 2010-2012 are subject to examination by the tax authorities. Union Central has extended the statute of limitations for tax years 2004-2009 for tax issues that have been agreed to at the field examination level and are currently in IRS appeals. Due to the IRS examination, AMHC has extended the statute of limitations for tax years 2007 and 2008.

9. EMPLOYEE AND AGENT BENEFIT PLANS

DEFINED BENEFIT PLANS

AHC and certain of its subsidiaries (the Sponsors) are sponsors and/or administrators of non-contributory defined benefit plans (the Plans) covering eligible employees. Benefits are based on the average of the employee's compensation over their career.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED BENEFIT PLANS, (continued)
The Sponsors use a December 31 measurement date for their Plans.

Obligations and Funded Status at December 31

	Pension Benefits		
	2012	*2011*	*2010*
Projected benefit obligation	$ 407,724	$ 351,638	$ 314,247
Fair value of plan assets	269,916	241,368	239,171
Funded status	(137,808)	(110,270)	(75,076)
Employer contributions	14,889	16,886	16,662
Benefit payments	20,975	20,101	22,499
Accumulated benefit obligation	386,770	335,594	303,019
Net periodic benefit cost	19,717	13,545	16,239
Amounts recognized in the balance sheet consist of:			
Other liabilities	$ 137,808	$ 110,270	$ 75,076
Amounts amortizing into net periodic benefit cost, net of tax, consist of:			
Transition obligation	$ -	$ 5	$ 28
Prior service cost	(366)	(362)	(362)
Net loss	8,368	6,117	6,859
Amounts recognized in other comprehensive income, net of tax, arising during the period consist of :			
Prior service cost	$ -	$ -	$ -
Net gain (loss)	(24,122)	(31,133)	3,997
Amounts recognized in accumulated other comprehensive income, net of tax, not yet recognized in net periodic benefit cost consist of:			
Transition asset	$ -	$ -	$ (5)
Prior service cost	557	923	1,285
Net loss	(117,231)	(101,477)	(76,462)
Information for pension plans with an accumulated benefit obligation in excess of plan assets:			
Projected benefit obligation	$ 407,724	$ 351,638	$ 314,247
Accumulated benefit obligation	386,770	335,594	303,019
Fair value of plan assets	269,916	241,368	239,171
Amounts expected to be amortized into net periodic benefit cost, net of tax, in the next twelve months consist of the following:			
Transition obligation	$ -	$ -	$ 5
Prior service cost	(366)	(366)	(362)
Net loss	9,442	8,003	5,832

There are no pension plan assets expected to be returned to the Company during the twelve month period ending December 31, 2013.

Investment Policies and Strategies
The investment objective of the Plans is to maximize the real rate of return (adjusted for inflation) within prudent limits on the level of risk incurred. At a minimum, the investment objective is to generate a positive real rate of return. The current asset allocation mix between equity and fixed income asset classes is targeted at 60% equity and 40% fixed income. The allocation ratio will be maintained on a continuous basis with an allowable range of 45% to 65% in equities and 35% to 55% in fixed income. Except where prudence dictates otherwise, the assets of the Plans will be reviewed monthly and will be rebalanced when the ratio of equity to fixed income varies by more than 3% from the current approved asset allocation mix.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED BENEFIT PLANS, (continued)
All assets of the Plans may be allocated to and invested in any one or more of these basic forms of investment:

- Fixed income securities, including, but not limited to, fixed income or general account options under an insurance company contract.
- Equity issues, including but not limited to, common stocks or units of beneficial interest in one or more pooled separate accounts of an insurance company.
- Cash or cash equivalents, including but not limited to, units of beneficial interest in one or more pooled separate accounts of an insurance company.

The Plans currently do not invest in derivative instruments.

The assets in the Plans are diversified in order to minimize significant concentrations of risk.

Risk Management Practices
On a quarterly basis, the Plans' Trustees, who are certain officers of the Company, review the performance of the assets in the Plans relative to expectations in order to determine if the Plan's investment goals and overall investment objectives are being met.

Fair Value Measurements of Plan Assets
The following is a description of the valuation methodologies used for instruments measured at fair value in accordance with fair value measurement guidance (see Note 15), including the general classification of such instruments pursuant to the valuation hierarchy.

Unallocated Insurance Contract

The fair value for the unallocated insurance contract is determined as the present value of future guaranteed account values. Present values are derived by discounting future guaranteed account values by the appropriate market interest rates. Market interest rates are deemed to be the same rates to be credited to new issues of the same contract with like guarantees issued as of the date of the fair value determination. The market interest rates used have interest guarantee periods that match the guarantee periods remaining as of the valuation date for the contract.

Interest rate guarantees of the deposit account are backed by assets of the Plans' custodian. Credited rates are set based on yields earned on new purchases of fixed income securities for the general account. Credited rates are guaranteed for the duration of the guaranteed period elected by the Plan Sponsor and do not vary with the subsequent performance of assets of the general account that back these guarantees. Due to the nature of these contracts, specific underlying assets are not assigned and there is no market (quoted prices or observable inputs) and as such the valuation includes significant inputs based on assumptions about market participant assumptions. The unallocated insurance contract is classified in Level 3 of the fair value hierarchy.

Pooled Separate Accounts

Pooled separate accounts are valued at the net asset value (NAV) of the shares held by the Plans at year-end and are classified in Level 1 of the fair value hierarchy. The funds in the separate accounts are considered open-end mutual funds, meaning that the fund is ready to redeem its shares at any time and offers its shares for sale to the public, either through retail outlets or through institutional investors continuously. For institutional funds, NAVs are received daily from fund managers, and the managers stand ready to transact at these quoted amounts. The Plans' custodian transacts in these funds on a daily basis as part of the separate account trading activity. The calculation of the NAV for funds composed of other funds (e.g., retirement target date funds) is essentially the same as the calculation of the NAV for any other fund: the total market value of assets across all underlying funds less any liabilities is divided by the outstanding shares. Again, this resulting NAV is published and/or the fund managers are ready to transact at the quoted prices.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED BENEFIT PLANS, (continued)
Fair Value Measurements of Plan Assets, (continued)

The following table presents the financial instruments carried at fair value in the Plans by the fair value measurement valuation hierarchy, as described above:

	December 31, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Unallocated insurance contract	$ -	$ -	$ 29,508	$ 29,508
Pooled separate accounts	240,408	-	-	240,408
Total assets at fair value	$ 240,408	$ -	$ 29,508	$ 269,916

	December 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Unallocated insurance contract	$ -	$ -	$ 23,577	$ 23,577
Pooled separate accounts	217,791	-	-	217,791
Total assets at fair value	$ 217,791	$ -	$ 23,577	$ 241,368

The table below sets forth a summary of changes in the fair value of the Plans' Level 3 assets related to unallocated insurance contracts for the year ended December 31:

	2012	*2011*
Balance at beginning of year	$ 23,577	$ 18,655
Purchases	7,579	4,849
Actual return on plan assets	1,106	916
Settlements	(2,754)	(843)
Balance at end of year	$ 29,508	$ 23,577

The following table presents information about significant unobservable inputs used in Level 3 assets measured at fair value:

December 31, 2012					
Assets Accounted for at Fair Value on a Recurring Basis	*Fair Value*	*Predominant Valuation Method*	*Significant Unobservable Input*	*Range of Values - Unobservable Inputs*	*Impact of Increase in Input on Fair Value* [1]
Unallocated Insurance Contract	$ 29,508	Discounted cash flows	New deposit rate	3.00 %	Increase
			Benefit withdrawal rate	9.00 %	Decrease

[1] Conversely, the impact of a change in input would have the opposite impact to the fair value as that presented in the table above.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED BENEFIT PLANS, (continued)
Fair Value Measurements of Plan Assets, (continued)

The long term expected return for the Plans assets is 7.0%, 7.0% and 8.0% for 2012, 2011 and 2010, respectively. The expected return was based on 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 Plans' benefit obligation considering the size, duration, and nature of the Plans' obligations.

The actual allocation ratio at December 31 was:

	2012	*2011*
Equities - affiliated	37.0 %	41.1 %
Equities - unaffiliated	23.2	21.0
Fixed income - affiliated	21.1	20.0
Fixed income - unaffiliated	18.7	17.9

A portion of the Equities-affiliated and Fixed income-affiliated represent separate account assets invested in mutual funds, which are advised by affiliates.

Contributions
The Sponsors made contributions to the Plans totaling $14,889, $16,886 and $16,662 in 2012, 2011 and 2010, respectively. The Plans are subject to the minimum funding requirements of ERISA. The Sponsors' funding policy is to contribute annually an amount that satisfies the minimum funding 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. The Sponsors are expected to contribute approximately $20,000 to the Plans in fiscal year 2013. The Plans' enrolled actuary determines the annual funding contributions. No voluntary contributions by participants are permitted.

Estimated Future Benefit Payments
The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid by the Plans:

Fiscal Year	*Amount*
2013	$ 23,431
2014	24,124
2015	24,029
2016	25,523
2017	26,286
2018 - 2022	136,853

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

	2012	*2011*	*2010*
Discount rate for benefit obligation	4.14 %	5.17 %	5.75 %
Discount rate for net periodic pension cost	5.17 %	5.75 %	6.00 %
Rate of compensation increase for benefit obligation	3.14 %	3.14 %	3.15 %
Rate of compensation increase for net periodic pension cost	3.14 %	3.15 %	4.06 %
Expected long term rate of return on assets for benefit obligation	7.00 %	7.00 %	8.00 %
Expected long term rate of return on assets for net periodic pension cost	7.00 %	8.00 %	8.00 %

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

DEFINED CONTRIBUTION PLANS

Substantially all full-time employees and agents participate in defined contribution plans sponsored by AHC. In addition, certain of the Company's employees participate in an unfunded, non-qualified defined contribution plan sponsored by AHC. Company matching contributions under the defined contribution plan ranged from 0.5% to 3.0% in 2012, 2011 and 2010. In addition, for eligible employees who do not participate in the Plans, the Company makes an additional contribution of 6.0% of the participants' eligible compensation on a quarterly basis for those hired prior to January 1, 2006, and 5.0% for those hired after January 1, 2006. Contributions by the Company to the employee and agents defined contribution plans were $12,629, $12,141 and $11,462 in 2012, 2011 and 2010, respectively.

The defined contribution plans' assets also include investments in deposit administration contracts which included underlying investments in separate accounts of Ameritas and Union Central. The carrying value of the assets invested in the defined contribution plans were approximately $431,256 and $378,742 at December 31, 2012 and 2011, respectively. A portion of the separate account assets are invested in mutual funds, which are advised by affiliates.

POSTRETIREMENT BENEFIT PLANS

The Company provides certain health care and life insurance benefits for its eligible retired employees. Substantially all of one affiliate's employees may become eligible for these benefits if they reach normal retirement age while working for the affiliate. Benefits in the other affiliates are limited to those associates hired before January 1, 2005.

The Sponsors used a December 31 measurement date for their plans.

Obligations and Funded Status at December 31

	2012	*2011*	*2010*
Projected benefit obligation	$ 27,051	$ 25,074	$ 24,651
Fair value of plan assets	12,727	11,712	12,563
Funded status	(14,324)	(13,362)	(12,088)
Employer contributions	2,202	2,193	1,393
Participant contributions	713	828	828
Benefit payments	3,709	3,920	4,552
Net periodic benefit cost	(1,531)	(1,626)	(1,714)
Amounts recognized in the balance sheet consist of:			
Other liabilities	$ 14,324	$ 13,362	$ 12,088
Amounts amortizing into net periodic benefit cost, net of tax, consist of:			
Prior service cost	$ (1,062)	$ (1,180)	$ (1,375)
Net gain	(129)	(269)	(405)
Amounts recognized in other comprehensive income, net of tax, arising during the period consist of:			
Prior service cost	$ -	$ 53	$ -
Net loss	(1,174)	(1,391)	(1,417)
Other adjustments	-	108	-
Amounts recognized in the accumulated other comprehensive income, net of tax, consist of:			
Prior service cost	$ 7,667	$ 7,758	$ 8,600
Net gain (loss)	(2,594)	(319)	1,514
Amounts expected to be amortized into net periodic benefit cost, net of tax, in the next twelve months consist of the following:			
Prior service cost	$ (1,056)	$ (1,180)	$ (1,375)
Net gain	(32)	(193)	(282)

There are no Postretirement Benefit Plan (Postretirement Plan) assets expected to be returned to the Company in the twelve month period ending December 31, 2013.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POSTRETIREMENT BENEFIT PLANS, (continued)

Investment Policies and Strategies

The investment objective of the Postretirement Plan is to provide sufficient assets and liquidity to meet the distribution requirements of the Postretirement Plan through capital appreciation of assets. The Postretirement Plan's Trustees require investment opportunities that offer equity, fixed income and money market or other cash equivalent investment options.

All assets of the Postretirement Plan may be allocated to and invested in any one or more of these basic forms of investments:

- Unallocated insurance contracts
- Common stocks listed on U.S. exchanges
- Limited partnerships
- Indexed mutual funds
- Cash or cash equivalents

Investments in non-marketable securities are not permitted, unless specifically authorized by the Trustees. In addition, investments in derivative instruments are not permitted.

The long term weighted expected return for the Postretirement Plan's assets is 7.57%, 7.57% and 7.91% for 2012, 2011 and 2010, respectively. The expected return was based on current market valuations and forecasted market returns.

The assets in the Postretirement Plan are diversified in order to minimize significant concentrations of risk.

Risk Management Practices

On a quarterly basis, the Postretirement Plan's Trustees, who are certain officers of the Company, review the performance of the assets in the Postretirement Plan relative to expectations in order to determine if the Postretirement Plan's investment goals and overall investment objectives are being met.

Fair Value Measurements of Plan Assets

The following is a description of the valuation methodologies used for instruments measured at fair value in accordance with fair value measurement guidance (see Note 15), including the general classification of such instruments pursuant to the valuation hierarchy.

Unallocated Insurance Contract

The fair value for the unallocated insurance contract is determined as the present value of future guaranteed account values. Present values are derived by discounting future guaranteed account values by the appropriate market interest rates. Market interest rates are deemed to be the same rates to be credited to new issues of the same contract with like guarantees issued as of the date of the fair value determination. The market interest rates used have interest guarantee periods that match the guarantee periods remaining as of the valuation date for the contract.

Interest rate guarantees of the deposit account are backed by assets of the Postretirement Plan's custodian. Credited rates are set based on yields earned on new purchases of fixed income securities for the general account. Credited rates are guaranteed for the duration of the guaranteed period elected by the Plan Sponsor and do not vary with the subsequent performance of assets of the general account that back these guarantees. Due to the nature of these contracts, specific underlying assets are not assigned and there is no market (quoted prices or observable inputs) and as such the valuation includes significant inputs based on assumptions about market participant assumptions. The unallocated insurance contract is classified in Level 3 of the fair value hierarchy.

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POSTRETIREMENT BENEFIT PLANS, (continued)
Fair Value Measurements of Plan Assets, (continued)

Common Stocks

Common stocks are valued based on quoted prices in active markets for publicly traded securities at year-end and are classified in Level 1 of the fair value hierarchy. These assets can be redeemed at any time and its shares are offered for sale to the public.

Limited Partnerships

Limited partnerships are valued based on quoted prices in active markets for publicly traded securities at year-end and are classified in Level 1 of the fair value hierarchy. These assets can be redeemed at any time and its shares are offered for sale to the public.

Money Market Funds

The money market funds are classified in Level 1 of the fair value hierarchy as fair value is based on quoted prices in active markets for identical securities.

Mutual Funds

Mutual funds are valued at the NAV of the shares held by the Postretirement Plan at year-end and are classified in Level 1 of the fair value hierarchy. These funds are considered open-end mutual funds, meaning that the fund is ready to redeem its shares at any time and offers its shares for sale to the public, either through retail outlets or through institutional investors continuously. For institutional funds, NAVs are received daily from fund managers, and are published and/or the managers stand ready to transact at these quoted amounts. The calculation of the NAV for funds composed of other funds (e.g., retirement target date funds) is essentially the same as the calculation of the NAV for any other fund: the total market value of assets across all underlying funds less any liabilities is divided by the outstanding shares.

The following table presents the financial instruments carried at fair value in the Postretirement Plan by the fair value measurement valuation hierarchy, as described above:

	December 31, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Unallocated insurance contract	$ -	$ -	$ 2,086	$ 2,086
Money market funds	326	-	-	326
Common stocks	10,305	-	-	10,305
Other assets	10	-	-	10
Total assets at fair value	$ 10,641	$ -	$ 2,086	$ 12,727

	December 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Unallocated insurance contract	$ -	$ -	$ 2,466	$ 2,466
Money market funds	306	-	-	306
Common stocks	8,639	-	-	8,639
Mutual funds	223	-	-	223
Limited partnerships	64	-	-	64
Other assets	14	-	-	14
Total assets at fair value	$ 9,246	$ -	$ 2,466	$ 11,712

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POSTRETIREMENT BENEFIT PLANS, (continued)
Fair Value Measurements of Plan Assets, (continued)

The table below sets forth a summary of changes in the fair value of the Postretirement Plan's Level 3 assets related to unallocated insurance contracts for the year ended December 31:

	2012	*2011*
Balance at beginning of year	$ 2,466	$ 2,830
Actual return on plan assets	92	118
Settlements	(472)	(482)
Balance at end of year	$ 2,086	$ 2,466

The following table presents information about significant unobservable inputs used in Level 3 assets measured at fair value:

December 31, 2012					
Assets Accounted for at Fair Value on a Recurring Basis	*Fair Value*	*Predominant Valuation Method*	*Significant Unobservable Input*	*Range of Values - Unobservable Inputs*	*Impact of Increase in Input on Fair Value* [1]
Unallocated Insurance Contract	$ 2,086	Discounted cash flows	New deposit rate	3.00 %	Increase
			Benefit withdrawal rate	9.00 %	Decrease

[1] Conversely, the impact of a change in input would have the opposite impact to the fair value as that presented in the table above.

The actual allocation ratio at December 31 was:

	2012	*2011*
Equities - affiliated	0.0 %	0.6 %
Equities - unaffiliated	81.0	75.0
Fixed income - affiliated	16.4	21.7
Cash equivalents	2.6	2.7

The target allocation will be maintained on a continuous basis with an allowable range of 95% to 100% in equities, limited partnerships, an unallocated insurance contract, and 0% to 5% in cash.

The Sponsors expect to contribute $1,300 to the Postretirement Plan in 2013.

Estimated Future Benefit Payments
The expected benefit payments and the gross amount of anticipated subsidy receipts are noted below for the Postretirement Plan:

Year	*Before Medicare Part D Subsidies*	*Expected Medicare Part D Subsidies*	*Net Payments*
2013	$ 2,736	$ 454	$ 2,282
2014	2,646	472	2,174
2015	2,587	483	2,104
2016	2,503	495	2,008
2017	2,441	503	1,938
2018 - 2022	11,068	2,510	8,558

9. EMPLOYEE AND AGENT BENEFIT PLANS, (continued)

POSTRETIREMENT BENEFIT PLANS, (continued)

Assumptions

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

	2012	*2011*	*2010*
Discount rate for benefit obligation	3.90 %	4.90 %	5.42 %
Discount rate for net periodic postretirement benefit cost	4.90 %	5.42 %	6.00 %
Rate of compensation increase	NA	NA	NA
Expected long term rate of return on assets for benefit obligation	7.57 %	7.57 %	7.91 %
Expected long term rate of return on assets for net periodic postretirement benefit cost	7.57 %	7.91 %	7.89 %

Assumed Health Care Trend rates at December 31

	2012	*2011*	*2010*
Health care cost trend rate assumed for next year	7.40 %	8.00 %	7.80 %
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.00 %	5.00 %	5.00 %
Year that rate reaches the ultimate trend rate	2017	2017	2015

10. REGULATORY MATTERS

Combined net income (loss) of the Company's insurance subsidiaries, as determined in accordance with statutory accounting practices prescribed by the National Association of Insurance Commissioners' ("NAIC") or permitted by the Insurance Departments of the states of Arkansas (2012 and 2011 only), Nebraska, New York, and the District of Columbia, as applicable, was $104,519 for 2012, $97,609 for 2011 and $95,739 for 2010 and combined statutory capital and surplus was $1,298,417, $1,346,409 and $1,330,877 at December 31, 2012, 2011 and 2010, 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 ("RBC") requirements. All state insurance regulators have adopted RBC requirements developed by the NAIC. Under those requirements, the amount of capital and surplus maintained by a life and health company is to be determined based on various risk factors related to it. At December 31, 2012, the Company's insurance subsidiaries exceed the minimum RBC requirements.

Acacia is subject to regulation by the Department of Insurance and Securities Regulation of the District of Columbia (DISB), which restricts the advancement of funds to parent and affiliated companies as well as the amount of dividends that may be paid without prior approval. Dividend payments by Acacia, when aggregated with all other dividends in the preceding 12 months, cannot exceed the lesser of 10% of surplus as of the preceding year-end or the statutory net gain from operations for the previous calendar year, without prior approval from the DISB. Based on this limitation, Acacia would be able to pay $30,556 in dividends in 2013 without prior approval. Acacia paid $10,000 in cash dividends to Ameritas in both 2012 and 2011. Preferred stock dividends were paid to Ameritas of $444, $611 and $777 during the years ended December 31, 2012, 2011 and 2010, respectively.

Ameritas is subject to regulation by the Insurance Department of the State of Nebraska (DOI-NE), which restricts the advancement of funds to parent and affiliated companies as well as the amount of dividends that may be paid without prior approval. Dividend payments by Ameritas, when aggregated with all other dividends in the preceding 12 months, cannot exceed the greater of 10% of surplus as of the preceding year-end or the statutory net gain from operations for the previous calendar year, without prior approval from the DOI-NE. Based on this limitation, Ameritas would be able to pay $129,592 in dividends in 2013 without prior approval. Ameritas paid cash dividends of $50,000, $20,000 and $0 to AHC in 2012, 2011 and 2010, respectively.

10. REGULATORY MATTERS, (continued)

Union Central is subject to regulation by the DOI-NE, which restricts the advancement of funds to parent and affiliated companies as well as the amount of dividends that may be paid without prior approval. Dividend payments by Union Central, when aggregated with all other dividends in the preceding 12 months, cannot exceed the greater of 10% of surplus as of the preceding year-end or the statutory net gain from operations for the previous calendar year, without prior approval from the DOI-NE. Based on the DOI-NE limitation, Union Central would be able to pay $67,389 in dividends in 2013 without prior approval. No dividends to parent or affiliated companies were paid in 2012, 2011 and 2010.

Ameritas-NY is subject to regulation by the Insurance Department of the State of New York (DOI-NY), which restricts the advancement of funds to parent and affiliated companies as well as the amount of dividends that may be paid without prior approval. Dividend payments by Ameritas-NY cannot exceed the lesser of 10% of surplus as of the preceding year-end or the statutory net gain from operations for the previous calendar year, without prior approval from the DOI-NY. Based on this limitation, Ameritas-NY would not be able to pay any dividends in 2013 without prior approval. No dividends to parent or affiliated companies were paid in 2012, 2011 and 2010.

BNL Assurance is subject to regulation by the Insurance Department of the State of Arkansas (DOI-AR), which restricts the advancement of funds to parent and affiliated companies as well as the amount of dividends that may be paid without prior approval. Dividend payments by BNL Assurance cannot exceed the greater of 10% of surplus as of the preceding year-end or the statutory net gain from operations for the previous calendar year, without prior approval from the DOI-AR. Based on this limitation, BNL Assurance would be able to pay $2,344 in dividends in 2013 without prior approval. No dividends to parent or affiliated companies were paid in 2012.

11. REINSURANCE

In the ordinary course of business, the Company assumes and cedes reinsurance with other insurers and reinsurers. These arrangements provide greater diversification of business and limit the maximum net loss potential on large or hazardous risks. During 2009, the Company entered into a monthly renewable term reinsurance contract with an unaffiliated insurer to reinsure specific blocks of life insurance policies. The agreement was recaptured in 2012. The transaction did not qualify as a transfer of insurance risk and as such a deposit liability of $0 and $15,775 at December 31, 2012 and 2011, respectively, is included in other liabilities on the consolidated balance sheets.

Reinsurance ceded contracts do not relieve the Company from its obligations to policyowners. The Company remains liable to its policyowners for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances would be established for amounts deemed or estimated to be uncollectible.

To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers. No losses are anticipated, and, based on management's evaluation; there are no concentrations of credit risk at December 31, 2012 and 2011.

Reinsurance premium transactions with other insurance companies are summarized as follows:

	Years Ended December 31		
Premiums:	*2012*	*2011*	*2010*
Assumed	$ 77,307	$ 63,216	$ 62,856
Ceded	(173,786)	(158,516)	(167,849)
Reinsurance, net	$ (96,479)	$ (95,300)	$ (104,993)

12. LIABILITIES FOR UNPAID CLAIMS AND CLAIMS ADJUSTMENT EXPENSES

The following table provides an analysis of the activity in the liability for unpaid accident and health claims and claim adjustment expenses, which are reported within policy and contract liabilities in the consolidated balance sheets:

	Years Ended December 31		
	2012	*2011*	*2010*
Balance at January 1	$ 322,600	$ 310,078	$ 306,391
Less reinsurance assumed reserves	(51,406)	(53,805)	(58,318)
Net direct balance at January 1	271,194	256,273	248,073
Incurred related to:			
Current year	493,525	453,415	451,878
Prior year	(7,534)	663	(402)
Total incurred	485,991	454,078	451,476
Paid related to:			
Current year	414,405	386,258	385,721
Prior year	61,818	54,218	57,555
Total paid	476,223	440,476	443,276
Acquisition of subsidiary	-	1,319	-
Net direct balance at December 31	280,962	269,875	256,273
Plus reinsurance assumed reserves	51,602	51,406	53,805
Total reserve for unpaid claims	$ 332,564	$ 322,600	$ 310,078

As a result of settlements of prior years' estimated claims, the provision for claims and claim adjustment expenses (increased)/decreased by $7,534, $(663) and $402 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company paid assumed reinsurance claims of $72,590, $63,086 and $66,572, and incurred assumed reinsurance claims of $73,486, $61,562 and $61,842 for the years ended December 31, 2012, 2011 and 2010, respectively.

The Company paid ceded reinsurance claims of $13,518, $11,931 and $11,465, and incurred ceded reinsurance claims of $13,518, $17,170 and $14,524 for the years ended December 31, 2012, 2011 and 2010, respectively.

Paid and unpaid claims of $3,965 and $3,949 on ceded reinsurance are reported in reinsurance receivables in the consolidated balance sheets as of December 31, 2012 and 2011, respectively.

13. LIABILITIES FOR CONTRACT GUARANTEES

The Company offers various guarantees to variable annuity policyowners including a return of no less than (1) the account value; (2) the sum of all premium payments less prior withdrawals and, in some cases, minus a partial withdrawal adjustment; (3) the sum of all premium payments less prior withdrawals plus a minimum return minus a partial withdrawal adjustment; (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; or (5) the highest account value on a specified anniversary date minus any withdrawals following the anniversary and minus a partial withdrawal adjustment, and (6) a specified percentage of gains within the contract, or a percentage of gains plus a percentage of transferred premiums, in addition to other guarantees previously described. These guarantees include benefits that are payable in the event of death or as guaranteed periodic withdrawals. The Company currently reinsures some of those guaranteed minimum death benefits (GMDB) greater than the sum of all premium payments less prior withdrawals.

13. LIABILITIES FOR CONTRACT GUARANTEES, (continued)

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

	Years Ended December 31		
	2012	*2011*	*2010*
Beginning balance, gross	$ 2,011	$ 2,104	$ 3,066
Less reinsurance receivables	(246)	(692)	(1,087)
Beginning balance, net	1,765	1,412	1,979
Incurred guarantee benefits	1,044	1,482	948
Paid guarantee benefits	(929)	(1,129)	(1,515)
Ending balance, net	1,880	1,765	1,412
Plus reinsurance receivables	170	246	692
Ending balance, gross	2,050	2,011	2,104

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 and is recorded in policy and contract liabilities in the consolidated balance sheets. 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:

- 100 representative separate account scenarios selected from the American Academy of Actuaries' RBC C3 Phase II scenarios.
- Mortality was assumed to be 65% of the 75-80 Basic Ultimate Only table.
- Lapse rates varied by contract type and duration and range from :

	Years Ended December 31		
	2012	*2011*	*2010*
Low	5.85%	5.50%	5.50%
High	30%	30%	30%

The withdrawal benefits are provided through activated guaranteed lifetime withdrawal benefit (GLWB) riders. Prior to the start of the periodic withdrawals, various minimum return guarantees are tracked. At the start of the periodic withdrawals, a benefit base is determined such that it is the greatest of the tracked minimum return guarantees. The guaranteed periodic withdrawal amount is a percentage of the benefit base at the time periodic withdrawals begin. Once periodic withdrawals begin, the benefit base is increased by premium payments; the benefit base can be reset on an annual basis to the anniversary account value, if it is greater, and will be reduced for any withdrawals in excess of the guaranteed periodic withdrawal, but the percentage applied to the base benefit will not change.

Guarantees related to the variable annuity withdrawal benefits are considered to be derivative financial instruments; therefore, the liability for these benefits is established based on its fair value. The liability for these benefits was $46,909 and $57,025 at December 31, 2012 and 2011, respectively. No guaranteed withdrawal payments were made in 2012 and 2011 with an account balance less than the payment amount.

13. LIABILITIES FOR CONTRACT GUARANTEES, (continued)

The table below presents information regarding the Company's variable annuity contracts with guarantees by type of death benefit. 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. The net amount at risk is defined at the balance sheet date as guarantees of amounts in the event of death as the current GMDB in excess of account value.

	December 31	
Type of Death Benefit:	*2012*	*2011*
Return of Net Deposits		
Account value	$ 2,470,641	$ 2,213,464
Net amount at risk	28,717	57,796
Average attained age of policyowners	64	64
Return of Net Deposits Plus a Minimum Return		
Account value	$ 79,856	$ 70,670
Net amount at risk	4,602	5,641
Average attained age of policyowners	63	62
Highest Specified Anniversary Account Value Minus Withdrawals Post Anniversary		
Account value	$ 447,565	$ 441,940
Net amount at risk	4,316	11,035
Average attained age of policyowners	63	62
Percentage of Gains Within the Contract, or Percentage of Gains Plus Percentage of Transferred Premiums		
Account value	$ 15,411	$ 14,615
Net amount at risk	1,630	1,054
Average attained age of policyowners	69	69

Variable and non-variable universal life-type contracts were 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. If benefits arise from these secondary guarantees, they do so in the latter durations of a contract's lifetime.

The liability for universal life-type contracts with secondary guarantees is established equal to a benefit ratio multiplied by the cumulative contract charges earned, plus accrued interest less the secondary guarantee benefit payments. The benefit ratio is calculated as the estimated present value of all expected secondary guarantee benefit payments divided by the present value of all expected contract charges. The secondary guarantee benefit payments are defined as death benefits paid on policies with an account value of zero that were still in force due to the presence of the secondary guarantee. At December 31, 2012 and 2011 the Company's reserve for these guarantees were $25,114 and $21,538, respectively and are recorded in policy and contract liabilities in the consolidated balance sheets.

14. COMMITMENTS AND CONTINGENCIES

LEASES

The Company leases office space and equipment under operating leases that expire at various dates through 2020. Rent expense was $10,984 for 2012, $11,269 for 2011 and $8,718 for 2010. Future minimum payments under noncancellable operating leases consist of the following:

	December 31, 2012
2013	$ 9,137
2014	6,905
2015	6,700
2016	5,882
2017	5,742
Thereafter	17,084
	$ 51,450

The Company guarantees leases for the benefit of certain branch office agents. The guarantees vary in length of time per the terms of each lease contract. An evaluation is periodically made by the Company as to the status of each guarantee to determine the probability of nonperformance under the lease agreements, which would trigger the guarantee. The total maximum exposure to the Company under these guarantees are $396 and $825 at December 31, 2012 and 2011, respectively. The Company estimates that the probability of loss under these guarantees is remote.

LINE OF CREDIT

At December 31, 2012, Ameritas had an unsecured line of credit available in the amount of $15,000. No balance was outstanding at any time during 2012 and 2011.

OFF BALANCE SHEET INSTRUMENTS

Commitments on financial instruments were as follows:

	December 31	
	2012	*2011*
Securities commitments	$ 49,522	$ 35,548
Loan and real estate commitments	49,530	51,972
Unfunded commitments under lines of credit	-	13,953

These commitments have been made in the normal course of business. The Company's exposure to credit loss is represented by the contractual 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.

14. COMMITMENTS AND CONTINGENCIES, (continued)

OTHER

In 2000, Union Central commenced the development of a 123-acre business park (the Park), which included the installation of infrastructure and a roadway. To fund the cost of the infrastructure and roadway, the municipality in which the Park is located issued $2,800 of municipal bonds. The municipal bonds will be paid off through tax increment financing (TIF). TIF is an economic development tool that allows a local government to use increases in real property tax revenues to finance public infrastructure improvements. Thus, the development of the Park will result in increased real property tax revenues, which will be directed to pay off the municipal bonds. If increases in real property tax revenues from the Park are not sufficient to service the municipal bonds, the Company must fund any shortage. Based upon current projections, the Company anticipates the increased property tax revenues will be sufficient to fully service the municipal bonds. The maximum estimated potential exposure to the Company is $1,690 as of December 31, 2012.

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 $5,038 and $5,119 and recorded the related asset for premium tax offsets in other assets of $2,313 and $2,375 as of December 31, 2012 and 2011, respectively.

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 condition or results of its operations.

15. FAIR VALUE MEASUREMENTS

Fair value measurement guidance requires that financial and nonfinancial assets and liabilities carried at fair value in the financial statements be included in a fair value hierarchy for disclosure purposes. The guidance defines fair value as “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”.

In determining fair value of financial assets and liabilities, the Company utilizes market data, evaluated pricing models, cash flow, and loan performance data as available. The degree of judgment used in measuring fair value of financial instruments generally correlates with the level of pricing observability. That is, financial instruments with quoted prices in active markets have more pricing observability and therefore less judgment is used in measuring fair value. Conversely, financial instruments traded in other than active markets or that do not have quoted prices have less observability and are measured at fair value using the valuation models or other pricing techniques that require more judgment. The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable techniques.

15. FAIR VALUE MEASUREMENTS, (continued)

A fair value working group (the "Working Group") comprised of investment, operations and accounting professionals (including the functional heads of Investments and Investment Accounting) collaborate on a monthly basis to perform ongoing analysis of both third party and internally developed prices. Prices from third party pricing services are validated through comparison to internal pricing information and economic indicators including observed interest rates, credit spreads and market events as well as back testing to trade data to confirm that the pricing service's significant inputs are observable. The reasonableness of prices are further reviewed on a monthly basis through reports that identify securities with changes in price or yield that fall outside of a stated tolerance. The tolerance levels are adjusted by type of security based on the volatility inherent in the asset class. Securities falling outside of the stated tolerances are then examined further to verify reasonableness. Broker quotes are non-binding, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered unobservable inputs. Under certain conditions, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company may choose to override third party pricing information or broker quotes received and apply internally developed values to the related assets or liabilities. Overrides of third party pricing information and the rationale for the overrides are shared with the Working Group for approval. Also, the Company will periodically request more granular information from the third party pricing service on asset classes judged to have more inherent subjectivity such as non-agency residential mortgage-backed securities. The Company will also challenge third party vendor prices for certain securities either when the vendor's prices differ from what level the Company believes is reflective of the market or if further granularity is needed.

In accordance with the guidance, the Company categorizes its financial instruments into a three level hierarchy based on the priority of the inputs to the valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used to measure fair value fall within different levels of the hierarchy, the category level disclosed is based on the lowest priority level input that is significant to the fair value measurement of the instrument in its entirety. In summary, the hierarchy prioritizes inputs to valuation techniques into three levels:

- Level 1 – Quoted prices in active markets for identical assets/liabilities. The Company's Level 1 assets include: Money market funds, exchange traded call and put options, equity securities and retail and institutional mutual funds (including investments held in the separate accounts).

- Level 2 – Includes prices based on other observable inputs, including quoted prices for similar assets/liabilities. The Company's Level 2 assets include the following fixed maturity securities: U.S. Treasury securities and obligations of U.S. government agencies (other than residential and commercial mortgage-backed securities and asset-backed securities), fixed maturity securities issued by states and political subdivisions of the U.S., foreign government securities, U.S. agency residential and commercial mortgage-backed and asset-backed securities and virtually all of the U.S. and foreign public corporate securities. Level 2 assets also include commercial paper and call options.

- Level 3 – Includes unobservable inputs and may include the entities own assumptions about market participant assumptions. The Company's Level 3 assets include: Debt securities issued by states of the United States and political subdivisions of the states, non-agency residential and commercial mortgage-backed and asset-backed fixed maturity securities, private U.S. and foreign corporate fixed maturity and private equity securities, certain public U.S. and foreign corporate fixed maturity securities, collateralized debt obligations and liabilities for products with embedded derivatives.

15. FAIR VALUE MEASUREMENTS, (continued)

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis by the guidance hierarchy levels described above as of December 31, 2012:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial Assets:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$ -	$ 237,430	$ -	$ 237,430
Debt securities issued by states of the United States and political subdivisions of the states	-	18,712	20,055	38,767
Foreign government securities	-	2,624	-	2,624
U.S. corporate securities	-	3,966,515	319,362	4,285,877
Residential mortgage-backed securities	-	1,054,377	92,160	1,146,537
Commercial mortgage-backed securities	-	130,224	7,015	137,239
Asset-backed securities	-	145,095	93,212	238,307
Collateralized debt obligations	-	-	9,627	9,627
Foreign corporate securities	-	1,127,204	420,070	1,547,274
Fixed maturity securities trading:				
U.S. corporate securities	-	45,197	2,965	48,162
Foreign corporate securities	-	5,104	-	5,104
Equity securities:				
Available for sale	274,487	-	-	274,487
Trading	46,799	-	-	46,799
Other investments:				
Call and put options	2,655	11,154	-	13,809
Municipal warrants	-	-	767	767
Private equity securities	-	-	36,338	36,338
Cash equivalents	212,662	-	-	212,662
Subtotal excluding assets related to separate accounts	536,603	6,743,636	1,001,571	8,281,810
Assets related to separate accounts	5,796,152	-	-	5,796,152
Total assets accounted for at fair market value	$ 6,332,755	$ 6,743,636	$ 1,001,571	$ 14,077,962
Financial liabilities:				
Liabilities for products with embedded derivatives	$ -	$ -	$ (93,528)	$ (93,528)

15. FAIR VALUE MEASUREMENTS, (continued)

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis by the guidance hierarchy levels described above as of December 31, 2011:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial Assets:				
Fixed maturity securities available for sale:				
U.S. Treasury securities and obligations of U.S. government agencies	$ -	$ 312,435	$ -	$ 312,435
Debt securities issued by states of the United States and political subdivisions of the states	-	17,784	20,587	38,371
Foreign government securities	-	8,439	-	8,439
U.S. corporate securities	-	3,836,805	334,579	4,171,384
Residential mortgage-backed securities	-	1,082,208	149,151	1,231,359
Commercial mortgage-backed securities	-	137,401	9,526	146,927
Asset-backed securities	-	97,820	105,603	203,423
Collateralized debt obligations	-	-	8,078	8,078
Foreign corporate securities	-	1,057,341	332,387	1,389,728
Fixed maturity securities trading:				
U.S. corporate securities	-	46,183	2,904	49,087
Equity securities:				
Available for sale	255,519	-	-	255,519
Trading	40,566	-	-	40,566
Other investments:				
Index call options	-	8,362	-	8,362
Private equity securities	-	-	45,446	45,446
Cash equivalents	173,523	4,000	-	177,523
Subtotal excluding assets related to separate accounts	469,608	6,608,778	1,008,261	8,086,647
Assets related to separate accounts	5,257,732	-	-	5,257,732
Total assets accounted for at fair market value	$ 5,727,340	$ 6,608,778	$ 1,008,261	$ 13,344,379
Financial liabilities:				
Liabilities for products with embedded derivatives	$ -	$ -	$ (103,323)	$ (103,323)
Volatility call options	(680)	-	-	(680)

The market approach is utilized for the majority of the Company's fair value measurements; however, certain Level 2 and Level 3 measurements utilize a combination of the market and income approaches. The income approach is utilized for call options fair value measurements. The valuation techniques used to measure the fair values by type of investment and liabilities in the above table follow:

Fixed maturity securities:

- *U.S. Treasury securities and obligations of U.S. government agencies:* The primary inputs to valuation include reported trades, benchmark yields and credit spreads. The fair values of the agency securities are generally classified as Level 2 as the prices are based on observable market data.

15. FAIR VALUE MEASUREMENTS, (continued)

Fixed maturity securities, (continued):

- *U.S. Government Agency and non-agency commercial and residential mortgage-backed and asset-backed securities:* The primary inputs to valuation include reported trades, bids, benchmark yields, credit spreads, estimated cash flows, prepayment speeds and collateral performance. Collateral performance is analyzed for each security and includes delinquency rates, loss severity rates and prepayment speeds. U.S. government agency securities are classified as Level 2 as the prices are based on observable market data. Non-agency commercial and residential mortgage-backed and asset-backed securities are generally classified as Level 3 due to current market conditions and due to the unobservable assumptions used to price the securities.

- *All other fixed maturity securities:* The primary inputs to valuation include reported trades, bids, benchmark yields, observations of credit default swap curves and credit spreads. A pricing matrix is used to price non-public fixed maturity securities. Fixed maturity securities are generally classified as Level 2 as the fair values are based on observable market data. Fixed maturity securities with a fair value based only on uncorroborated dealer quotes or internal valuations are assigned to Level 3.

Equity securities and assets related to separate accounts:

- *Public equity securities and retail and institutional mutual funds:* Classified primarily as Level 1 as the fair values are based on quoted prices in active markets for identical securities for public equity securities and retail mutual funds, while fair values for institutional mutual funds represent net asset values received from fund managers who stand ready to transact at the quoted values.

Other investments:

- *Index call options:* The primary inputs to valuation include broker quotes that utilize inputs tailored to the remaining term of each call option. Over the counter index call options are classified as Level 2.

- *Private equity securities:* The primary inputs to valuation include comparisons to similar publicly traded securities and other widely accepted valuation techniques. Private equity securities are categorized as Level 3 as internal valuations are required to value the securities.

- *Municipal warrants:* Municipal warrants are categorized as Level 3 as internal valuations are used to value the Company's municipal warrants investments and significant inputs are unobservable.

- *Exchange traded call and put options:* Valuation is based on quoted net asset values in active markets for identical securities. Equity call options, volatility call options and equity put options are all classified as Level 1.

Cash equivalents:

Commercial paper: The primary inputs to valuation include reported trades, benchmark yields and credit spreads. The fair values of the commercial paper are generally classified as Level 2 as the prices are based on observable market data.

Money Market Funds: Valuation is based on quoted net asset values in active markets for identical securities. Money market funds are classified as Level 1.

Financial Liabilities:

Liabilities for products with embedded derivatives: The Company has three products with embedded derivatives: equity index annuity, equity index universal life, and variable annuity with a guaranteed lifetime withdrawal benefit rider. These liabilities are classified as Level 3 as observable market prices are not available and actuarial methods are used to estimate the fair values.

Volatility call options: Valuation is based on quoted net asset values in active markets for identical securities. Volatility call options are classified as Level 1.

15. FAIR VALUE MEASUREMENTS, (continued)

The following summarizes changes to our financial instruments for the years 2012 and 2011 carried at fair value for which the Company used significant unobservable inputs (Level 3) to determine fair value measurements:

	Fair Value Measurements Using Significant Unobservable Inputs - Level 3							
		Total gains or losses (realized/unrealized)						
	Fair value at Dec 31, 2011	*Included in net income (loss)*	*Included in other compre-hensive income (loss)*	*Purchases and issuances*	*Sales and settlements*	*Transfers into Level 3*	*Transfers out of Level 3*	*Fair value at Dec 31, 2012*
Fixed maturity securities available for sale:								
Debt securities issued by states of the United States and political subdivisions of the states	$ 20,587	$ (1)	$ 332	$ -	$ (979)	$ 116	$ -	$ 20,055
U.S. corporate securities	334,579	2,034	386	52,830	(23,619)	973	(47,821)	319,362
Residential mortgage-backed securities	149,151	(8,090)	3,208	-	(43,575)	-	(8,534)	92,160
Commercial mortgage-backed securities	9,526	40	(112)	-	(2,439)	-	-	7,015
Asset-backed securities	105,603	(952)	9,565	-	(21,072)	68	-	93,212
Collateralized debt obligations	8,078	125	1,424	-	-	-	-	9,627
Foreign corporate securities	332,387	112	6,602	123,000	(30,028)	2,997	(15,000)	420,070
Fixed maturity securities trading:								
U.S. corporate securities	2,904	61	-	-	-	-	-	2,965
Other investments:								
Municipal warrants	-	-	-	-	-	767	-	767
Private equity securities	45,446	-	(6,935)	-	(1,406)	-	(767)	36,338
Embedded derivatives	(103,323)	10,121	-	(4,052)	3,726	-	-	(93,528)
Total	$ 904,938	$ 3,450	$ 14,470	$ 171,778	$ (119,392)	$ 4,921	$ (72,122)	$ 908,043

Purchases and issuances in the above table reflect purchases except for issuances of ($4,052) of embedded derivatives. Sales and settlements in the above table reflect sales except for settlements of ($33,993) of fixed maturity securities available for sale and $3,726 of embedded derivatives.

15. FAIR VALUE MEASUREMENTS, (continued)

	Fair Value Measurements Using Significant Unobservable Inputs - Level 3							
		Total gains or losses (realized/unrealized)						
	Fair value at Dec 31, 2010	*Included in net income (loss)*	*Included in other compre-hensive income (loss)*	*Purchases and issuances*	*Sales and settlements*	*Transfers into Level 3*	*Transfers out of Level 3*	*Fair value at Dec 31, 2011*
Fixed maturity securities available for sale:								
Debt securities issued by states of the United States and political subdivisions of the states	$ 18,450	$ (34)	$ 1,895	$ -	$ (333)	$ 609	$ -	$ 20,587
U.S. corporate securities	277,926	1,011	11,085	69,069	(29,428)	13,989	(9,073)	334,579
Residential mortgage-backed securities	200,535	(10,890)	26,112	-	(69,189)	2,583	-	149,151
Commercial mortgage-backed securities	11,124	(73)	695	-	(2,220)	-	-	9,526
Asset-backed securities	116,052	(4,304)	8,662	984	(13,208)	-	(2,583)	105,603
Collateralized debt obligations	8,290	113	(325)	-	-	-	-	8,078
Foreign corporate securities	268,148	30	9,235	83,000	(23,025)	-	(5,001)	332,387
Fixed maturity securities trading:								
U.S. corporate securities	6,833	88	-	1,352	(3,569)	-	(1,800)	2,904
Other investments:								
Private equity securities	36,260	-	8,366	820	-	-	-	45,446
Embedded Derivatives	(53,742)	(34,947)	-	(18,145)	3,511	-	-	(103,323)
Total	$ 889,876	$ (49,006)	$ 65,725	$ 137,080	$ (137,461)	$ 17,181	$ (18,457)	$ 904,938

Issuances presented in the table above solely relate to the amount presented for embedded derivatives of ($18,145). Additionally, sales presented in the table above solely relate to fixed maturity securities trading of ($1,722) with any remaining amounts presented as settlements.

In the tables above for fixed maturity securities and other investments, $2,220 and $111 was included in net investment income and $(8,891) and ($14,170) was included in net realized capital gains (losses) on the consolidated statements of operations in 2012 and 2011, respectively. For embedded derivatives, $10,121 and ($34,947) was included in change in policy and contract liabilities on the consolidated statements of operations in 2012 and 2011, respectively. The amount of total gains (losses) in 2012 and 2011 included in earnings attributable to the change in unrealized gains or losses relating to assets still held at December 31, 2012 and 2011 was $9,037 and $91 for fixed maturities and $8,976 and ($35,753) for embedded derivatives, respectively.

Transfers into and out of Level 3 typically occur due to changes in the valuation source and the availability of observable market inputs. Transfers into Level 3 in 2012 and 2011 included situations where a fair value quote based on observable market inputs was not available and the price was replaced with a broker quote that could not be corroborated to observable market inputs. Transfers out of Level 3 in 2012 and 2011 included situations where a fair value quote based on observable market inputs was available and the price had been based in the prior period on a broker quote that could not be corroborated to observable market inputs.

15. FAIR VALUE MEASUREMENTS, (continued)

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value

The following table presents information about significant unobservable inputs used in Level 3 fair value measurements:

Assets accounted for at Fair Value on a recurring basis	*Fair Value*	*Predominant Valuation Method*	*Significant Unobservable Input*	*Range of Values - Unobservable Inputs (Weighted Average)* [1]	*Impact of Increase in Input on Fair Value* [2]
U.S. corporate securities [3]	$ 303,043	Discounted cash flows	Spread	152 bps - 395 bps (209 bps)	Decrease
	13,199	Broker quote	Price	54 - 140 (105)	Increase
	4,128	Vendor price	Price	71 - 100 (85)	Increase
	1,957	Discounted cash flows	Spread	160 bps - 180 bps (170 bps)	Decrease
Commercial mortgage-backed securities [4]	$ 3,035	Discounted cash flows	Spread (encompasses prepayment, default risk and loss severity)	77 bps - 500 bps (205 bps)	Decrease
	3,980	Broker quote	Price	100	Increase
Residential mortgage-backed securities [5]	$ 90,184	Discounted cash flows	Constant prepayment rate	0% - 40% (17%)	Decrease
			Constant default rate	0% - 9% (2%)	Decrease
			Loss severity	9% - 86% (32%)	Decrease
	1,113	Vendor price	Price	25 - 95 (69)	Increase
	863	Discounted cash flows	Spread	140 bps	Decrease
Asset-backed securities [6]	$ 83,472	Discounted cash flows	Constant prepayment rate	0% - 20% (5%)	Decrease
			Constant default rate	1% - 10% (5%)	Decrease
			Loss severity	25% - 100% (73%)	Decrease
	4,704	Broker quote	Price	97	Increase
	1,915	Vendor price	Price	101 - 107 (104)	Increase
	3,121	Discounted cash flows	Spread	0 bps - 152 bps (76 bps)	Decrease
Collateralized debt obligation securities [7]	$ 9,627	Broker quote	Price	94 - 99 (96)	Increase
Foreign corporate securities [8]	$ 418,058	Discounted cash flows	Spread	165 bps - 380 bps (206 bps)	Decrease
	2,012	Broker quote	Price	58	Increase
Debt securities issued by states of the U.S. or political subdivisions of the states [9]	$ 5,000	Discounted cash flows	Spread	168 bps - 230 bps (189 bps)	Decrease
	15,055	Broker quote	Price	114 - 116 (115)	Increase
Municipal warrants	$ 767	Discounted cash flows	CCC + bond rating	8% - 13% (10%)	Decrease
Private equity securities	$ 36,338	Discounted cash flows	Times revenue multiple	3.25	Increase
			Marketability discount	30%	Decrease
VA GLWB Embedded Derivatives	$ 46,909	Stochastic Cash Flow Model	Mortality	80% of US Annuity Basic Table (2000)	Decrease
			Base Surrenders	2.1% - 25.5%	Decrease
			Delay Prior to Withdrawals	0 - 10 years	Increase
			Volatility	1.0% - 29.2%	Increase
			Nonperformance Risk Spread	0.39% - 1.07%	Decrease
Equity Indexed Products	$ 46,619	Actuarial Cash Flow	Projected Option Cost	2.71% - 4.95%	Increase
			Base Withdrawals	4.34% - 17.00%	Decrease
			Mortality	65% of 1975-80 Basic Ultimate Table	Decrease
			Nonperformance Risk Spread	0.39% - 1.07%	Decrease

15. FAIR VALUE MEASUREMENTS, (continued)

Significant Unobservable Inputs for Level 3 Assets Measured at Fair Value, (continued)

[1]The weighted average is determined based on the fair value of the securities.
[2]Conversely, the impact of a change in input would have the opposite impact to the fair value as that presented in the table above.
[3]Includes $275,421 of privately placed securities and $311,184 of investment grade securities based on NAIC rating.
[4]Includes $3,035 of investment grade securities based on NAIC rating.
[5]Primarily mezzanine tranches of non-agency residential mortgage-backed securities and includes $65,969 of investment grade securities based on NAIC rating.
[6]Primarily collateralized by home equity and manufactured housing and includes $90,619 of investment grade securities based on NAIC rating.
[7]Includes $9,627 of investment grade securities based on NAIC rating.
[8]Includes $412,822 of privately placed securities and $412,629 of investment grade securities based on NAIC rating.
[9]Includes $19,939 of investment grade securities based on NAIC rating.

Nonrecurring Fair Value Measurements

The Company may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets, primarily impaired assets for the Company.

	December 31, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets:				
Mortgage loans on real estate	$ -	$ -	$ 16,756	$ 16,756
Real estate	-	-	7,146	7,146
Venture capital limited partnerships	-	-	417	417
Total	$ -	$ -	$ 24,319	$ 24,319

	December 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets:				
Mortgage loans on real estate	$ -	$ -	$ 45,426	$ 45,426
Real estate	-	-	8,671	8,671
Venture capital limited partnerships	-	-	547	547
Total	$ -	$ -	$ 54,644	$ 54,644

The valuation techniques used to measure the fair values by type of investment in the above table follow:

Mortgage loans on real estate:

- The Company considers a loan impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the note agreement, including principal and interest. Management has determined that loan relationships that have nonaccrual status or have had their terms restructured meet this impaired loan definition, with the amount of impairment based upon the loan's observable market price, the estimated fair value of the collateral for collateral-dependent loans, or alternatively, the present value of the expected future cash flows discounted at the loan's effective interest rate. Per the guidance, the use of observable market price or estimated fair value of collateral on collateral-dependent loans is considered a fair value measurement subject to the fair value hierarchy and provisions of the guidance. Appraised values, adjusted for management's assumptions, are generally used on real estate collateral-dependent impaired loans, which the Company classifies as a Level 3 nonrecurring fair value measurement. For mortgage loans held for sale, the fair value is determined in aggregate based on the current offerings of the secondary market for portfolios with similar characteristics, and are classified as a Level 2 nonrecurring fair value measurement.

15. FAIR VALUE MEASUREMENTS, (continued)

Nonrecurring Fair Value Measurements, (continued)

Real estate:

- The fair value is based on appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination and as such are classified as a Level 3 nonrecurring fair value measurement.

Venture capital limited partnerships:

- The Company measures based on management's assumptions as to the expected realizable proceeds, and as such are classified as a Level 3 nonrecurring fair value measurement.

The Company may also be required to measure certain other nonfinancial assets at fair value on a nonrecurring basis. These fair value measurements are typically related to intangible assets acquired in a business acquisition or goodwill which has been impaired to fair value.

There were no nonfinancial assets at fair value on a nonrecurring basis at December 31, 2012.

	December 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Nonfinancial assets:				
Intangible assets	$ -	$ -	$ 12,054	$ 12,054
Total	$ -	$ -	$ 12,054	$ 12,054

The valuation techniques used to measure the fair values by type of investment in the above table follow:

Intangible assets:

- The fair value is based on the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination and as such is classified as a Level 3 nonrecurring fair value measurement.

Discontinued Operations – Held for Sale Fair Value Measurements

As discussed in Note 2, AFSB was classified as held for sale in the consolidated balance sheets at December 31, 2012 as a result of the Company's anticipated sale of AFSB in early 2013 to Customers Bancorp, Inc.

The following table summarizes financial assets of AFSB measured at fair value on a recurring basis by the guidance hierarchy levels described previously as of December 31, 2012:

	Level 1	*Level 2*	*Level 3*	*Total*
Financial assets:				
U.S. corporate securities	$ -	$ 5,274	$ -	$ 5,274
Residential mortgage-backed securities	-	23,606	5,703	29,309
Total	$ -	$ 28,880	$ 5,703	$ 34,583

The following table summarizes assets of AFSB measured at fair value on a non-recurring basis as of December 31, 2012:

	Level 1	*Level 2*	*Level 3*	*Total*
Assets:				
Mortgage loans on real estate, net	$ -	$ 2,080	$ 3,123	$ 5,203
Real estate	-	-	686	686
Disposal group	-	-	21,496	21,496
Total	$ -	$ 2,080	$ 25,305	$ 27,385

15. FAIR VALUE MEASUREMENTS, (continued)

Nonrecurring Fair Value Measurements, (continued)

Mortgage loans on real estate:

- The Company considers a loan impaired when it is probable that it will be unable to collect all amounts due according to the contractual terms of the note agreement, including principal and interest. Management has determined that loan relationships that have nonaccrual status or have had their terms restructured meet this impaired loan definition, with the amount of impairment based upon the loan's observable market price, the estimated fair value of the collateral for collateral-dependent loans, or alternatively, the present value of the expected future cash flows discounted at the loan's effective interest rate. Per the guidance, the use of observable market price or estimated fair value of collateral on collateral-dependent loans is considered a fair value measurement subject to the fair value hierarchy and provisions of the guidance. Appraised values, adjusted for management's assumptions, are generally used on real estate collateral-dependent impaired loans, which the Company classifies as a Level 3 nonrecurring fair value measurement. For mortgage loans held for sale, the fair value is determined in aggregate based on the current offerings of the secondary market for portfolios with similar characteristics, and are classified as a Level 2 nonrecurring fair value measurement.

Real estate:

- The fair value is based on appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination and as such are classified as a Level 3 nonrecurring fair value measurement.

Disposal Group

- The total fair value of AFSB is $61,968 and includes the fair value of fixed maturity securities of $34,583 as presented in the disclosure table above for recurring fair value measurements and fair value on mortgage loans on real estate of $5,203 and on real estate of $686 as presented in the disclosure table above for non-recurring fair value measurements. The fair value was determined based on the estimated fair value of proceeds as a result of the anticipated sale of AFSB. The remaining fair value of AFSB is $21,496 excluding accrued selling costs of $5,648 and federal income tax benefits of $26,479. Further details of the impacts of classifying AFSB as held for sale are included in Note 2 – Discontinued Operations.

16. 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, 2012 and 2011. 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.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS, (continued)

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 – Fair value is determined as described in Note 15 on available for sale and trading securities. For held to maturity securities which are publicly traded securities, fair value is determined utilizing methodologies consistent with those described in Note 15 for fixed maturity securities. For held to maturity 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 as described in Note 15.

Mortgage loans on real estate, net – Fair value is determined as described in Note 15.

Loans on insurance policies – The fair values for loans on insurance policies are estimated using discounted cash flow analysis at interest rates currently offered for similar loans. Loans on insurance policies with similar characteristics are aggregated for purposes of the calculations.

Other investments – Fair value for venture capital limited partnerships is based on the underlying net asset value of the partnerships, adjusted for significant market events if the net asset value was not calculated as of December 31, 2012 and 2011. The fair value for private equity securities is determined based on internal valuations. Venture capital partnerships and real estate partnerships that are carried on the equity method are excluded from the fair value disclosure.

Cash and cash equivalents, restricted cash and accrued investment income - The carrying amounts approximate fair value due to the short maturity of these instruments.

Accumulated contract values – Only contracts defined as investment contracts where there is no risk arising from policyowner mortality or morbidity are included in the fair value disclosure. 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.

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.

Surplus notes payable - Fair value for the Company's surplus notes liability was estimated using a discounted cash flow calculation based on current interest rates consistent with the maturity of the surplus notes.

16. FAIR VALUE OF FINANCIAL INSTRUMENTS, (continued)

Separate account assets and liabilities - Fair value is determined as described in Note 15. 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 fair value.

Assets or liabilities where carrying amount equals fair value are previously disclosed in Note 15 beginning in 2012 as elected by the Company with new fair value measurement accounting adoption. Estimated fair values of assets or liabilities where carrying amount does not equal fair value are as follows:

	December 31, 2012	
	Carrying Amount	*Fair Value*
Financial assets:		
Fixed maturity securities held to maturity	$ 83,012	$ 90,540
Mortgage loans on real estate, net	1,480,256	1,563,419
Loans on insurance policies	328,800	378,747
Restricted cash	3,809	3,809
Other investments	58,819	69,209
Cash	85,189	85,189
Accrued investment income	93,757	93,757
Financial liabilities:		
Accumulated contract values	451,772	454,029
Borrowings	28,314	28,314
Surplus notes payable	49,880	63,492
Liabilities related to separate accounts	5,796,152	5,796,152

16. FAIR VALUE OF FINANCIAL INSTRUMENTS, (continued)

Estimated fair values are as follows:

	December 31, 2011	
	Carrying Amount	*Fair Value*
Financial assets:		
Fixed maturity securities:		
Held to maturity	$ 106,210	$ 116,729
Available for sale	7,510,144	7,510,144
Trading	49,087	49,087
Equity securities:		
Available for sale	255,519	255,519
Trading	40,566	40,566
Mortgage loans on real estate, net	1,987,846	2,076,083
Loans on insurance policies	326,729	352,380
Restricted cash	34,879	34,879
Other investments	83,542	97,676
Cash and cash equivalents	270,842	270,842
Accrued investment income	99,465	99,465
Assets related to separate accounts	5,257,959	5,257,959
Financial liabilities:		
Accumulated contract values	447,431	449,439
Savings deposits	654,751	667,942
Borrowings	208,480	218,816
Surplus notes payable	49,871	59,917
Liabilities related to separate accounts	5,257,959	5,257,959

17. SURPLUS NOTES

On November 1, 1996, Union Central issued $50,000 of 8.20% Surplus Notes (Notes). The Notes mature on November 1, 2026 and may not be redeemed prior to maturity. The Notes are unsecured and subordinated to all present and future policy claims, prior claims and senior indebtedness. Subject to prior written approval of the Commissioner of the DOI-NE, these Notes pay interest semi-annually on May 1 and November 1. Interest expense of $4,100 was incurred in 2012, 2011 and 2010, and was recorded in interest expense in the consolidated statements of operations. In connection with issuing the Notes, Union Central incurred and capitalized $765 of issuance cost. This cost is recorded in other assets in the consolidated balance sheets, and totaled $358 and $384 as of December 31, 2012 and 2011, respectively. Issuance cost of $26, $25 and $26 was amortized in 2012, 2011 and 2010, respectively, and recorded to sales and operating expenses in the consolidated statements of operations. Additionally, the Notes have an original issue discount of $260, which is deducted from the balance of the Notes. Issuance costs and original issue discount will be amortized under the straight-line method over the term of the Notes. Amortization relating to original issue discount of $9, $9 and $8 was recorded in 2012, 2011 and 2010, respectively, in sales and operating expenses in the consolidated statements of operations. Unamortized original issue discount of $120 and $129 was deducted from the balance of the Notes as of December 31, 2012 and 2011, respectively.