SECURIAN FINANCIAL GROUP

2010 ANNUAL REPORT

ADVANTAGE SECURIAN

VALUES AT WORK

TRUST

COMMUN

INTEGRITY

RESPECT

UALITY

STRENGTH

Financial security *for the long run®*

About the Company

Securian Financial Group, Inc. is the holding company parent of a group of companies that provide a broad range of financial services, including Minnesota Life Insurance Company, Advantus Capital Management, Allied Solutions, Capital Financial Group, Inc./H. Beck, Inc., Cherokee National Life Insurance Company, Insurance America, Personal Finance Company, Securian Financial Services, Inc., Securian Casualty Company, Securian Life Insurance Company and Securian Trust Company.

With nearly $682 billion of life insurance in force, Securian Financial Group, Inc. serves over nine million people through a combined force of over 5,000 associates and representatives located in our national headquarters at St. Paul, Minnesota, and in sales offices throughout America.

Our Ratings

Securian Financial Group, Inc. is part of an insurance holding company group that is highly rated by the major independent rating agencies that analyze the financial strength and claims-paying ability of insurance companies. Our ratings are:

A+ from A.M. Best
AA- from Fitch
AA- from Standard & Poor's
Aa3 from Moody's Investors Service

Comdex ranking: 95

For information about the rating agencies and our rankings, go to securian.com/ratings

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THE STRENGTH OF OUR VALUES

Securian's ongoing success springs from the values established at our founding — the values we have nurtured and adhered to since 1880. From these core values, we have created a culture characterized by relationships of trust with our clients and each other.

Cover photo: These Securian associates wear our values proudly and put them to work each and every day. You'll also find them pictured in the business features throughout this report.

Trust

We serve the long-term interests of our clients, providing them with financial security and lasting value. We will be here when they need us.

Strength

We maintain financial integrity and strength. To provide security for others, we must be strong.

Integrity

We keep our promises. In all our activities, we adhere to the highest standards of ethical conduct.

Quality

We fulfill clients' needs responsively and efficiently with products of lasting value and superior service.

Respect

We treat people with dignity, and we value diversity. Together we are better.

Community

We serve our community responsibly through philanthropy and volunteerism. We're good neighbors.

In 2010, a year characterized by a sluggish economy and persistently high unemployment, Securian Financial Group's strong growth demonstrated the resiliency and diversification of our business model. Reflecting the strength of our values, our performance underscored the value of our strength to our constituencies in a challenging and uncertain environment.

Our businesses grew, gaining market share, and we increased our financial strength. Net income rose 55 percent and stockholder's equity grew 14 percent. We participated appropriately in the economic recovery, and our results reflect the strength of our balance sheet and our ability to meet the challenges of a sustained low interest rate environment. Our enterprise risk management practices also had a positive impact on our 2010 results, helping us maintain our position among the most highly rated companies in the life insurance industry.

Overall, 2010 was a challenging year but one that validated our investment practices, financial management principles and market conduct decisions.

As a result of strong sales and outstanding persistency, product revenue was $2.4 billion. Total sales increased 19 percent to $5.9 billion, and proprietary insurance sales increased 32 percent to $2.8 billion. Insurance in force increased 12 percent to nearly $682 billion and assets under management, including the funds we safeguard for our clients, grew 14 percent to nearly $32 billion.

Our strong balance sheet enabled us to continue attracting distribution and sales opportunities in 2010. We increased market share and did so while employing appropriate risk management decisions. For example, with the right strategy at the right time, we continued to expand our presence in the independent broker market, driving a 33 percent increase in individual life annual premium insurance sales. On the other hand, we avoided the pricing wars involving secondary guarantees. Thanks to sound risk management decisions, we experienced no significant financial surprises and gained market share from troubled companies.

In addition to our enterprise risk management, our financial results reflect our sound investment strategy. We built our balance sheet on a high level of capital, investment quality and liquidity. As a result, we continued to thrive in an uncertain environment. Our results also reflect our mutual governance with a strong focus on managing our businesses in the long-term interest of our customers.

Our capital strength positions us among the highly rated companies in the industry. Over time, our consistent focus on providing long-term value for our customers — adhering to basic investment fundamentals, taking appropriate risks and maintaining liquidity — has significantly increased our capital strength. We solidified that position in 2010 by reducing our exposure to equity assets and strengthening earnings.

Total stockholder's equity grew to $3 billion, primarily due to net income of $175 million and a $425 million increase in net unrealized investment gains to $595 million. The increase in earnings was attributed to improved investment results, revenue growth, excellent expense management and strong subsidiary earnings. Our investment quality remained excellent compared to industry benchmarks, and our capital and surplus-to-liabilities ratio will very likely remain number one in our peer group of competitors.

Securian Financial Group continued to thrive in 2010, despite an extremely challenging and uncertain environment. Our results demonstrate the resiliency of our balance sheet and our ability to drive long-term growth. By sticking to our fundamentals, focusing on our core businesses and expanding our presence in the markets we serve, we enjoyed a very good year.

Robert L. Senkler, chairman and chief executive officer, and **Randy F. Wallake,** president and vice chairman, Securian Financial Group, Inc.

Ultimately, our purpose is fulfilled through the benefits we provide. In 2010, we paid nearly $3.4 billion in statutory benefits. We sell a promise to pay, and our performance clearly demonstrates our ability to keep the promises we make.

In 2010, we maintained our high ratings for financial strength and claims-paying ability. Although the rating agencies continued to issue downgrades and negative watches, we improved our position among the most highly rated life insurance groups in the United States. Currently, we rank among the top 15 life insurance companies rated by all four independent rating agencies. Positioning us well in our peer group, our Comdex ranking increased from 94 to 95 during 2010 as several of our competitors' rankings dropped.

Protecting our reputation for integrity, we ensured that our ethical standards remained among the highest in the industry in all aspects of our business. Avoiding behaviors that result in negative consequences, Securian enjoys a competitive advantage. Our long-standing reputation for transparency and full disclosure enhanced opportunities for growth in 2010, helping us gain market share in our core markets.

Difficult economic times put compliance practices to the test, and our compliance record remains strong. In 2010, for the third year in a row, we paid no fines to any state insurance regulators, our litigation caseload remained at a historic low and we ended the year with no significant regulatory investigations or enforcement actions pending against any of our businesses.

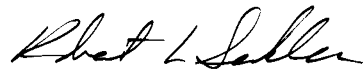
In terms of service, we are among the best of the best. By any measure of customer satisfaction, our service remained outstanding in 2010. Our customer retention was the highest in recent history, reflecting the quality of our service and the overall financial value we deliver. Client surveys and a low complaint level further underscored the Securian standard of service excellence.

We use technology to differentiate us from our competitors, providing industry-leading service, customized products, secure transactions — and solutions for clients to streamline their own business practices. We continued to invest in technology in 2010, so clients and distribution channels value doing business with us. In addition to improving service and productivity, we continued to safeguard the customer and corporate information entrusted to our care.

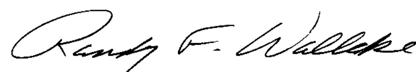
Our success derives from the high caliber of our people and our ability to attract — and retain — high-quality associates. In 2010, we retained 96 percent of our headquarters associates. We continued to receive national and local recognition as an employer of choice including Minneapolis *Star Tribune's* "Top 100 Workplaces in the Twin Cities" and *Computerworld's* "100 Best Places to Work in IT."

In 2010, Securian Financial Group continued to thrive, despite an extremely challenging and uncertain environment. By sticking to our fundamentals, focusing on our core businesses and expanding our presence in the markets we serve, we enjoyed a very good year.

Strongly positioned for future growth, we are well capitalized, the quality and diversification of our assets are excellent, and we enjoy strong franchises in all of our markets. Building on our mutual heritage, we intend to remain a nonpublic mutual holding company, providing financial security for the long run. We believe this approach is clearly in the best long-term interest of our clients and positions us very well, regardless of what happens in our environment.



Robert L. Senkler
Chairman and Chief Executive Officer



Randy F. Wallake
President and Vice Chairman

In 2010, Securian's sales and financial results were excellent, despite the sluggish economic recovery. Our results reflect our overall enterprise risk management and our investment strategy. We built our balance sheet on a high level of capital, outstanding investment quality and liquidity. As a result, we continued to thrive despite an uncertain environment and the challenges wrought by sustained low interest rates. Our financial results also reflect our mutual heritage with a strong focus on managing our businesses in the long-term interest of our customers.

TOTAL REVENUE

Total revenue was $3.1 billion, including $2.4 billion of product revenue[1] and $611 million of net investment income. Over the past 10 years, product revenue has grown at a compound annual rate of seven percent.

SALES[2]

2010 was a good sales year, overall, as we grew our businesses and gained market share. Total sales increased 19 percent to $5.9 billion. Total proprietary sales increased 32 percent, and nonproprietary sales increased eight percent.

Sales highlights included a 33 percent increase in individual annual life insurance, a 29 percent rebound in retirement plan sales and asset management sales that more than quadrupled from $222 million to nearly $1 billion.

LIFE INSURANCE

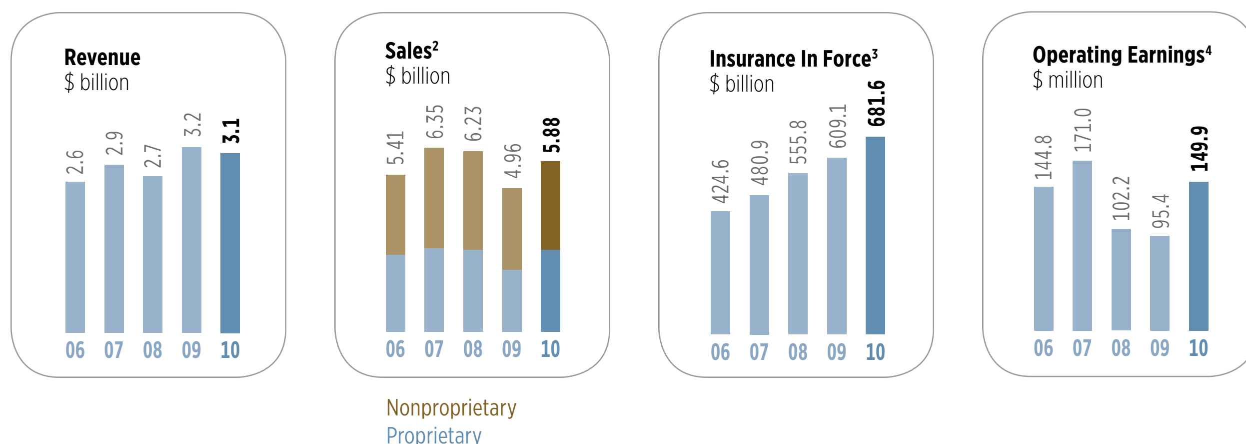
Representing the primary financial protection we provide, life insurance in force[3] increased 12 percent to nearly $682 billion.

EARNINGS

Overall revenue growth, excellent expense management and improved market conditions helped Securian produce strong earnings results in 2010. Operating earnings[4] of $150 million were up 57 percent from 2009. Contributing to this growth, strong subsidiary earnings were partially offset by lower interest rates and unfavorable mortality that was within expectations.

STOCKHOLDER'S EQUITY

Stockholder's equity increased 14 percent to $3 billion compared to $2.7 billion in 2009, primarily due to net income of $175 million and a $425 million increase in net unrealized investment gains.



[1] Product revenue equals total revenue less net investment income and net realized gains (losses).

[2] Sales equal annualized premiums, fund deposits, new assets deposits and commission revenue as applicable to specific business units.

[3] Insurance in force excludes Federal Employee Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI). We exited the FEGLI and SGLI markets in 2009.

[4] Operating earnings equal net income less realized investment gains and losses, net of taxes.

INVESTMENTS

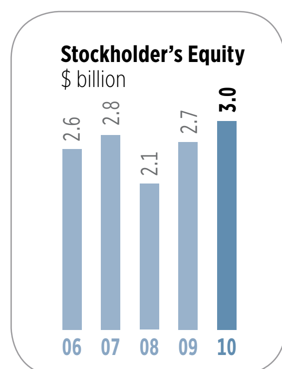
Company assets increased 12 percent to $28.2 billion in 2010, due to rising fixed income and equity markets along with an influx of general account assets as a result of strong insurance sales. The high quality and diversification of our assets enabled us to participate in the economic recovery, and our position relative to our peer group competitors remained very good. Our net yield was 5.29 percent, and our total return on investments was 7.1 percent.

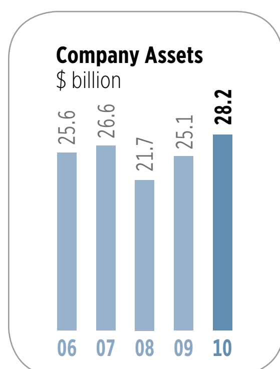
As capital markets stabilized in the first part of 2010, we added exposure to sectors and securities that provided exceptional value and diversification. Throughout the year we also selectively sold securities that presented a high degree of risk relative to reward. We persisted in our ongoing efforts to enhance our risk management process, using derivatives effectively to hedge risk in our product lines.

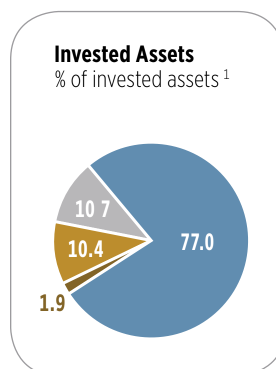
In 2010, the diversification and quality of our general account assets continued to exceed industry benchmarks. On the basis of quality, measured by the percentage of underperforming assets, we consistently outperformed the industry and our peer group. Although we strategically added to our noninvestment grade bonds, our overall exposure remained below industry norms. Due to the recovery in the capital markets, our net unrealized investment gain position of $170 million improved to $595 million. We continue to have relatively few asset quality concerns — and much less than during the height of the market disruption.

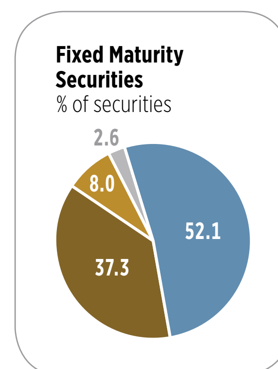
The yield on our fixed maturity securities was 5.51 percent. Demonstrating the high quality of our fixed maturity securities portfolio, only 11 fixed maturity securities representing .12 percent of our portfolio were in default at year end. Diversification is critical to our fixed maturity securities performance. At year end, we were invested in more than 900 companies with no significant concentration of investment in a single issuer.

The yield on our commercial mortgage loan portfolio was 6.05 percent. We invest in mortgage obligations with safe, predictable cash flows and competitive returns. Our investments are highly diversified, consisting mainly of high-quality commercial mortgages in all regions of the country with no significant concentration in any one state. Reflecting the quality of our holdings, we had no mortgage defaults in 2010.









Fixed Maturity Securities
Equity Securities
Mortgages
Other Invested Assets

U.S. Corporate
Structured Finance
International
U.S. Government and Agencies

[1] Excludes separate accounts.

COMMUNITY AT WORK

A GREAT PLACE TO WORK

PEOPLE ARE SECURIAN'S MOST VALUABLE ASSET, AND we continued to be recognized as a great place to work in 2010.

We ranked number two in the Minneapolis *Star Tribune's* inaugural "Top Workplaces in the Twin Cities" in the large employer category. The newspaper selected 100 winners after inviting more than 1,000 companies and 33,000 employees to participate in its survey. Securian ranked topmost when associates were asked if they believe their company exhibits strong values and ethics in its operations. And Chairman and CEO Robert Senkler was singled out as the top leader among Twin Cities metro area large employers.

Affirming Securian's standing as a great place for information services professionals, we ranked number nine on *Computerworld* magazine's annual list of the "100 Best Places to Work in IT" — our fifteenth annual appearance. Securian again earned a place among the *InformationWeek* 500, an annual listing of the nation's most innovative users of business technology.

Appreciating diversity and the unique contributions of each associate, Securian cultivates a welcoming, inclusive workplace where people can develop and reach their potential. In 2010, we celebrated our decade-long partnership with Lifeworks, a nonprofit organization that helps people with disabilities integrate into the workplace and community. Securian was the first area employer to offer full-time positions with benefits to Lifeworks clients.

Collaboration and teamwork helped create an integrated health and wellness campaign to support associates to be their healthiest. Leading efforts were (left to right) Barb Hanson, Training and Development manager; Lisa Benjamin Phillips, Employee Benefits manager; and Cindy Scott, Occupational Health specialist. (Inset) Associates including Stephanie Scibora helped build enthusiasm for our healthy eating campaign.

PROMOTING HEALTH AND WELLNESS

An ounce of prevention is worth a pound of cure, goes the adage. We believe a healthy workforce can be shaped by offering information, resources and programs that support healthy lifestyle choices. Our Securing Your Health initiative is good for our people — and good for our business.

Using our online personalized and confidential health assessment, associates identify health risks, get suggestions and tools for improvement and monitor the effects of their choices. They also may work with a health coach at no cost.

Our program offers a range of services including Healthy Steps Walking Club, healthy eating campaign, healthful options at our on-site cafeteria, educational noontime seminars and a health resource library.

In 2010, our health initiative secured the American Heart Association's Fit-Friendly award for the third consecutive year.

Confirming that Securian is a great place to start a career — and a great place to stay — we retained 96 percent of our associates in 2010. (First row) Kristi Mayer, Pratap Jirel and Susan Miller. (Second row) Alex Chan, Mike Gander, Nirmal Aryal and Helen Pham. (Third row) Tyler Lind, Tom Eich, Pat Bjerstedt, Anthony Johnson and Mike Steinert.

DOING GOOD WORKS

Community is one of our core values, and Securian's long tradition of being a good neighbor — and a good corporate citizen — is demonstrated in our support of organizations and programs to bolster the quality of life and vitality of our neighborhoods.

In 2010, Securian and its associates dug deep and gave United Way a record-breaking total contribution exceeding $1 million — $605,400 from associates and $405,000 through the Securian Foundation. United Way's focus on education, basic needs and health aligns well with Securian's philanthropic focus.

Answering the need for affordable housing, in 2010 we contributed 1,900 volunteer hours to build Habitat for Humanity homes in St. Paul. Associates from all parts of Securian signed up to work together, discovering that there's a strong correlation with team building and building community.

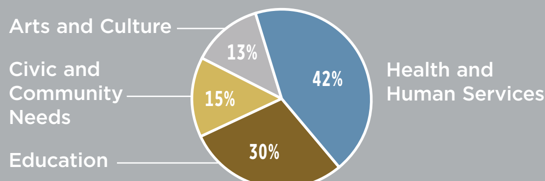
To help close the achievement gap and ensure that all children succeed in school and life, Securian's philanthropic support of the Saint Paul Promise Neighborhood will help kids from cradle to career through a seamless coordination of educational, family and community services. Inspired by the nationally acclaimed Harlem Children's Zone in New York City, Promise Neighborhood is one of only 21 communities across the nation selected to receive a planning grant from the U.S. Department of Education.

And in further support of educational opportunities, Securian's grant towards a computer lab at The College of St. Scholastica in Duluth, Minnesota, provides students hands-on business experience and mentorship through innovative uses of web technology. Students use video conferencing to connect with mentors around the state, some of whom are Securian associates.

Cooking up a big helping of Securian generosity for United Way, (right to left) campaign coordinator Beth Martin, Human Resources, is assisted by "sous chefs" Theo Sosu and Rachel Dorsey. "FUNdraising" activities included bake sales, dessert challenges, chili and soup feeds and, in a nod to a true Minnesota tradition, a "hot dish" cook-off. Securian and its associates contributed more than $1 million in 2010.

KEEPING OUR COMMUNITY STRONG

Through philanthropy and volunteerism, in 2010 the company and the Securian Foundation contributed more than $2 million in cash gifts and approximately $1 million in volunteer services and in-kind gifts to arts, education, civic, and health and human services organizations.



2010 IN ROUND NUMBERS

Volunteerism – 5,000-plus hours
Habitat for Humanity – 1,900 volunteer hours
United Way campaign – $1 million-plus
Food drives – 4,000 pounds
Red Cross blood drives – 560 pints
Nonprofit boards – 80 associates
Matching gifts – $191,000
Volunteer Plus – 55 associates giving 50-plus hours to nonprofits
Mentoring – 800 hours

FORTIFYING OUR ENTERPRISE RISK MANAGEMENT

SECURIAN'S LONG HISTORY OF EFFECTIVE RISK MANAGEMENT has enabled us to honor our promises to pay and to thrive.

Since the financial crisis, the economic environment has tested enterprise risk management (ERM) practices, and Securian has fared very well. During 2010, we experienced no major financial surprises, and we reaped the benefits of risk management decisions made during the past 15 years. For example, we avoided the pricing wars involving secondary guarantees and marketing strategies such as stranger-owned life insurance. As a result, we avoided the problems experienced by several of our competitors.

In 2010, we continued to invest in ERM capabilities that support sound business decisions in an increasingly complex world. The expansion of our ERM program included approval by the Board of Directors of the Risk Council, which is ultimately accountable for our risk management decisions and assists the board in its oversight responsibilities. The board also approved Securian's risk appetite statement and the appointment of a chief risk officer. We continued to integrate ERM by involving more associates in an enterprise view of the risks that we manage across our entire balance sheet.

SECURIAN'S RISK APPETITE STATEMENT FOCUSES ON SIX KEY OBJECTIVES:

- remaining very highly rated
- maintaining appropriate capital
- producing appropriate risk-adjusted earnings
- achieving smart growth
- building our brand
- prudently selecting risks

Securian's Risk Council (left to right) Robert Senkler, chairman and chief executive officer; Randy Wallake, president and vice chairman; Warren Zaccaro, executive vice president and chief financial officer; Christopher Hilger, executive vice president; Bruce Shay, executive vice president; Leslie Chapman, senior vice president, chief actuary and chief risk officer; Dwayne Radel, senior vice president and general counsel; David Kuplic, senior vice president and chief investment officer; Christopher Sebald, senior vice president; and George Connolly, senior vice president, broker-dealer and trust.

POSITIONED FOR OPPORTUNITY

In 2010, Securian's financial strength, diversified business model and strong compliance record provided major opportunities for us to gain market share. Our strong balance sheet provided a major competitive advantage, enabling us to continue aggressively investing in our core businesses to accelerate revenue and to ensure that we remain relevant to our customers. Our business strategies are designed to maintain our sales momentum and increase scale in our markets through organic growth, distribution diversification and acquisition.

In 2010, we continued to expand and diversify in the markets we serve. For example, in the individual insurance market, we are leveraging the strengths of our career distribution system and diversifying distribution through independent channels and alliances. We continued building market share with the major brokerage general agencies affiliated with our Independent Distribution Group and key partners such as Waddell & Reed. We expanded and diversified our group life insurance business by acquiring Ochs, Inc., a brokerage firm that specializes in the small public employer market. In the financial institution market, we continued to expand our market presence through Allied Solutions, our primary distribution arm, and our retirement business continued expanding distribution through wholesaling.

Technology remains a fundamental requirement for success in all our businesses, helping us create or enhance our competitive advantage in the markets we serve. Our goal: to make it easy for people to do business with us and meet their needs efficiently. In 2010, we improved service and productivity, launching a new group insurance client file management system, straight-through processing capabilities for financial institution clients and a clearinghouse for information from global carrier partners. We enhanced functionality on our retirement web sites, and we added a variety of capabilities for our individual insurance distribution channels.

By any measure of customer satisfaction, our service remained outstanding in 2010. Client surveys, high retention and a low complaint level strongly indicate the Securian standard of excellence. In terms of service, we remain among the best of the best.

BUSINESS

INDIVIDUAL FINANCIAL SECURITY

GROUP INSURANCE

FINANCIAL INSTITUTION GROUP

RETIREMENT

ASSET MANAGEMENT

PRIMARY CUSTOMERS	COMPETITIVE STRENGTHS	PRIMARY PRODUCTS	DISTRIBUTION SYSTEMS
• Individuals with personal financial services needs • Professionals • Executives • Business owners	• Career representatives use a comprehensive financial planning approach • Customized insurance and investment products • Personalized service backed by advanced technology	• Variable Adjustable Life • Adjustable Life • Variable Universal Life • Indexed Life • Term Life • Disability Income • Long Term Care • Brokerage Accounts • Mutual Funds • Investment Advisory • Trust Services	• Securian Financial Network[1] – 42 firms – 1,606 representatives • Independent broker-dealers • Affiliated third-party producers • Affiliated broker-dealers
• Large employers • Small public employers	• Customized, comprehensive group life insurance programs • Flexible, innovative administrative capabilities • Solutions for professional and executive groups • Advanced enrollment, claims and service technology • Industry-leading service	• Group Term Life • Group Universal Life • Group Variable Universal Life • Accidental Death and Dismemberment • Business Travel Accident	• 18 regional offices • 41 sales and service representatives • Benefit consultants and brokers
• Banks and thrifts • Credit unions • Mortgage lenders and servicers • Finance companies • Other financial institutions	• Significant market presence in large bank, credit union and community bank markets • Comprehensive loan protection product suite • Customized product, marketing and financial solutions • Full range of direct response, point-of-sale and call center services • Excellence in service and compliance	• Mortgage Life, Disability and Accidental Death • Credit Life and Disability • Accidental Death and Dismemberment • Accident Protection • Term Life • Debt Protection • Guaranteed Asset Protection • Collateral Protection • Vendor Single Interest	• Allied Solutions – Four regional sales and service offices – 110 sales, service and administrative representatives • Independent agencies and brokers • Third-party marketers and administrators
• Individual investors • Businesses	• Customized product design, marketing and retirement solutions • Quality investments reviewed by an independent third party • Comprehensive fiduciary support • Industry-leading service • Award-winning client communications	• Fixed Annuities • Income Annuities • Variable Annuities • 401(k) Plans • Profit Sharing Plans • Defined Benefit Plans	• Securian Financial Network[1] • Independent brokers • Benefit consultants • Broker-dealers
• Insurance companies • Public and corporate pension plans • Taft-Hartley plans • Endowments and foundations • Mutual fund companies • 401(k) and related separate account platforms	• Strong track record of long-term investment performance • Client-focused culture • Proprietary research, fundamental security analysis • Customizable investment solutions • Insight derived from intellectual capital, practical experience and collaboration	• General Account Management • Institutional Separate Accounts • Insurance Series Fund • Subadvisory Services • Investment Styles – Fixed Income – Real Estate Securities – Equity Indexes – Private Equity/Venture Capital – Private Debt	• National institutional sales staff • Institutional consultants • Securian Financial Network[1] • Strategic partners • Broker-dealers

[1] The Securian Financial Network is a nationwide network of financial services firms and financial advisors.

GROUP INSURANCE

GROUP INSURANCE GENERATED SOLID RESULTS IN 2010, despite a very competitive pricing environment.

For more than a decade, we have been one of the fastest growing major group life insurers in America based on insurance in force.[1] In 2010, insurance in force grew 13 percent and direct premium and policy fee income increased 10 percent.

Our focus on service excellence, industry-best technology solutions and building a highly responsive sales force sets us apart and advances us toward our goal of becoming the best provider of group life insurance in the world.

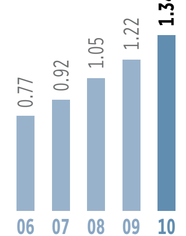
New sales in 2010 reached $137 million, including sales to 29 Fortune 1000-type organizations — a record high. And with the addition of the State of Wyoming, we now serve 15 state governments.

As our block of premium grows, retention is increasingly important to our success; in 2010 we retained 99 percent of direct premium and policy fee income, surpassing $1.3 billion.

We continued investing broadly in technology to maintain competitive advantage. In addition to boosting enrollments, our investments in claims, financial experience reporting and client file management systems produced efficiencies and important service enhancements for our clients.

Client survey results confirmed our commitment to service excellence: 99 percent of our group insurance clients were satisfied with our overall service, and 98 percent would recommend us.

Group Insurance Direct Premium and Policy Fee Income
$ billion



[1]Excludes FEGLI and SGLI.

RAISING THE BAR FOR SERVICE
TECHNOLOGY SOLUTIONS

Going the extra mile, Group delivered exceptional service when a potential client had a critical request: Could we meet an extremely tight deadline to implement a Variable Group Universal Life plan? Group associates acted quickly, meeting the deadline and gaining another satisfied client. (Left to right standing) Adam Taylor, client technology manager; Catrina Cruz, marketing specialist; Lisa Ramos, client services coordinator; Trisha Barntsen, client services specialist; Susan Conley Fenton, customer service manager; Rebecca Gresback, senior plan management analyst; Patrick Ahern, senior systems analyst; and Jennifer Frascone, senior case underwriter. (Left to right seated) Tom Magee, employer market supervisor; Chad Janowiec, client implementation specialist; and Hannah Hermanson, plan representative.

Group produced excellent results for our clients by integrating three separate systems to enhance the evidence of insurability process. The compound effect increased response rates, reduced turnaround times and improved the customer experience. Team members implementing the improvements were (starting opposite page, left to right) Todd Beukelman, underwriting manager; Katy Gilley, systems senior leader; Jeremy Noble, quality assurance analyst; Craig Andree, applications consultant; and Donna Thomas, underwriting client services specialist.

FINANCIAL INSTITUTION GROUP

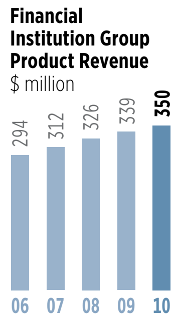
MOVING ON UP

WITH RECORD-BREAKING RESULTS

FINANCIAL INSTITUTION GROUP SET SALES AND REVENUE records again in 2010. Total sales of $600 million were six percent higher than 2009. Total product revenue reached $350 million, up three percent over the previous year. These strong top-line results helped produce a 27 percent increase in GAAP operating earnings, to $19.9 million.

Our record-breaking results were particularly notable given the sluggish economy. Consumer lending declined again in 2010 — down two percent — affecting production of several core products distributed in connection with new loan originations. But excellent client retention of 99 percent and a record level of new client sales moved Securian from fifth to third largest writer of credit life and disability insurance in America.

Financial Institution Group Product Revenue
$ million



In addition, our property and casualty operation completed its national footprint, increasing product availability in all 50 states. Sales from this area reached a record $74 million, and accounts under contract increased 35 percent. Our sales from third-party administrators and third-party marketers nearly quadrupled, and we added new technology solutions to improve efficiency and reduce expenses.

Allied Solutions, our primary distribution arm, expanded its market presence in 2010, and contributed significantly to our results by delivering record sales, revenue and earnings.

RESPECT AT WORK

In the face of unprecedented regulatory activity in the lending industry, Securian's quick response to changes in Truth in Lending rules led to a 56 percent increase in revenue from consumer loan forms. Law department counsel Catherine Klimek was instrumental in communicating the changes to our clients, and in successfully lobbying against other proposed changes to Regulation Z s credit protection rules.

Building on a long-standing relationship by providing great service and new products resulted in an 18 percent growth in sales with US Bancorp Insurance Services in 2010. (Right to left) Allied Solutions' David Underdale, senior vice president, and Julie Carey, client marketing manager, lead the partnership with our client, Teressa Sund, product marketing vice president, US Bancorp Insurance Services.

Leveraging our strong partnership with the National Association of Federal Credit Unions (NAFCU), we strengthened our presence in the state of New York by expanding our business with First Source Federal Credit Union. (Left to right) Michael Parsons, First Source chief executive officer and NAFCU board vice chair; Amy Mancino, First Source vice president; Allied Solutions' William Sarsfield, regional vice president, and Vincent Sacco, client development manager; Financial Institution Group's national sales director John Gibbons; and Amy Fierro, First Source assistant vice president.

INTEGRITY AT WORK

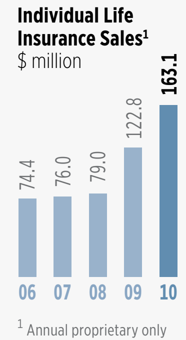
INDIVIDUAL FINANCIAL SECURITY

IN 2010, OUR SALES SOARED IN THE INDIVIDUAL MARKET as we continued to provide a full spectrum of risk protection and investment products, services and technology to meet the financial planning needs of our constituents.

Sales of proprietary individual annual premium life insurance increased 33 percent to $163.1 million, aided by the flight to quality and continued success of our Independent Distribution Group (IDG) and other distribution relationships. IDG sales increased 69 percent, ranking us the third largest producer of indexed life insurance and among the top 20 companies based on sales by independent advisors.

We continued to leverage our state-of-the-art administration system and illustration platform to broaden our product portfolio of fixed, variable and indexed life insurance products. In 2010, we introduced a new accumulation universal life product, a long-term care insurance rider and began distributing individual life insurance in the state of New York through Securian Life Insurance Company.

In 2010, we continued expanding our life insurance wholesaling capabilities, adding new internal and external distribution channels. We continued building market share with key partners such as Waddell & Reed and the major brokerage general agencies affiliated with IDG.



Critical to our success is the ability to attract and retain top financial services professionals for our career distribution channel, the nationwide Securian Financial Network. It remains the top-selling channel for Securian's individual annuities and broker-dealer products, and one of two leading sellers of our individual life insurance.

In 2010, we introduced The Securian Advantage — the culmination of a multi-year initiative to modernize our value proposition for firms and advisors. This unique distribution model provides the flexibility for highly productive advisors to best meet the financial planning needs of their clients.

Reflecting our commitment to quality, in 2010 we retained 94 percent of our top 400 career advisors, and we maintained our ranking among the top 10 domestic companies with membership in the Million Dollar Round Table.

Closing business faster and covering clients sooner, Quick eApp allows clients to submit secure information electronically — an efficient way to increase productivity with less paperwork. Team members working to make it easier to do business with us include (left to right) Cami Kuschel, business systems consultant; Donna Lissick, business technology consultant; and Jake Jones, senior associate actuary.

STRONG SALES HIGH STANDARDS

Soaring sales of individual life insurance were aided by the expertise of life product case design consultants Scott Gauger and Jenny Dorniden.

THE SECURIAN ADVANTAGE

Where Culture and Capabilities Meet™

The Securian Advantage combines the strengths of our traditional career culture with the capabilities of an independent broker-dealer. Supporting implementation of the program were (below) Chris Sorsoleil, division vice president; (above left to right) Marc Rentschler, distribution finances manager; Lisa Carriere, senior associate actuary; Terry Tipton, business technology consultant; Kim Carpenter, field business practices director; Jeffrey Fink, senior systems analyst; Jeffrey Gould, marketing communications manager; and Krista Schuebel, business technology consultant.

INDIVIDUAL FINANCIAL SECURITY

CONTINUED

Our broker-dealer, Securian Financial Services, continued to offer an array of best-of-class investment products, planning tools and services. Sales increased eight percent and total production revenue increased 18 percent, reflecting the rebound in financial markets and our excellent service and compliance record.

An important aspect of our broker-dealer growth strategy is our collaboration with Capital Financial Group/H. Beck, Inc. (CFG), an independent broker-dealer we acquired in 2008. CFG's 2010 results were very favorable, including a 37 percent increase in total production revenue and an increase in the firm's advisor count from 862 to 988.

In 2010, Securian Trust Company continued its focus on generating new assets from career advisors and other partners such as CFG and Waddell & Reed. We gained efficiencies and reduced expenses by transferring our trust investment advisory function to Securian Financial Services and converting to a new wealth management accounting system.

Securian Financial Services and Securian Trust collaborate to provide advisors a breadth of solutions, tools and services to meet their clients' needs. Team members include (left to right) Angie Branham, senior branch operations analyst, Securian Financial Services; Pat Frankenfield, senior compliance coordinator, Securian Trust; and Matthew Bauler, compensation and financial management manager, Securian Financial Services.

Supporting our growth strategy to attract and retain experienced advisors, Legacy Planning Partners of Pennsylvania took part in our pilot program to introduce The Securian Advantage to the marketplace. Now following its use, they confirm its effectiveness as a recruiting tool. The firm's managing partners (far left) Jan Graybill and (third from left) Christopher Hackley, with partners (left to right) Charles Kedra, Chris Benfer and Rob Wermuth.

TRUST
AT WORK

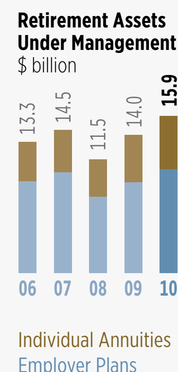
RETIREMENT

OUR DIVERSIFIED DISTRIBUTION STRATEGY AND TIMELY response to advisors and economic challenges helped Retirement reach sales of $1.2 billion in 2010. Individual annuity sales accounted for $611 million and employer plans $573 million of the total. Collected premium totaled $2 billion, and net cash flow was a positive $431 million.

In 2010, both product lines continued to deliver quality service, underscored by client surveys, industry evaluations and record high client retention. We retained 95 percent of full-service employer plans and 94 percent of individual annuity contracts. Our 96 percent satisfaction among plan sponsors positions us well.

In the individual annuity market, sales declined 26 percent, primarily due to a 60 percent drop in fixed annuity sales. Compared to the industry's 31 percent decline in fixed annuity sales, our result was due in part to risk management and pricing actions taken to reflect the low interest rate environment. A new Guaranteed Lifetime Withdrawal Benefit rider helped boost our variable annuity sales 13 percent, compared to the industry's eight percent growth.

In 2010, we continued to broaden distribution. The Securian Financial Network accounted for 43 percent of total sales, Waddell & Reed 33 percent, independent broker-dealers 16 percent and independent market organizations eight percent.



Providing va ue to advisors, we expanded online tools, improved illustrations, enhanced general services and created SmartPass,™ a concierge service for top performing advisors. We also prepared for our 2011 entry into the New York market.

Sales in the employer plans market increased 29 percent, despite the sluggish economy, unemployment and the regulatory environment. Alliance distribution and other channels accounted for 54 percent of the total, while the Securian Financial Network produced 15 percent. We served 3,000 plan sponsors and more than 217,000 plan participants.

We advanced our value proposition for both advisors and plan sponsors by being first to offer an investment management fiduciary service, provided through a strategic alliance, to help clients manage their fiduciary risk and reduce their liability.

We introduced a more conservative investment alternative for retiring baby boomers — a new "capital preservation" glide path — through our successful TargetAge™ asset allocation tool. Helping partici pants stay the course through retirement and easing the regulatory burden for clients and advisors will allow us to sustain our position as a trusted partner.

We rolled out new educational materials and enhanced products, including our asset allocation tool TargetAge™ and a Guaranteed Lifetime Withdrawal Benefit annuity rider, to help baby boomers make the transition into retirement. Success was supported through the efforts of Brian Mong, investment consultant; Julie Schultz, technology business analysts manager; Meagan Phillips, senior actuarial associate; Nicole Fritsche, senior annuity marketing specialist; and Kelly Metzger-Moris, business systems consultant.

Retirement's top-rated service supported a record 94 percent retention of individual annuity contracts in 2010. Our service and fiduciary stewardship for advisors and plan sponsors also garnered first place rankings in the Boston Research Group DCP Study and PlanSponsor's Annual Provider Service Survey. Providing service that excels are (left to right) annuity services supervisors Annemarie Allen and Katy Kuzma, and Mike Bentley, retirement plans account management specialist.

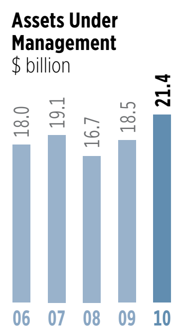
EXCELLENCE IN SERVICE

FIDUCIARY LEADERSHIP

ASSET MANAGEMENT

IN 2010, ADVANTUS CAPITAL MANAGEMENT, SECURIAN'S asset management affiliate, posted very strong investment results in the face of low interest rates and uncertainty in the economy.

Assets managed by Advantus reached $21.4 billion in 2010 driven by excellent investment performance in rising markets, growth in affiliated businesses where we manage assets and strong sales. Managed asset levels recovered entirely from the credit crisis, exceeding the previous high point in 2007 by over 10 percent.



Exceptionally strong sales in our insurance advisory and subadvised mutual fund relationships propelled Advantus sales to $992 million, the third highest in our history and a four-fold increase over the previous year.

Continuing investment in technology resulted in improvements for our clients through better reporting, investment research and portfolio management.

Overall client retention across all business lines was high at 97 percent, and client surveys showed high marks — 4.5 on a five-point satisfaction scale.

Advantus completed a multi-year technology project in 2010, resulting in improved performance attribution, investment accounting and client reporting. "Eagle Star" launched with the help of (left to right) Lisa Glaus, investment operations manager; and analysts Lisa Huppert, Brian Phillippi, Shannon Willenbring, Brennen Kratky, Vicki Palmateer and Janahan Rajaratnam.

STRENGTH AT WORK

Advantus draws on the powerful market insights and practical business experience of our investment professionals (left to right) Randy Harrison, insurance advisory director; John Leiviska, portfolio manager; Linda Sauber, client services director; Sean O'Connell, portfolio manager; David Kuplic, chief investment officer; and Greg Ortquist, portfolio manager.

CLIENT SATISFACTION

INVESTMENT PERFORMANCE

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS 25

CONSOLIDATED STATEMENTS OF OPERATIONS 26

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY 27

CONSOLIDATED STATEMENTS OF CASH FLOWS 28

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS 29

INDEPENDENT AUDITORS' REPORT 72

CONSOLIDATED BALANCE SHEETS

December 31, 2010 and 2009

in thousands	**2010**	2009
Assets		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost $8,864,114 and $8,049,242)	**$ 9,334,655**	$ 8,136,682
Equity securities, at fair value (cost $187,951 and $244,743)	**220,253**	286,016
Mortgage loans, net	**1,276,154**	1,263,581
Finance receivables, net	**197,856**	190,925
Policy loans	**339,127**	340,362
Alternative investments (cost $447,022 and $445,213)	**506,294**	470,424
Fixed maturity securities on loan, at fair value (amortized cost $51,469 and $58,530)	**54,071**	58,891
Equity securities on loan, at fair value (cost $8,624 and $15,563)	**10,284**	19,362
Derivative instruments	**165,290**	47,469
Other invested assets	**93,482**	84,139
Total investments	**12,197,466**	10,897,851
Cash and cash equivalents	**381,364**	370,306
Securities held as collateral	**33,274**	40,170
Deferred policy acquisition costs	**898,041**	905,127
Accrued investment income	**112,937**	99,602
Premiums and fees receivable	**173,559**	176,739
Property and equipment, net	**82,688**	85,391
Income tax recoverable:		
Current	**–**	6,076
Reinsurance recoverables	**905,489**	868,473
Goodwill and intangible assets, net	**82,390**	80,747
Other assets	**87,793**	83,754
Separate account assets	**13,199,636**	11,447,608
Total assets	**$ 28,154,637**	$ 25,061,844
Liabilities and Stockholder's Equity		
Liabilities:		
Policy and contract account balances	**$ 6,718,486**	$ 6,092,352
Future policy and contract benefits	**2,710,732**	2,616,824
Pending policy and contract claims	**319,909**	314,910
Other policyholder funds	**743,387**	734,756
Policyholder dividends payable	**39,202**	41,481
Unearned premiums and fees	**252,191**	280,181
Pension and other postretirement benefits	**158,472**	148,570
Income tax liability:		
Current	**43,031**	–
Deferred	**183,685**	64,813
Securities in transit	**160,923**	90,645
Other liabilities	**465,992**	450,098
Notes payable	**120,000**	125,000
Separate account liabilities	**13,199,636**	11,447,608
Total liabilities	**25,115,646**	22,407,238
Stockholder's equity:		
Common stock, $.01 par value, 850,000 shares authorized with 100,000 shares issued and outstanding	**1**	1
Additional paid in capital	**71,553**	71,553
Accumulated other comprehensive income (loss)	**181,474**	(28,325)
Retained earnings	**2,785,963**	2,611,377
Total stockholder's equity	**3,038,991**	2,654,606
Total liabilities and stockholder's equity	**$ 28,154,637**	$ 25,061,844

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2010, 2009, and 2008

in thousands	**2010**	2009	2008
Revenues:			
Premiums	**$ 1,508,362**	$ 1,746,807	$ 1,906,711
Policy and contract fees	**522,725**	510,170	503,646
Net investment income	**610,834**	565,829	554,825
Net realized investment gains (losses)			
Other-than-temporary-impairments on fixed maturity securities	**(32,358)**	(89,010)	(223,751)
Other-than-temporary-impairments on fixed maturity securities transferred to other comprehensive income (loss)	**9,782**	42,987	–
Other net realized investment gains (losses)	**62,298**	73,731	(273,885)
Total net realized investment gains (losses)	**39,722**	27,708	(497,636)
Finance charge income	**58,059**	53,777	53,286
Commission income	**214,099**	175,575	136,478
Other income	**103,140**	93,795	88,256
Total revenues	**3,056,941**	3,173,661	2,745,566
Benefits and expenses:			
Policyholder benefits	**1,502,939**	1,758,233	1,871,283
Interest credited to policies and contracts	**332,157**	325,965	288,288
General operating expenses	**589,761**	577,076	548,368
Commissions	**390,425**	315,625	282,159
Administrative and sponsorship fees	**64,288**	60,312	65,419
Dividends to policyholders	**9,475**	10,898	10,891
Interest on notes payable	**10,189**	10,241	10,424
Amortization of deferred policy acquisition costs	**224,961**	208,946	248,818
Capitalization of policy acquisition costs	**(301,600)**	(256,640)	(227,580)
Total benefits and expenses	**2,822,595**	3,010,656	3,098,070
Income (loss) from operations before taxes	**234,346**	163,005	(352,504)
Income tax expense (benefit):			
Current	**55,444**	24,336	(70,728)
Deferred	**3,816**	25,372	(23,190)
Total income tax expense (benefit)	**59,260**	49,708	(93,918)
Net income (loss)	**$ 175,086**	$ 113,297	$ (258,586)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

Years ended December 31, 2010, 2009, and 2008

in thousands	Common stock	Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholder's equity
2008					
Balance, beginning of year	$ 1	$ 4,163	$ 117,698	$ 2,671,036	$ 2,792,898
Comprehensive loss:					
Net loss	–	–	–	(258,586)	(258,586)
Other comprehensive loss	–	–	(542,101)	–	(542,101)
Total comprehensive loss					(800,687)
Changes in accounting principle	–	–	88	(1,287)	(1,199)
Dividends to stockholder	–	–	–	(750)	(750)
Contributions to additional paid in capital	–	67,390	–	–	67,390
Other	–	–	–	(16)	(16)
Balance, end of year	$ 1	$ 71,553	$ (424,315)	$ 2,410,397	$ 2,057,636
2009					
Balance, beginning of year	$ 1	$ 71,553	$ (424,315)	$ 2,410,397	$ 2,057,636
Comprehensive income:					
Net income	–	–	–	113,297	113,297
Other comprehensive income	–	–	452,773	–	452,773
Total comprehensive income					566,070
Changes in accounting principle	–	–	(56,783)	87,683	30,900
Balance, end of year	$ 1	$ 71,553	$ (28,325)	$ 2,611,377	$ 2,654,606
2010					
Balance, beginning of year	**$ 1**	**$ 71,553**	**$ (28,325)**	**$ 2,611,377**	**$ 2,654,606**
Comprehensive income:					
Net income	**–**	**–**	**–**	**175,086**	**175,086**
Other comprehensive income	**–**	**–**	**209,799**	**–**	**209,799**
Total comprehensive income					**384,885**
Dividends to stockholder	**–**	**–**	**–**	**(500)**	**(500)**
Balance, end of year	**$ 1**	**$ 71,553**	**$ 181,474**	**$ 2,785,963**	**$ 3,038,991**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2010, 2009, and 2008

in thousands	**2010**	2009	2008
Cash Flows from Operating Activities			
Net income (loss)	**$ 175,086**	$ 113,297	$ (258,586)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Interest credited to annuity and insurance contracts	**282,090**	281,163	258,007
Fees deducted from policy and contract balances	**(369,059)**	(364,474)	(338,399)
Change in future policy benefits	**90,738**	92,728	296,263
Change in other policyholder liabilities, net	**123,344**	47,609	29,170
Amortization of deferred policy acquisition costs	**224,961**	208,946	248,818
Capitalization of policy acquisition costs	**(301,600)**	(256,640)	(227,580)
Change in premiums and fees receivable	**3,180**	8,655	(10,916)
Deferred tax provision	**2,777**	25,189	(23,190)
Change in income tax assets / liabilities - current	**49,107**	68,191	(91,226)
Net realized investment losses (gains)	**(39,663)**	(27,656)	497,636
Change in reinsurance recoverables	**(37,016)**	(14,256)	(29,223)
Other, net	**22,024**	(24,172)	(23,829)
Net cash provided by operating activities	**225,969**	158,580	326,945
Cash Flows from Investing Activities			
Proceeds from sales of:			
Fixed maturity securities	**2,589,735**	1,656,308	1,535,734
Equity securities	**181,692**	329,629	380,607
Alternative investments	**64,942**	19,365	26,065
Derivative instruments	**176,461**	139,037	120,445
Other invested assets	**3,009**	2,212	2,489
Proceeds from maturities and repayments of:			
Fixed maturity securities	**863,236**	768,867	596,392
Mortgage loans	**77,478**	96,375	109,559
Purchases and originations of:			
Fixed maturity securities	**(4,251,407)**	(3,615,858)	(2,478,263)
Equity securities	**(87,511)**	(156,242)	(265,118)
Mortgage loans	**(105,237)**	(109,810)	(112,527)
Alternative investments	**(62,278)**	(43,612)	(110,756)
Derivative instruments	**(265,575)**	(172,338)	(127,450)
Other invested assets	**(3,956)**	(4,404)	(103)
Finance receivable originations or purchases	**(140,157)**	(131,521)	(131,565)
Finance receivable principal payments	**124,371**	115,880	116,363
Securities in transit	**71,346**	(16,571)	18,113
Other, net	**(50,016)**	(47,634)	(81,908)
Net cash used for investing activities	**(813,867)**	(1,170,317)	(401,923)
Cash Flows from Financing Activities			
Deposits credited to annuity and insurance contracts	**2,605,466**	2,742,147	2,551,249
Withdrawals from annuity and insurance contracts	**(1,994,110)**	(1,977,430)	(2,171,046)
Change in amounts drawn in excess of cash balances	**3,473**	7,922	455
Contributed capital	**–**	–	2,259
Payment on debt	**(5,000)**	–	–
Dividends paid to stockholder	**(500)**	–	(750)
Other, net	**(10,373)**	1,226	6,304
Net cash provided by financing activities	**598,956**	773,865	388,471
Net increase (decrease) in cash and cash equivalents	**11,058**	(237,872)	313,493
Cash and cash equivalents, beginning of year	**370,306**	608,178	294,685
Cash and cash equivalents, end of year	**$ 381,364**	$ 370,306	$ 608,178

See accompanying notes to consolidated financial statements.

NOTE 1

NATURE OF OPERATIONS

Organization and Description of Business

The accompanying consolidated financial statements include the accounts of Securian Financial Group, Inc. (SFG) (a wholly-owned subsidiary of Securian Holding Company (SHC)) and its wholly-owned subsidiaries. SFG, through its subsidiaries (collectively, the Company), provides a diversified array of insurance and financial products and services designed principally to protect and enhance the long-term financial well-being of individuals and families.

The Company, which primarily operates in the United States, has divided its businesses into five strategic business units, which focus on various markets: Individual Financial Security, Financial Institution Group, Group Insurance, Retirement and Asset Management. Revenues, including net realized investment gains and losses, for these strategic business units and revenues reported by the Company's subsidiaries and corporate product line for the years ended December 31 were as follows:

in thousands	**2010**	2009	2008
Individual Financial Security	**$ 656,353**	$ 594,887	$ 536,781
Financial Institution Group	**371,096**	360,406	338,680
Group Insurance	**1,274,768**	1,513,009	1,424,112
Retirement	**481,542**	459,923	447,006
Asset Management	**20,442**	17,992	18,635
Total strategic business units	**2,804,201**	2,946,217	2,765,214
Subsidiaries and corporate product line	**252,740**	227,444	(19,648)
Total	**$ 3,056,941**	$ 3,173,661	$ 2,745,566

The Company serves more than nine million people through more than 5,000 home office associates and field representatives located at its St. Paul, Minnesota headquarters and in sales offices nationwide.

NOTE 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The consolidated financial statements include the accounts of SFG and its subsidiaries. All material intercompany transactions and balances have been eliminated.

The preparation of consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect reported assets and liabilities, including reporting or disclosure of contingent assets and liabilities as of the balance sheet date and the reported amounts of revenues and expenses during the reporting period. Future events, including but not limited to, changes in mortality, morbidity, interest rates and asset valuations, could cause actual results to differ from the estimates used in the consolidated financial statements, and such changes in estimates are generally recorded on the consolidated statements of operations in the period in which they are made.

The most significant estimates include those used in determining the balance and amortization of deferred policy acquisition costs for traditional and nontraditional insurance products, policyholder liabilities, valuation of and impairment losses on investments, valuation allowances or impairments for mortgage loans on real estate, income taxes, goodwill, intangible assets, and pension and other postretirement employee benefits. Although some variability is inherent in these estimates, the recorded amounts reflect management's best estimates based on facts and circumstances as of the balance sheet date. Management believes the amounts provided are appropriate.

Insurance Revenues and Expenses

Premiums on traditional life insurance products, which include individual whole life and term insurance and immediate annuities, are recognized as revenue when due. For accident and health and group life insurance products, premiums are recognized as revenue over the contract period when earned. To the extent that this revenue is unearned, it is reported as part of unearned premiums and fees on the consolidated balance sheets. Benefits and expenses are recognized in relation to premiums over the contract period via a provision for future policyholder benefits and the amortization of deferred policy acquisition costs.

Nontraditional life insurance products include individual adjustable life, universal life and variable life insurance and group universal and variable universal life insurance. Revenue from nontraditional life insurance products and deferred annuities is comprised of policy and contract fees charged for the cost of insurance, policy administration and surrenders and is assessed on a daily or monthly basis and recognized as revenue when assessed and earned. Expenses include both the portion of claims not covered by and the interest credited to the related policy and contract account balances. Deferred policy acquisition costs are amortized relative to the emergence of estimated gross profits.

Any premiums on both traditional and nontraditional products due as of the date of the consolidated financial statements that have not yet been received and posted are included in premiums and fees receivable on the consolidated balance sheets.

Certain nontraditional life insurance products, specifically individual adjustable and variable life insurance, require payment of fees in advance for services that will be rendered over the estimated lives of the policies. These payments are established as unearned revenue reserves upon receipt and are included in unearned premiums and fees on the consolidated balance sheets. These unearned

revenue reserves are amortized over the estimated lives of these policies and contracts in relation to the emergence of estimated gross profits.

Commission Income

Commission income on insurance products is recognized as earned, net of the amount required to be remitted to the various underwriters responsible for providing the policy. Commissions are refunded on cancelled policies based on the unearned portion of the premium payments.

Commission income on investment related products is recognized on the date of sale. Related commission expense due to agents on such sales is also recognized on the date of sale.

Administrative and Sponsorship Fees

The Company pays administrative fees to financial institutions for administrative duties performed including, but not limited to, collection and remittance of premium, assistance with premium billing, communication with loan customers and other additional clerical functions. The expense is estimated and accrued on a quarterly basis based on recent historical experience and is trued up at each profit sharing year-end which occur throughout the year. The Company also pays certain financial institutions sponsorship fees which are primarily based on the loss experience of the business placed by the financial institution with the Company.

Valuation of Investments and Net Investment Income

Fixed maturity securities, which may be sold prior to maturity and include fixed maturities on loan, are classified as available-for-sale and are carried at fair value. Premiums and discounts are amortized or accreted using the interest yield method. The Company recognizes the excess of all cash flows over the initial investment attributable to its beneficial interest in asset-backed securities estimated at the acquisition/transaction date as interest income over the life of the Company's beneficial interest using the effective interest yield method. The Company does not accrete the discount for fixed maturity securities that are in default.

The Company uses book value as cost for applying the retrospective adjustment method to loan-backed fixed maturity securities purchased. Prepayment assumptions for single class and multi-class mortgage-backed securities were obtained using a commercial software application or internal estimates.

Marketable equity securities are generally classified as available-for-sale and are carried at fair value. Mutual funds and exchange-traded fund investments in select asset classes that are sub-advised are carried at fair value, which generally are quoted market prices of the funds' net asset value. The Company also invests in non-marketable equity securities that are not classified as available-for-sale and are carried at cost, which approximates fair value. As of December 31, 2010 and 2009, the Company had $10,000,000 of non-marketable equity securities.

Available-for-sale securities are stated at fair value, with the unrealized gains and losses, net of adjustments to deferred policy acquisition costs, reserves and deferred income tax, reported as a separate component of accumulated other comprehensive income (loss) in stockholder's equity.

Mortgage loans are carried at amortized cost less any valuation allowances. Premiums and discounts are amortized or accreted over the terms of the mortgage loans based on the effective interest yield method.

Alternative investments include private equity funds, mezzanine debt funds and hedge funds investing in limited partnerships. These investments are carried on the consolidated balance sheets at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after the date of the acquisition, and adjusted for any distributions received (equity method accounting). In-kind distributions are recorded as a return of capital for the cost basis of the stock received. Any adjustments recorded directly to the stockholders' equity of the investee are recorded, based on the Company's ownership share, as unrealized gains or losses. The valuation of alternative investments is recorded based on the partnership financial statements from the previous quarter plus contributions and distributions during the fourth quarter. The Company believes this valuation represents the best available estimate, however, to the extent that market conditions fluctuate significantly, any change in the following quarter partnership financial statements could be material to the Company's unrealized gains or losses included in stockholder's equity. The Company evaluates partnership financial statements received subsequent to December 31 up to the financial statements issue date for material fluctuations in order to determine if an adjustment should be recorded as of December 31.

Investments in partnerships, which represent minority interests owned in certain general agencies, are carried in other invested assets on the consolidated balance sheets at the amount invested, adjusted to recognize the Company's ownership share of the earnings or losses of the investee after acquisition adjusted for any distributions received (equity method accounting). The valuation of these investments is based on each general agency financial statement from the previous quarter. The Company believes this valuation represents the best available estimate. Any known material changes to the valuation are recorded at year-end. At purchase, the Company recorded goodwill amounts related to these investments. Goodwill related to investments held under the equity method of accounting represents the difference between the cost of the investment and the amount of underlying equity in net assets of the investee.

Real estate, included in other invested assets on the consolidated balance sheets, is carried at cost less accumulated depreciation.

For non-structured fixed maturity securities, the Company recognizes interest income using the interest method without anticipating the impact of prepayments. The Company recognizes dividend income on equity securities upon the declaration of the dividend.

For structured fixed maturity securities, excluding interest-only securities, the Company recognizes income using a constant effective yield method based on prepayment assumptions obtained from outside service providers or upon analyst review of the underlying collateral and the estimated economic life of the securities. When estimated prepayments differ from the anticipated prepayments, the effective yield is recalculated to reflect actual prepayments to date and anticipated future payments. Any resulting adjustment is included in net investment income.

Policy loans are carried at the unpaid principal balance.

Cash and cash equivalents of sufficient credit quality are carried at cost, which approximates fair value. The Company considers all money market funds and commercial paper with original maturity dates of less than three months to be cash equivalents. The Company places its cash and cash equivalents with high quality financial institutions and, at times, these balances may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

A portion of the funds collected by the Company from its financial institution customers is restricted in its use because the Company is acting as an agent on behalf of certain insurance underwriters. As an agent, the Company has a fiduciary responsibility to remit the appropriate percentage of monies collected to the corresponding insurance underwriters. This sum of money is defined as unremitted premiums payable and is recorded in other liabilities on the consolidated balance sheets as discussed in detail in note 16. The use of restricted funds is limited to the satisfaction of the unremitted premiums and claims payable owed to the underwriter.

The amount of restricted cash reported in cash and cash equivalents on the consolidated balance sheets is $19,997,000 and $19,593,000 at December 31, 2010 and 2009, respectively.

Finance receivables that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs. The interest rates on the receivables outstanding at December 31, 2010 and 2009 are consistent with the rates at which loans would currently be made to borrowers of similar credit quality and for the same maturities and security; as such, the carrying value of the receivables outstanding at December 31, 2010 and 2009 approximate the fair value at that date.

Derivative Financial Instruments

The Company uses a variety of derivatives, including swaps, forwards, futures and option contracts, to manage the risks associated with cash flows or changes in estimated fair values related to the Company's financial instruments. The Company currently enters into derivative transactions that do not qualify for hedge accounting or in certain cases, elects not to utilize hedge accounting.

Derivative instruments are carried at fair value, with changes in fair value of derivative instruments and hedged items recorded in net realized investment gains (losses) or, in the case of certain life insurance product hedging, in policyholder benefits on the consolidated statements of operations. Interest income generated by derivative instruments is reported in net realized investment gains (losses) on the consolidated statements of operations.

Several life insurance and annuity products in the Company's liability portfolio contain investment guarantees which are deemed to be embedded derivatives. These guarantees take the form of guaranteed withdrawal benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and equity linked interest credits on both fixed annuity and fixed universal life products. The embedded derivative is bifurcated from the host insurance contract and accounted for as a freestanding derivative. Embedded derivatives are carried on the consolidated balance sheets at estimated fair value and are included within policy and contract account balances and future policy and contract benefits on the consolidated balance sheets. Changes in estimated fair value are reported in net realized investment gains (losses) or in policyholder benefits on the consolidated statements of operations.

The Company holds "To-Be-Announced" (TBA) Government National Mortgage Association forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. A majority of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company's TBA securities happen at a later date, thus extending the forward contract date. These securities are reported at fair value as derivative instruments with the changes in fair value reported in net realized investment gains (losses).

Realized and Unrealized Gains and Losses

Realized and unrealized gains and losses are determined using the specific security identification method. The Company regularly reviews each investment in its various asset classes to evaluate the necessity of recording impairment losses for other-than-temporary declines in fair value. During these reviews, the Company evaluates many factors, including, but not limited to, the length of time and the extent to which the current fair value has been below the cost of the security, specific credit issues such

as collateral, financial prospects related to the issuer, the Company's intent to hold or sell the security, and current economic conditions.

Prior to 2009, the Company recognized in earnings an other-than-temporary impairment (OTTI) for a fixed maturity security in an unrealized loss position unless it could assert that it had both the intent and ability to hold the fixed maturity security for a period of time sufficient to allow for a recovery of fair value to the security's amortized cost basis. Also prior to 2009, the entire difference between the fixed maturity security's amortized cost basis and its fair value was recognized in earnings if it was determined to have an OTTI.

In 2009, the Financial Accounting Standards Board (FASB) issued new guidance on the recognition and presentation of other-than-temporary impairments. This new guidance amends the previously used methodology for determining whether an OTTI exists for fixed maturity securities. It requires that an OTTI be recognized in earnings for a fixed maturity security in an unrealized loss position when it is anticipated that the amortized cost will not be recovered. In such situations, the OTTI recognized in earnings is the entire difference between the fixed maturity security's amortized cost and its fair value only when either the Company has the intent to sell the fixed maturity security or it is more likely than not that the Company will be required to sell the fixed maturity security before recovery of the decline in the fair value below amortized cost. If neither of these two conditions exists, the difference between the amortized cost basis of the fixed maturity security and the present value of the projected future cash flows expected to be collected is recognized as an OTTI in earnings (credit loss). If the fair value is less than the present value of projected future cash flows expected to be collected, this portion of the OTTI related to other-than credit factors (noncredit loss) is recorded as an other comprehensive loss. When an unrealized loss on a fixed maturity security is considered temporary, the Company continues to record the unrealized loss in accumulated other comprehensive income (loss) and not in earnings. The application of this pronouncement was effective January 1, 2009 and the Company adopted the guidance on a prospective basis as required.

For non-structured fixed maturity securities, an OTTI is recorded when the Company does not expect to recover the entire amortized cost basis of the security. The Company estimates the credit component of the loss based on a number of various liquidation scenarios that it uses to assess the revised expected cash flows from the security.

For structured fixed maturity securities, an OTTI is recorded when the Company believes that based on expected discounted cash flows, the Company will not recover all amounts due under the contractual terms of the security. The credit loss component considers inputs from outside sources, including but not limited to, default rates, delinquency rates, loan to collateral ratios, third-party guarantees, current levels of subordination, vintage, geographic concentration, credit ratings and other information that management deems relevant in forming its assessment.

The Company utilizes an accretable yield which is the equivalent of book yield at purchase date as the factor to discount the cash flows. The book yield is also analyzed to see if it warrants any changes due to prepayment assumptions.

For equity securities, an OTTI is recorded when the Company does not have the ability and intent to hold the security until forecasted recovery, or if the forecasted recovery is not within a reasonable period. When an OTTI has occurred, the entire difference between the equity security's cost and its fair value is charged to earnings. Equity securities that have been in an unrealized loss position of greater than 20% for longer than six months are reviewed specifically using available third party information based on the investee's current financial condition, liquidity, near-term recovery prospects, and other factors. In addition, all equity securities that have an unrealized loss position greater than $100,000 are reviewed based on the individual characteristics of the security. For all such equity security considerations, the Company further considers the likelihood of recovery within a reasonable period of time, as well as the intent and ability to hold such securities.

Alternative investments that have been in an unrealized loss position of greater than 20% for longer than two years are analyzed on a fund by fund basis using current and forecasted expectations for future fund performance, the age of the fund, general partner commentary and underlying investments within the fund. If facts and circumstances indicate that the value of the investment will not recover in a reasonable time period, the cost of the investment is written down and an OTTI is recorded in net realized investment gains (losses) on the consolidated statements of operations.

All other material unrealized losses are reviewed for any unusual event that may trigger an OTTI. Determination of the status of each analyzed investment as other-than-temporarily impaired or not is made based on these evaluations with documentation of the rationale for the decision.

The Company may, from time to time, sell invested assets subsequent to the balance sheet date that were considered temporarily impaired at the balance sheet date for several reasons. The rationale for the change in the Company's intent to sell generally focuses on unforeseen changes in the economic facts and circumstances related to the invested asset subsequent to the balance sheet date, significant unforeseen changes in the Company's liquidity needs, or changes in tax laws or the regulatory environment. The Company had no material sales of invested assets subsequent to the balance sheet dates for either December 31, 2010 or 2009.

The mortgage loan valuation allowance is estimated based on an evaluation of known and inherent risks within the loan portfolio and consists of an evaluation of a specific

loan loss allowance and a general loan loss allowance. A specific loan loss allowance is recognized when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan. A non-performing loan is defined as a loan that is not performing to the contractual terms of the loan agreement. Examples of non-performing loans may include delinquent loans, requests for forbearance and loans in the process of foreclosure. The specific valuation allowance is equal to the excess carrying value of the loan over the present value of expected future cash flows discounted at the loans original effective interest rate, or, if the loan is in the process of foreclosure or otherwise collateral dependent, the estimated fair value of the loan's underlying collateral, less estimated selling costs. Mortgage loans that are deemed uncollectible are generally written-off against the valuation allowance, and recoveries, if any, are credited to the valuation allowance. The Company may recognize a general loan loss valuation allowance for pools of loans with similar characteristics when it is probable that a credit event has occurred within the pool and the amount of the loss can be reasonably estimated. Changes in the valuation allowance are recorded as net realized investment gains (losses) on the consolidated statements of operations.

Investments in partnerships, consisting of both equity value of the investment and related goodwill, are evaluated annually regarding the necessity of recording impairment losses for an other-than-temporary impairment decline in the fair value of the asset.

Securities Lending

The Company, through an agent, lends certain portfolio holdings and in turn receives cash collateral to be invested pursuant to the terms of an agreement with the lending agent.

The Company accounts for its securities lending transactions as secured borrowings, in which the collateral received and the related obligation to return the collateral are recorded on the consolidated balance sheets as securities held as collateral and other liabilities, respectively. Securities on loan remain on the Company's consolidated balance sheets and interest and dividend income earned by the Company on loaned securities is recognized in net investment income on the consolidated statements of operations. The Company is in the process of exiting all current securities lending programs.

Securities lending income is recorded in net investment income and was $17,000, $199,000, and $1,285,000 for the years ended December 31, 2010, 2009, and 2008, respectively. Securities, consisting of equity securities and fixed maturity securities, were loaned to other financial institutions. Amounts loaned as of December 31, 2010 and 2009 were $64,355,000 and $78,253,000, respectively. As of December 31, 2010 and 2009, the fair value of the collateral associated with securities lending was $33,274,000 and $40,170,000, respectively.

Separate Accounts

Separate account assets and liabilities represent segregated funds administered by an unaffiliated asset management firm. These segregated funds are invested by both an unaffiliated asset management firm and an affiliate of the Company for the exclusive benefit of the Company's pension, variable annuity and variable life insurance policyholders and contractholders. Assets consist principally of marketable securities and are reported at the fair value of the investments held in the segregated funds. Investment income and gains and losses accrue directly to the policyholders and contractholders. The activity of the separate accounts is not reflected on the consolidated statements of operations except for the fees the Company received, which are assessed on a daily or monthly basis and recognized as revenue when assessed and earned, and the activity related to guaranteed minimum death and withdrawal benefits.

The Company periodically invests money in its separate accounts. At December 31, 2010 and 2009, the fair value of these investments included within equity securities on the consolidated balance sheets was $21,869,000 and $25,769,000, respectively.

Finance Charge Income and Receivables

Finance charge income, arising from the Company's consumer finance operations, includes finance charges, interest, and fees on finance receivables which are recorded as earned. Accrued and uncollected finance charges, interest and fees are included in finance receivables on the consolidated balance sheets. The Company uses the interest (actuarial) method of accounting for unearned finance charges and interest on finance receivables. Finance receivables are reported net of unearned finance charges. Accrual of finance charges, interest and late charges on smaller balance, homogeneous finance receivables is suspended when a loan is contractually delinquent for more than 60 days and is subsequently recognized when received. Accrual of finance charges is resumed when the loan is contractually less than 60 days past due. Accrual of finance charges and interest is suspended on other receivables at the earlier of when they are contractually past due for more than 60 days or they are considered by management to be impaired.

A loan is treated as impaired when, based upon current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are generally larger real estate secured loans that are 60 days past due. Loan impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or as a practical expedient, at the observable market price of the loan or the fair value of the collateral if the loan is collateral dependent. Large groups of homogenous installment receivables are collectively evaluated for impairment. When a loan is identified

as impaired, interest accrued in the current year is reversed. Interest payments received on impaired loans are generally applied to principal unless the remaining principal balance has been determined to be fully collectible.

An allowance for losses is maintained by direct charges to operations at an amount, which in management's judgment, based on a specific review of larger individual loans, the overall risk characteristics of the portfolio, changes in the character or size of the portfolio, the level of non-performing assets, historical losses and economic conditions, is adequate to absorb probable losses on existing receivables. The Company's general policy is to charge off accounts (net of unearned finance charges) when they are deemed uncollectible and in any event on which no collections were received during the preceding six months, except for certain accounts which have been individually reviewed by management and are deemed to warrant further collection effort.

The adequacy of the allowance for losses is highly dependent upon management's estimates of variables affecting valuation, appraisals of collateral, evaluations of performance and status, and the amounts and timing of future cash flows expected to be received on impaired loans. Such estimates, appraisals, evaluations and cash flows may be subject to frequent adjustments due to changing economic prospects of borrowers or properties. These estimates are reviewed periodically and adjustments, if necessary, are recorded in the provision for credit losses in the periods in which they become known.

Deferred Policy Acquisition Costs

The costs of acquiring new and renewal business, after the effects of reinsurance, which vary with and are primarily related to the production of new and renewal business, are generally deferred to the extent recoverable from future premiums or expected gross profits. Deferrable costs include commissions, underwriting expenses and certain other selling and issue costs. Deferred policy acquisition costs (DAC) are subject to loss recognition and recoverability testing at least annually.

For traditional life insurance, accident and health and group life insurance products, DAC are amortized with interest over the premium paying period in proportion to the ratio of annual premium revenues to ultimate premium revenues. The ultimate premium revenues are estimated based upon the same assumptions used to calculate the future policy benefits.

For nontraditional life insurance products and deferred annuities, DAC are amortized with interest over the expected life of the contracts in relation to the present value of estimated gross profits from investment, mortality and expense, and lapse margins. The Company reviews actuarial assumptions used to project estimated gross profits, such as mortality, persistency, expenses, investment returns and separate account returns, periodically throughout the year. These assumptions reflect the Company's best estimate of future experience.

For future separate account returns, the Company utilizes a mean reversion process. The Company determines an initial starting date (anchor date) to which a long-term separate account return assumption is applied in order to project an estimated mean return. The Company's future long-term separate account return assumption was 8% at December 31, 2010 and 2009. Factors regarding economic outlook, as reviewed by a third-party, and management's current view of the capital markets along with a historical analysis of long-term investment returns were considered in developing the Company's long-term separate account return assumption. If the actual separate account return varies from the long-term assumption, a modified yield assumption is projected over the next five years such that the mean return equals the long-term assumption. The modified yield assumption is not permitted to be negative or in excess of 15% during the five-year reversion period.

As a result of the overall poor market performance in 2008, the Company determined that the anchor date used in the mean reversion process should be reset to December 31, 2008 to better reflect current market conditions and the Company's best estimate of DAC. Resetting the anchor date resulted in an additional net loss of $15,280,000 in 2008.

Changes in assumptions can have a significant impact on the amount of DAC reported for nontraditional life insurance products and deferred annuities, and the related amortization patterns. In the event actual experience differs from expected experience or future assumptions are revised to reflect management's new best estimate, the Company records an increase or decrease in DAC amortization expense, which could be significant. Any resulting impact to financial results from a change in an assumption is included in amortization of DAC on the consolidated statements of operations.

DAC are adjusted to reflect the impact of unrealized gains and losses on fixed maturity securities available-for-sale as disclosed in note 21. The adjustment represents the changes in amortization that would have been recorded had such unrealized amounts been realized. This adjustment is recorded through accumulated other comprehensive income (loss) on the consolidated balance sheets.

The Company assesses internal replacements on insurance contracts to determine whether such modifications significantly change the contract terms. An internal replacement represents a modification in product benefits, features, rights or coverages that occurs by the exchange of an insurance contract for a new insurance contract, or by amendment, endorsement or rider to a contract, or by the election of a feature or coverage within a contract. If the modification substantially changes the contract, the remaining DAC on the original contract are immediately expensed and any new DAC on the replacement contract are deferred. If the contract modification does not substantially change the contract, DAC amortization on the original contract continues and any new acquisition costs associated with the modification are immediately expensed.

Sales Inducements

The Company defers sales inducements and amortizes them over the life of the policy utilizing the same methodology and assumptions used to amortize DAC. Deferred sales inducements are included in other assets on the consolidated balance sheets. The Company offers sales inducements for individual annuity products that credits the policyholder with a higher interest rate than the normal general account interest rate for the first year of the deposit and another sales inducement that offers an upfront bonus on variable annuities. Changes in deferred sales inducements for the periods ended December 31 were as follows:

in thousands	2010	2009
Balance at beginning of year	$ 10,292	$ 9,726
Capitalization	3,226	3,467
Amortization and interest	(792)	(715)
Adjustment for unrealized losses	(1,311)	(2,186)
Balance at end of year	**$ 11,415**	$ 10,292

Goodwill and Other Intangible Assets

In connection with acquisitions of operating entities, the Company recognizes the excess of the purchase price over the fair value of net assets acquired as goodwill. Goodwill is not amortized, and is tested for impairment, at the reporting unit level, at least annually and between annual evaluations if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. When evaluating whether goodwill is impaired, the Company compares the fair value of the reporting unit to which the goodwill is assigned to the reporting unit's carrying amount, including goodwill. The fair value of the reporting unit is estimated using a combination of the income or discounted cash flows approach and the market approach, which utilizes comparable companies' data, when available. If the carrying amount of a reporting unit exceeds its fair value, then the amount of the impairment loss must be measured. The impairment loss would be calculated by comparing the implied fair value of reporting unit goodwill to its carrying amount. In calculating the implied fair value of reporting unit goodwill, the fair value of the reporting unit is allocated to all of the other assets and liabilities of that unit based on their fair values. The excess of the fair value of a reporting unit over the amount assigned to its other assets and liabilities is the implied fair value of goodwill. An impairment loss would be recognized when the carrying amount of goodwill exceeds its implied fair value.

The Company also evaluates the recoverability of other intangible assets with finite useful lives whenever events or changes in circumstances indicate that an intang ble asset's carrying amount may not be recoverable. Such circumstances could include, but are not limited to: (1) a significant decrease in the fair value of an asset, (2) a significant adverse change in the extent or manner in which an asset is used, or (3) an accumulation of costs significantly in excess of the amount originally expected for the acquisition of an asset. The Company measures the carrying amount of the asset against the estimated undiscounted future cash flows associated with it. Should the sum of the expected future net cash flows be less than the carrying value of the asset being evaluated, an impairment loss would be recognized. The impairment loss would be determined as the amount by which the carrying value of the asset exceeds its fair value. The fair value is measured based on quoted market prices, if available. If quoted market prices are not available, the estimate of fair value is based on various valuation techniques, including the discounted value of estimated future cash flows. The evaluation of asset impairment requires the Company to make assumptions about future cash flows over the life of the asset being evaluated. These assumptions require significant judgment and actual results may differ from assumed and estimated amounts.

Software

Computer software costs incurred for internal use are capitalized and amortized over a three to five-year period. Computer software costs include application software, purchased software packages and significant upgrades to software and are included in property and equipment, net on the consolidated balance sheets. The Company had unamortized software costs of $41,977,000 and $39,950,000 as of December 31, 2010 and 2009, respectively, and amortized software expense of $16,207,000, $15,401,000 and $14,683,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation of $136,031,000 and $123,810,000 at December 31, 2010 and 2009, respectively. Buildings are depreciated over 40 years and equipment is generally depreciated over 5 to 10 years. Depreciation expense for the years ended December 31, 2010, 2009 and 2008, was $10,474,000, $12,301,000, and $12,423,000, respectively.

Reinsurance

Insurance liabilities are reported before the effects of ceded reinsurance. Reinsurance recoverables represent amounts due from reinsurers for paid and unpaid benefits, expense reimbursements, prepaid premiums and future policy benefits. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured business. Reinsurance premiums ceded and recoveries on benefits and claims incurred are deducted from the respective income and expense accounts.

Policyholder Liabilities

Policy and contract account balances represent the net accumulation of funds associated with nontraditional life insurance products and deferred annuities. Additions to account balances include premiums, deposits and interest credited by the Company. Deductions to account balances include surrenders, withdrawals, benefit payments and charges assessed for the cost of insurance, policy administration and surrenders.

Future policy and contract benefits are comprised of reserves for traditional life insurance, group life insurance, accident and health products, and guarantees on certain deferred annuity contracts. The reserves were calculated using the net level premium method based upon assumptions regarding investment yield, mortality, morbidity and withdrawal rates determined at the date of issue, commensurate with the Company's experience. Provision has been made in certain cases for adverse deviations from these assumptions. When estimating the expected gross margins for traditional life insurance products as of December 31, 2010, the Company has assumed an average rate of investment yields ranging from 3.78% to 5.13%.

Future policy and contract benefits are adjusted to reflect the impact of unrealized gains and losses on securities as disclosed in note 21. The adjustment to future policy benefits and claims represents the increase in policy reserves from using a required discount rate if the funds were reinvested at then current market interest rates instead of the then current effective portfolio rate implicit in the policy reserves.

Pending policy and contract claims primarily represent amounts estimated for claims incurred but not reported and claims that have been reported but not settled. Such liabilities are estimated based upon the Company's historical experience and other actuarial assumptions that consider current developments and anticipated trends.

Other policyholder funds are comprised of dividend accumulations, premium deposit funds and supplementary contracts without life contingencies.

Participating Business

Dividends on participating policies and other discretionary payments are declared by the Board of Directors based upon actuarial determinations, which take into consideration current mortality, interest earnings, expense factors and federal income taxes. Dividends are recognized as expenses consistent with the recognition of premiums. At December 31, 2010 and 2009, the total participating business in force was $1,999,977,000 and $1,918,937,000, respectively. As a percentage of total life insurance in force, participating business in force represents 0.4% at both December 31, 2010 and 2009.

Income Taxes

The Company files a life/non-life consolidated federal income tax return with Minnesota Mutual Companies, Inc., the Company's ultimate parent. The Company utilizes a consolidated approach to the allocation of current taxes, whereby, the tax benefits resulting from any losses by the Company, which would be realized by Minnesota Mutual Companies, Inc. on a consolidated return, go to the benefit of the Company. Intercompany tax balances are settled annually when the tax return is filed with the Internal Revenue Service (IRS).

Inherent in the provision for federal income taxes are estimates regarding the deductibility of certain items and the realization of certain tax credits. In the event the ultimate deductibility of certain items or the realization of certain tax credits differs from estimates, the Company may be required to significantly change the provision for federal income taxes recorded on the consolidated financial statements. Any such change could significantly affect the amounts reported on the consolidated statements of operations. Management has used best estimates to establish reserves based on current facts and circumstances regarding tax exposure items where the ultimate deductibility is open to interpretation. Management evaluates the appropriateness of such reserves based on any new developments specific to their fact patterns. Information considered includes results of completed tax examinations, Technical Advice Memorandums and other rulings issued by the IRS or the tax courts.

The Company utilizes the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under this method, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. Valuation allowances are established when it is determined that it is more likely than not that the deferred tax asset will not be fully realized. Current income taxes are charged to operations based upon amounts estimated to be payable as a result of taxable operations for the current year.

Reclassifications

Certain 2009 and 2008 financial statement balances have been reclassified to conform to the 2010 presentation.

During 2010, as a result of clarification in regulatory guidance, the Company made changes to how certain fixed maturity securities are classified within the notes to the

consolidated financial statements. Certain fixed maturity securities previously classified as corporate securities were reclassified as structured securities including asset-backed, commercial mortgage-backed securities (CMBS) and residential mortgage-backed securities (RMBS).

As a result of the reclassification, the Company has adjusted applicable prior year fixed maturity security balances presented within footnotes 5 and 6 of the consolidated financial statements to be consistent with amounts reported as of and for the year ended December 31, 2010. The impact of the reclassification to prior year balances of fixed maturity securities by type for both amortized cost and fair value is as follows:

in thousands	Amortized cost			Fair value		
December 31, 2009	As originally reported	Adjustment	As adjusted	As originally reported	Adjustment	As adjusted
U.S. government securities	$ 129,281	$ –	$ 129,281	$ 141,263	$ –	$ 141,263
Agencies not backed by the full faith and credit of the U.S. government	81,148	(22,187)	58,961	84,401	(22,599)	61,802
Foreign government securities	23,979	22,187	46,166	25,162	22,599	47,761
Corporate securities	4,597,195	(236,803)	4,360,392	4,824,978	(258,109)	4,566,869
Asset-backed securities	221,211	233,225	454,436	220,857	254,310	475,167
CMBS	952,662	(2,871)	949,791	848,226	(3,945)	844,281
RMBS	2,043,766	6,449	2,050,215	1,991,795	7,744	1,999,539
Total fixed maturity securities, available-for-sale	$ 8,049,242	$ –	$ 8,049,242	$ 8,136,682	$ –	$ 8,136,682

NOTE 3

RISKS

The following is a description of the significant risks facing the Company:

Credit and Cash Flow Assumption Risk:

Credit and cash flow assumption risk is the risk that issuers of investment securities, mortgagees on mortgage loans or other parties, including reinsurers and derivatives counterparties, default on their contractual obligations or experience adverse changes to the contractual cash flow streams. The Company attempts to minimize the adverse impact of this risk by monitoring portfolio diversification by asset class, creditor, industry, and by complying with investment limitations governed by state insurance laws and regulations as applicable. The Company also considers relevant objective information available in estimating the cash flows related to structured securities. The Company monitors and manages exposures, determines whether securities are impaired or loans are deemed uncollectible, and takes charges in the period such assessments are made.

Following below is discussion regarding particular asset class concentration of credit risk:

Concentration of Credit Risk:

Cash and Cash Equivalents:

Certain financial instruments, consisting primarily of cash and cash equivalents, potentially subject the Company to concentration of credit risk. The Company places its cash and cash equivalents in investment grade securities and limits the amount of credit exposure with any one institution.

Financial Instruments:

Management attempts to limit the concentration of credit risk with respect to mortgages, fixed maturity securities, and other invested assets by diversifying the geographic base and industries of the underlying issuers. This diversity is an integral component of the portfolio management process.

Management attempts to achieve equity security diversification through the use of style diversification and through limiting exposure to a single issuer. Alternative investment diversification is sought by dividing the portfolio between direct venture company funds, mezzanine debt funds and hedge and other types of alternative instruments. In addition, this portfolio is managed by diversifying industry sectors to limit exposure to any one type of fund.

Derivatives:

The Company executes derivative transactions with ongoing counterparty exposure exclusively with highly rated counterparties. Should the rating of a derivative counterparty drop, the Company may require the counterparty to post collateral. The aggregate counterparty exposure for a single non-qualified counterparty is limited to 1% of admitted assets. The aggregate counterparty exposure to all non-qualified counterparties is limited to 3% of admitted assets. Admitted assets in this context are defined as the Company's admitted assets as defined by Statutory Accounting guidance authored by the National Association of Insurance Commissioners (NAIC).

To date, the Company has not required receipt of collateral from its interest rate swap counterparties. The Company does not anticipate nonperformance by any of its derivative instrument counterparties. The Company is required to pledge collateral in order to

trade in futures contracts. This requirement is satisfied by deposit of a U.S. Treasury security. The Company maintains ownership of pledged securities at all times.

The Company attempts to minimize the adverse impact of any exposure to potential loss in the event of credit default by the Company's futures contracts by the fact that the futures contracts are exchange-traded instruments and if the broker could not perform its intermediary obligations concerning the Company's futures contracts, these contracts could be transferred to a new broker with little or no financial impact to the Company.

Equity Market Risk:

Equity market risk is the risk that significant adverse fluctuations in the equity market can affect financial results. Risks may include, but are not limited to, potential impairments to equity security holdings, changes in the amount of fee revenue a company may be able to realize from its separate account assets, impacting estimations of future profit streams from variable products or increasing potential claims under certain contracts with guaranteed minimum benefit features and, as discussed in credit risk above, investing in equity securities as a part of the insurance company investment portfolio.

As of December 31, 2010, approximately 96.7% of separate account assets were invested in equity investments across the Company's variable product offerings. The Company attempts to minimize the adverse impact of this risk with its product offerings in traditional insurance products, which do not expose fee revenue to equity market risk and by collecting fee revenue on a transactional or annual basis rather than an asset-based basis.

The Company holds derivative instruments in its efforts to minimize the adverse impact of equity market risks embedded within certain individual annuity and life products.

As discussed above, the Company monitors its overall exposure to the equity market and attempts to maintain a diversified investment portfolio limiting its exposure to any single issuer.

Foreign Currency Risk:

Foreign currency risk is the risk that the price of foreign currency denominated contracts may change significantly prior to the completion of investment transactions. The Company utilizes short-duration spot forward contracts in its efforts to minimize the adverse impact of foreign currency exchange rate risk inherent in the elapsed time between trade processing and trade settlement in its international equity portfolios.

Interest Rate Risk:

Interest rate risk is the risk that interest rates will change and cause a decrease in the value of an insurer's investments relative to the value of its liabilities. The Company attempts to minimize the adverse impact of this risk by maintaining a diversified portfolio of investments and monitoring cash flow patterns in order to approximately match the expected maturity of its liabilities, by employing disciplined new product development procedures and by offering a wide range of products and by operating throughout the United States.

Legal/Regulatory Risk:

Legal or regulatory risk is the risk that changes in the legal or regulatory environment in which an insurer operates will result in increased competition, reduced demand for a company's products, or additional unanticipated expenses in the pricing of a company's products. The Company attempts to minimize the adverse impact of this risk by offering a wide range of products and by operating throughout the United States. The Company specifically monitors its risk toward any one particular product or particular jurisdictions. The Company employs compliance practices that identify and assist in minimizing the adverse impact of this risk.

Mortality Risk:

Mortality risk is the risk that overall life expectancy assumptions used by the Company in the pricing of its life insurance and annuity products prove to be too aggressive. This situation could occur, for example, as a result of pandemics, terrorism, natural disasters, or acts of war. The Company's main strategy to reduce this risk is to limit the concentration of mortality risk through geographical diversification and the purchase of reinsurance.

Ratings Risk:

Ratings risk is the risk that rating agencies change their outlook or rating of the Company or a subsidiary of the Company, where such change or changes in the Company's underlying business or a combination of both could negatively impact the Company. The Company employs a strategic planning process, disciplined new product procedures, monitors its risk-based capital and other capital ratios for adequacy and maintains regular communications with the rating agencies in its efforts to minimize the adverse impact of this risk.

Reinsurance Risk:

Reinsurance risk is the risk that reinsurance companies, where a company has ceded a portion of its underwriting risk, may default on their obligation. The Company has entered into certain reinsurance contracts to cede a portion of its life and health business. The Company established a trust agreement when assets connected to the ceding of its Individual Disability line of business were sold. The assets in the trust are actively monitored for potential credit risk and are replaced as necessary. The Company also monitors the ratings of reinsurance companies it chooses to cede risk to and follows up on any outstanding balances with reinsurance companies.

NOTE 4

NEW ACCOUNTING PRONOUNCEMENTS

In December 2010, the FASB issued Accounting Standards Update 2010-29 (ASU 2010-29), Business Combinations (Topic 805): Disclosure of Supplementary Pro Forma Information for Business Combinations which requires the disclosure of pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date had been as of the beginning of the annual reporting period or the beginning of the comparable prior annual reporting period if comparative financial statements are presented. ASU 2010-29 is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2010. The Company is currently evaluating the impact of this new guidance to its consolidated results of operations and financial position.

In December 2010, the FASB issued Accounting Standards Update 2010-28 (ASU 2010-28), Intangibles – Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts which requires an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. ASU 2010-28 is effective for non-public entities for reporting periods ending after December 15, 2011. The Company is currently evaluating the impact of this new guidance to its consolidated results of operations and financial position.

In October 2010, the FASB issued Accounting Standards Update 2010-26 (ASU 2010-26), Financial Services – Insurance (Topic 944): Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts, which clarifies the types of costs that can be capitalized in the successful acquisition of new or renewal insurance contracts. Capitalized costs should include incremental direct costs of contract acquisition, as well as certain costs related directly to acquisition activities such as underwriting, policy issuance and processing, medical and inspection and sales force contract selling. ASU 2010-26 will be effective for fiscal years beginning after December 31, 2011 with retrospective application permitted but not required. The Company is currently evaluating the impact of this new guidance to its consolidated results of operations and financial position.

In July 2010, the FASB issued Accounting Standards Update 2010-20 (ASU 2010-20), Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowances for Credit Losses which 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 the Company develops its allowance for credit losses and how it manages its credit exposure. ASU 2010-20 is effective for non-public entities for reporting periods ending after December 15, 2011. The Company is currently evaluating the impact of this new guidance to its financial statements.

In April 2010, the FASB issued Accounting Standards Update 2010-15 (ASU 2010-15), Financial Services – Insurance (Topic 944): How Investments Held through Separate Accounts Affect an Insurer's Consolidation of Analysis of Those Investments, under which an insurance entity would not be required to consolidate a voting-interest investment fund when it holds the majority of the voting interests of the fund through its separate accounts. In addition, an insurance entity would not consider the interests held through separate accounts for the benefit of policyholders in the insurer's evaluation of its economics in a variable interest entity, unless the separate account contract holder is a related party. ASU 2010-15 is effective for fiscal years beginning after December 15, 2010 and is not expected to have a material impact to the Company's consolidated results of operations and financial position.

In January 2010, the FASB issued Accounting Standards Update 2010-06 (ASU 2010-06), Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements, which requires new disclosures related to fair value measurements and clarifies existing disclosure requirements about the level of disaggregation, inputs and valuation techniques. Additionally, this guidance requires disclosures about significant transfers between Level 1 and 2 measurement categories and separating the presentation of purchases, sales and settlements. This guidance was effective for periods beginning after December 15, 2009, except for the disclosures regarding the separation of the presentation of purchases, sales and settlements, which is effective for periods beginning after December 15, 2010. ASU 2010-06 was adopted by the Company effective January 1, 2010 with the exception of separating the presentation of purchases, sales and settlements. There was no impact to the Company's consolidated results of operations or financial position due to the adoption of this new guidance. The clarification of existing disclosure requirements about the level of disaggregation, inputs and valuation techniques is included within note 5 and 12. The Company will adopt the required disclosure provisions of this new guidance relating to the separation of the presentation of purchases, sales and settlements effective January 1, 2011.

In January 2010, the FASB issued Accounting Standards Update 2010-02 (ASU 2010-02), Consolidations (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary, which clarifies the accounting and reporting by an entity that experiences a decrease in ownership in a subsidiary that is a business or nonprofit activity for periods ending on or after December 15, 2009. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of ASU 2010-02.

In September 2009, the FASB issued Accounting Standards Update 2009-12 (ASU 2009-12), Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent), which provides guidance on measuring the fair value of investments in certain entities that calculate net asset value per share, how investments within its scope would be classified in the fair value hierarchy and enhances disclosure requirements about the nature and risks of investments measured at fair value on a recurring and non-recurring basis for periods ending after December 15, 2009. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of ASU 2009-12.

In August 2009, the FASB issued Accounting Standards Update 2009-05 (ASU 2009-05), Fair Value Measurements and Disclosures (Topic 820): Measuring Liabilities at Fair Value, which provides clarification for measuring the fair value in circumstances in which a quoted price in an active market for the identical liability is not available for periods beginning January 1, 2010. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of ASU 2009-05.

In June 2009, the FASB issued FASB Accounting Standards Codification (Codification) as the single source of authoritative accounting guidance used in the preparation of financial statements in conformity with GAAP for all non-governmental agencies. Codification, which changed the referencing and organization of accounting guidance without modification of existing GAAP, is effective for periods ending after September 15, 2009. Since it did not modify GAAP, Codification did not have a material impact on the consolidated results of operations or financial position of the Company.

In June 2009, the FASB issued guidance relating to special purpose entities changing the determination of the primary beneficiary of a variable interest entity (VIE) from a quantitative model to a qualitative model. Under the new qualitative model, the primary beneficiary must have both the ability to direct the activities of the VIE and the obligation to absorb either losses or gains that could be significant to the VIE. The guidance also changes when reassessment is needed, as well as requires enhanced disclosures, including the Company's involvement with VIEs on its financial statements for periods beginning after November 15, 2009. In February 2010, the FASB issued Accounting Standards Updated 2010-10 (ASU 2010-10), Consolidation, Amendments for Certain Investment Funds. This guidance indefinitely defers the consolidation requirements for reporting enterprises' interests in entities that have the characteristics of investment companies and regulated money market funds. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of this new guidance and has provided the required disclosures in note 8.

In June 2009, the FASB issued guidance relating to the accounting for transfers of financial assets. This guidance eliminates the concept of a qualifying special purpose entity, eliminates the guaranteed mortgage securitization exception, changes the criteria for achieving sale accounting when transferring a financial asset and changes the initial recognition of retained beneficial interest. The guidance also requires additional disclosures about a transferor's financial assets that have been accounted for as sales, the risks inherent in the transferred financial assets that have been retained, and the nature and financial effect of restrictions on the transferor's assets that continue to be reported on the consolidated balance sheets for periods beginning after November 15, 2009. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of this new guidance.

In May 2009, the FASB issued guidance establishing general standards of accounting for and disclosure of events that occur after the balance sheet date but before the financial statements are issued or available to be issued. It also requires disclosure of the date through which management has evaluated subsequent events and the basis for that date. This guidance is effective for periods ending after June 15, 2009. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of this new guidance and has provided the required disclosures in note 25.

In April 2009, the FASB issued new guidance on the recognition and presentation of other-than-temporary impairments (OTTI Guidance) as discussed in note 2. This OTTI Guidance amends the previously used methodology for determining whether an OTTI exists for fixed maturity securities, changes the presentation of OTTI for fixed maturity securities and requires additional disclosures for OTTI on fixed maturity and equity securities in annual financial statements.

The Company's net cumulative effect adjustment of adopting the OTTI Guidance effective January 1, 2009, was an increase to retained earnings of $87,683,000 and a decrease to accumulated other comprehensive income (AOCI) of $56,783,000. This cumulative effect adjustment to retained earnings was comprised of an increase to the amortized cost basis of fixed maturity securities of $89,593,000, net of policyholder related amounts of $2,388,000 and net of deferred income tax benefits of $478,000. The difference between the impact of the cumulative effect adjustment to retained earnings and AOCI of $30,900,000 is almost entirely due to a decrease in the tax valuation allowance as a result of the reclassification of non-credit losses to AOCI. The enhanced financial statement presentation of the total OTTI loss and the offset for the portion of noncredit OTTI loss transferred to, and recognized in, other comprehensive income (loss) is presented on the consolidated statements of operations.

In January 2009, the FASB issued guidance which removed the exclusive reliance on market participant estimates of future cash flows and allows management to apply reasonable judgment in assessing whether an OTTI has occurred. The Company adopted the provisions of this new guidance on a prospective basis effective October 1, 2008.

In April 2009, the FASB issued guidance on estimating the fair value of an asset or liability if there was a significant decrease in the volume and level of trading activity for these assets or liabilities and identifying transactions that are not orderly. This guidance is effective for periods ending after June 15, 2009. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of this new guidance.

In December 2008, the FASB issued guidance requiring employers to make additional disclosures about plan assets for defined benefit and other postretirement benefit plans for periods ending after December 15, 2009. The Company has provided all of the material required disclosures in note 12.

In April 2008, the FASB issued guidance addressing renewal and extension assumptions used to determine the useful life of recognized intangible assets. This guidance is effective for fiscal years beginning after December 15, 2008 and is applicable for intangible assets acquired after the effective date. The Company had no material impact to its consolidated results of operations or financial position due to the adoption of this new guidance.

In March 2008, the FASB issued guidance effective for fiscal years beginning after November 15, 2008, enhancing required disclosures that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for and how derivative instruments and related hedging items affect a company's financial position, financial performance and cash flows. The Company has provided all of the material required disclosures in note 7.

In December 2007, FASB issued guidance establishing accounting and reporting standards for the non-controlling interest in a subsidiary and for the deconsolidation of a subsidiary. The adoption of this new guidance on January 1, 2009 had no material impact on the Company's consolidated results of operations or financial position.

In December 2007, the FASB issued and subsequently modified in April 2009, guidance relating to business combinations. This new guidance improves the relevance, representational faithfulness, and comparability of the information that a reporting entity provides about a business combination and its effects. The adoption of this new guidance on January 1, 2009 had no material impact on the Company's consolidated results of operations or financial position.

NOTE 5

FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Assets and Financial Liabilities Reported at Fair Value

The fair value of the Company's financial assets and financial liabilities has been determined using available market information as of December 31, 2010 and 2009. Although the Company is not aware of any factors that would significantly affect the fair value of financial assets and financial liabilities, such amounts have not been comprehensively revalued since those dates. Therefore, estimates of fair value subsequent to the valuation dates may differ significantly from the amounts presented herein. Considerable judgment is required to interpret market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. In determining fair value, the Company primarily uses the market approach which utilizes process and other relevant information generated by market transactions involving identical or comparable assets or liabilities. To a lesser extent, the Company also uses the income approach which uses discounted cash flows to determine fair value. When applying either approach, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in the circumstances.

The Company is required to categorize its financial assets and financial liabilities recorded on the consolidated balance sheets according to a three-level hierarchy. A level is assigned to each financial asset and financial liability based on the lowest level input that is significant to the fair value measurement in its entirety. The levels of fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets and liabilities utilizing Level 1 valuations generally include U.S. Treasury securities, money-market funds, actively-traded U.S. and international equities, investments in mutual funds with quoted market prices, certain separate account assets, and listed derivatives.

Level 2 – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable in active markets for identical or similar assets and liabilities. The types of assets and liabilities utilizing

Level 2 valuations generally include U.S. government securities not backed by the full faith of the government, publicly traded corporate fixed maturity securities, structured notes, municipal fixed maturity securities, certain mortgage and asset-backed securities, certain separate account assets, and certain derivatives.

Level 3 – Fair value is based on at least one or more significant unobservable inputs. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the assets or liabilities. The types of assets and liabilities utilizing Level 3 valuations generally include certain mortgage and asset backed securities, certain privately placed corporate fixed maturity securities and certain derivatives, including embedded derivatives associated with living benefit guarantees and equity-indexed features on certain life and annuity contracts.

The Company uses prices and inputs that are current as of the measurement date. In periods of market disruption, the ability to observe prices and inputs may be reduced, which could cause an asset or liability to be reclassified to a lower level.

Inputs used to measure fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The following tables summarize the Company's financial assets and financial liabilities measured at fair value on a recurring basis:

in thousands

December 31, 2010	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 158,844	$ –	$ –	$ 158,844
Agencies not backed by the full faith and credit of the U.S. government	–	50,092	–	50,092
Foreign government securities	–	52,492	–	52,492
Corporate securities	–	4,737,669	818,072	5,555,741
Asset-backed securities	–	354,898	172,299	527,197
CMBS	–	967,426	27	967,453
RMBS	–	2,020,370	2,466	2,022,836
Total fixed maturity securities, available- for-sale	158,844	8,182,947	992,864	9,334,655
Equity securities, available-for-sale	210,249	–	4	210,253
Fixed maturity securities on loan:				
U.S. government securities	29,879	–	–	29,879
Agencies not backed by the full faith and credit of the U.S. government	–	6,180	–	6,180
Corporate securities	–	16,004	–	16,004
Asset-backed securities	–	2,008	–	2,008
Total fixed maturity securities on loan	29,879	24,192	–	54,071
Equity securities on loan	10,284	–	–	10,284
Derivative instruments:				
TBA derivative instruments	–	124,840	–	124,840
Other derivative instruments	1,174	39,276	–	40,450
Total derivative instruments	1,174	164,116	–	165,290
Total investments	410,430	8,371,255	992,868	9,774,553
Cash equivalents	297,767	7,087	–	304,854
Securities held as collateral	–	33,274	–	33,274
Separate account assets[1]	12,856,370	343,266	–	13,199,636
Total financial assets	**$13,564,567**	**$ 8,754,882**	**$ 992,868**	**$23,312,317**
Policy and contract account balances[2]	$ –	$ –	$ 35,301	$ 35,301
Future policy and contract benefits[2]	–	–	20,577	20,577
Derivative instruments	700	9,140	–	9,840
Securities lending collateral	–	51,758	–	51,758
Total financial liabilities	**$ 700**	**$ 60,898**	**$ 55,878**	**$ 117,476**

[1] Separate account liabilities are set equal to the fair value of separate account assets as prescribed by GAAP accounting guidance.

[2] Policy and contract account balances and future policy and contract benefits balances reported in this table relate to embedded derivatives associated with living benefit guarantees and equity-indexed features on certain annuity and life insurance products. The Company's guaranteed minimum withdrawal benefits, guaranteed annuity payout floor, and equity-indexed annuity and life products are considered embedded derivatives under current accounting guidance, resulting in the related liabilities being separated from the host contract and recognized at fair value.

in thousands

December 31, 2009	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale[1]:				
U.S. government securities	$ 141,263	$ –	$ –	$ 141,263
Agencies not backed by the full faith and credit of the U.S. government	–	61,802	–	61,802
Foreign government securities	–	47,761	–	47,761
Corporate securities	–	3,805,083	761,786	4,566,869
Asset-backed securities	–	275,348	199,819	475,167
CMBS	–	844,192	89	844,281
RMBS	–	1,994,793	4,746	1,999,539
Total fixed maturity securities, available- for-sale	141,263	7,028,979	966,440	8,136,682
Equity securities, available-for-sale	276,007	–	9	276,016
Fixed maturity securities on loan:				
U.S. government securities	38,691	–	–	38,691
Foreign government securities	–	690	–	690
Corporate securities	–	19,510	–	19,510
Total fixed maturity securities on loan	38,691	20,200	–	58,891
Equity securities on loan	19,362	–	–	19,362
Derivative instruments	6	47,463	–	47,469
Total investments	475,329	7,096,642	966,449	8,538,420
Cash equivalents	297,516	9,493	–	307,009
Securities held as collateral	6,876	33,294	–	40,170
Separate account assets[2]	11,030,739	416,869	–	11,447,608
Total financial assets	$ 11,810,460	$ 7,556,298	$ 966,449	$ 20,333,207
Policy and contract account balances[3]	$ –	$ –	$ 13,114	$ 13,114
Future policy and contract benefits[3]	–	–	30,999	30,999
Derivative instruments	–	673	–	673
Securities lending collateral	6,876	73,874	–	80,750
Total financial liabilities	$ 6,876	$ 74,547	$ 44,113	$ 125,536

[1] As noted in footnote 2, certain fixed maturity securities were reclassified between categories in 2010. Prior year balances have been adjusted to be consistent with amounts reported as of and for the year ended December 31, 2010.

[2] Separate account liabilities are set equal to the fair value of separate account assets as prescribed by GAAP accounting guidance.

[3] Policy and contract account balances and future policy and contract benefits balances reported in this table relate to embedded derivatives associated with living benefit guarantees and equity-indexed features on certain annuity and life insurance products. The Company's guaranteed minimum withdrawal benefits, guaranteed annuity payout floor, and equity-indexed annuity and life products are considered embedded derivatives under current accounting guidance, resulting in the related liabilities being separated from the host contract and recognized at fair value.

The methods and assumptions used to estimate the fair value of financial assets and liabilities are summarized as follows:

Fixed maturity securities, available-for-sale and on loan

When available, fair values of fixed maturity are based on quoted market prices of identical assets in active markets and are reflected in Level 1.

When quoted prices are not available, the Company's priority is to obtain prices from third party pricing services. The Company generally receives prices from multiple pricing services and maintains a vendor hierarchy by asset type based on historical pricing experience and vendor expertise. Prices are reviewed by asset managers to validate reasonability. Fixed maturity securities with validated prices from pricing services are generally reflected in Level 2. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service. If the pricing service updates the price to be more consistent in comparison to the presented market observations, the security remains within Level 2.

For fixed maturity securities where quoted market prices are not available or the Company concludes the pricing information received from third party pricing services is not reflective of market activity – generally private placement securities, securities that do not trade regularly, and embedded derivatives included in such securities – an internally developed matrix pricing model using a commercial software application is used. The matrix pricing model is developed by obtaining spreads versus the U.S.

Treasury yield for corporate securities with varying weighted average lives and bond ratings. The weighted average life and bond rating of a particular fixed maturity security to be priced are important inputs into the model and are used to determine a corresponding spread that is added to the U.S. Treasury yield to create an estimated market yield for that security. The estimated market yield, liquidity premium, any adjustments for known credit risk, and other relevant factors are then used to estimate the fair value of the particular fixed maturity security. Fixed maturity securities valued using internally developed pricing models are reflected in Level 3.

As of December 31, 2010, 89.3% of fixed maturity fair values were obtained from third party pricing services and 10.7% from the internal methods described above. As of December 31, 2009, 87.9% of fixed maturity fair values were obtained from third party pricing services and 12.1% from the internal methods described above.

Equity securities, available-for-sale and on loan

The Company's equity securities consist primarily of investments in common stock of publicly traded companies. The fair values of equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1.

Derivative instruments

Derivative instrument fair values are based on quoted market prices when available. If a quoted market price is not available, fair value is estimated using current market assumptions and modeling techniques, which are then compared with quotes from counterparties.

The majority of the Company's derivative positions are traded in the over-the-counter (OTC) derivative market and are classified as Level 2. The fair values of most OTC derivatives are determined using discounted cash flow pricing models. The significant inputs to the pricing models are observable in the market or can be derived principally from or corroborated by observable market data. Significant inputs that are observable generally include: interest rates, foreign currency exchange rates, interest rate curves, credit curves and volatility. However, certain OTC derivatives may rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. Significant inputs that are unobservable generally include: independent broker quotes and inputs that are outside the observable portion of the interest rate curve, credit curve, volatility or other relevant market measure. These unobservable inputs may involve significant management judgment or estimation. In general, all over-the-counter derivatives are compared to an outside broker quote when available and are reviewed in detail through the Company's valuation oversight group.

The credit risk of both the counterparty and the Company are considered in determining the estimated fair value for all OTC derivatives after taking into account the effects of netting agreements and collateral arrangements.

Cash equivalents

Cash equivalents include money market instruments and highly rated commercial paper. Money market instruments are generally valued using unadjusted quoted prices in active markets and are reflected in Level 1. The remaining instruments are typically not traded in active markets and their fair values are based on market observable inputs and, accordingly, have been classified as Level 2.

Separate account assets

Separate account assets are carried at estimated fair value and reported as a summarized total on the consolidated balance sheets. The estimated fair value of separate account assets are based on the fair value of the underlying assets owned by the separate account. Assets within the Company's separate accounts include: mutual funds, fixed maturity securities, equity securities and cash and cash equivalents.

Policy and contract account balances and future policy and contract account benefits

Policy and contract account balances and future policy and contract account benefits include liabilities for living benefit guarantees and equity-indexed features on certain variable annuity contracts and variable life insurance policies accounted for as embedded derivatives. These guarantees take the form of guaranteed withdrawal and income benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and equity linked interest credits on both fixed annuity and fixed universal life products.

The fair value for embedded derivatives is estimated using the present value of future benefits less the present value of future fees over the expected lives of the contracts using various capital market and actuarial assumptions. The cash flows are projected under multiple capital market scenarios using observable risk free rates. The valuation of these embedded derivatives includes an adjustment for the Company's own credit risk and other non-capital market inputs. The Company's own credit adjustment is determined taking into consideration publicly available information relating to peer companies' debt ratings and the Company's own claims paying ability.

Other significant inputs to the valuation models for the embedded derivatives associated with the optional living benefit features of the Company's variable annuity products include capital market assumptions, such as interest rate and implied volatility assumptions, as well as various policyholder behavior assumptions that are actuarially determined, including lapse rates, benefit utilization rates, mortality rates and withdrawal rates. These assumptions are reviewed at least annually, and updated based upon historical experience. Since many of the assumptions utilized in the valuation of embedded derivatives associated with the company's optional living benefit features are unobservable and are considered to be significant inputs to the liability valuations, the liability has been reflected within Level 3.

The following tables provide a summary of changes in fair value of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2010:

in thousands	Balance at beginning of year	Total realized and unrealized gains (losses) included in: Net income[1]	Other comprehensive income	Purchases, sales and settlements, net	Transfers in to Level 3[2]	Transfers out of Level 3[2]	Balance at end of year
Corporate securities	**$ 761,786**	**$ (3,505)**	**$ 26,215**	**$ 31,518**	**$ 2,058**	**$ –**	**$ 818,072**
Asset-backed securities	**199,819**	**32**	**4,083**	**(22,946)**	**17,379**	**(26,068)**	**172,299**
CMBS	**89**	**–**	**(2)**	**(60)**	**–**	**–**	**27**
RMBS	**4,746**	**238**	**1,339**	**(3,141)**	**–**	**(716)**	**2,466**
Total fixed maturity securities available-for-sale	**966,440**	**(3,235)**	**31,635**	**5,371**	**19,437**	**(26,784)**	**992,864**
Equity securities, available-for-sale	**9**	**(15)**	**18**	**(8)**	**–**	**–**	**4**
Total financial assets	**$ 966,449**	**$ (3,250)**	**$ 31,653**	**$ 5,363**	**$ 19,437**	**$ (26,784)**	**$ 992,868**

[1] The amounts included in this column are reported in net realized investment gains (losses) on the consolidated statements of operations.

[2] Transfers in to/out of Level 3 are primarily due to the availability of quoted market prices or changes in the Company's conclusion that pricing information received from a third party pricing service is not reflective of market activity.

Transfers of securities among the levels occur at the beginning of the reporting period. Transfers between Level 1 and Level 2 were not material for the year ended December 31, 2010.

The following tables provide a summary of changes in fair value of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2009:

in thousands	Balance at beginning of year	Total realized and unrealized gains (losses) included in: Net income[3]	Other comprehensive income	Purchases, sales and settlements, net	Transfers in to Level 3[4]	Transfers out of Level 3[4]	Balance at end of year
Agencies not backed by the full faith and credit of the U.S. government	$ 2,797	$ –	$ –	$ –	$ –	$ (2,797)	$ –
Corporate securities	688,689	(6,103)	106,134	(23,379)	–	(3,555)	761,786
Asset-backed securities	191,159	(16)	12,487	25,311	–	(29,122)	199,819
CMBS	12,623	–	15	(32)	–	(12,517)	89
RMBS	16,604	(1,314)	2,319	(12,393)	69	(539)	4,746
Total fixed maturity securities available-for-sale[1]	911,872	(7,433)	120,955	(10,493)	69	(48,530)	966,440
Equity securities, available-for-sale	326	–	213	(415)	–	(115)	9
Separate account assets[2]	2,100	(1,200)	–	(900)	–	–	–
Total financial assets	$ 914,298	$ (8,633)	$ 121,168	$ (11,808)	$ 69	$ (48,645)	$ 966,449

[1] As noted in footnote 2, certain fixed maturity securities were reclassified between categories in 2010. Prior year balances have been adjusted to be consistent with amounts reported as of and for the year ended December 31, 2010.

[2] The net realized gain (loss) on separate account assets is attributable to policy and contract holders and, therefore, is not included in the Company's net loss.

[3] The amounts included in this column are reported in net realized investment gains (losses) on the consolidated statements of operations.

[4] Transfers in to/out of Level 3 are primarily due to the availability of quoted market prices or changes in the Company's conclusion that pricing information received from a third party pricing service is not reflective of market activity.

There were no changes in unrealized gains (losses) included in net income (loss) related to assets held as of December 31, 2010 and 2009.

The following tables provide a summary of changes in fair value of Level 3 financial liabilities held at fair value on a recurring basis during the year ended December 31, 2010:

		Total realized and unrealized gains (losses) included in:					
in thousands	Balance at beginning of year	Net income[1]	Other comprehensive income	Purchases, sales and settlements, net	Transfers in to Level 3	Transfers out of Level 3	Balance at end of year
Policy and contract account balances	$ 13,114	$ 22,187	$ –	$ –	$ –	$ –	$ 35,301
Future policy and contract benefits	30,999	(9,867)	–	(555)	–	–	20,577
Total financial liabilities	**$ 44,113**	**$ 12,320**	**$ –**	**$ (555)**	**$ –**	**$ –**	**$ 55,878**

[1] The amounts in this column related to future policy and contract benefits are reported as gains within net realized investment gains (losses) on the consolidated statements of operations and the amounts related to the policy and contract account balances are reported as losses within policyholder benefits on the consolidated statements of operations.

The following tables provide a summary of changes in fair value of Level 3 financial liabilities held at fair value on a recurring basis during the year ended December 31, 2009:

		Total realized and unrealized gains (losses) included in:					
in thousands	Balance at beginning of year	Net income[1]	Other comprehensive income	Purchases, sales and settlements, net	Transfers in to Level 3	Transfers out of Level 3	Balance at end of year
Policy and contract account balances	$ 2,398	$ 10,716	$ –	$ –	$ –	$ –	$ 13,114
Future policy and contract benefits	107,175	(75,090)	–	(1,086)	–	–	30,999
Total financial liabilities	$ 109,573	$ (64,374)	$ –	$ (1,086)	$ –	$ –	$ 44,113

[1] The amounts in this column related to future policy and contract benefits are reported as gains within net realized investment gains (losses) on the consolidated statements of operations and the amounts related to the policy and contract account balances are reported as losses within policyholder benefits on the consolidated statements of operations.

The change in unrealized (gains) losses included in net income (loss) related to liabilities held as of December 31, 2010 was $13,405,000, of which $(8,975,000) was included in net realized investment gains (losses) and $22,380,000 was included in policyholder benefits on the consolidated statements of operations. The change in unrealized (gains) losses included in net income (loss) related to liabilities held as of December 31, 2009 was $(60,698,000), of which $(70,908,000) was included in net realized investment gains (losses) and $10,210,000 was included in policyholder benefits on the consolidated statements of operations.

The Company did not have any assets or liabilities reported at fair value on a nonrecurring basis.

Financial Assets and Financial Liabilities Reported at Other Than Fair Value

The Company uses various methods and assumptions to estimate the fair value of financial assets and financial liabilities that are not carried at fair value on the consolidated balance sheets.

Fair values of mortgage loans are based upon matrix pricing and discounted cash flows which may not necessarily equal the exit price a market participant would pay for the loan. The carrying amounts for finance receivables, policy loans, and alternative investments approximate the assets' fair values.

The interest rates on finance receivables outstanding as of December 31, 2010 and 2009 are consistent with the rates at which loans would currently be made to borrowers of similar credit quality and for the same maturities and security.

The fair values of deferred annuities and other fund deposits, which have guaranteed interest rates and surrender charges, are estimated to be the amount payable on demand as of December 31, 2010 and 2009 as those investment contracts have no defined maturity, are similar to a deposit liability and are based on the current interest rate environment relative to the guaranteed interest rates. The amount payable on demand equates to the account balance less applicable surrender charges. Contracts without guaranteed interest rates and surrender charges have fair values equal to their accumulation values plus applicable market value adjustments.

The fair values of supplementary contracts without life contingencies and annuity certain contracts are calculated using discounted cash flows, based on interest rates currently offered for similar products with maturities consistent with those remaining for the contracts being valued.

The fair value of notes payable is estimated using rates currently available to the Company for debt with similar terms and remaining maturities.

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

in thousands	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Mortgage loans, net	$ 1,276,154	$ 1,333,744	$ 1,263,581	$ 1,231,777
Finance receivables, net	197,856	197,856	190,925	190,925
Policy loans	339,127	339,127	340,362	340,362
Alternative investments	506,294	506,294	470,424	470,424

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

in thousands	2010		2009	
	Carrying amount	Fair value	Carrying amount	Fair value
Deferred annuities	$ 2,564,994	$ 2,742,477	$ 2,420,139	$ 2,532,103
Annuity certain contracts	82,974	87,647	72,789	86,544
Other fund deposits	1,702,694	1,705,162	1,560,268	1,558,257
Supplementary contracts without life contingencies	58,638	58,638	56,407	56,407
Notes payable	120,000	122,179	125,000	127,226

NOTE 6
INVESTMENTS

Fixed Maturity and Equity Securities

The Company's fixed maturity portfolio consists primarily of public and private corporate fixed maturity securities, mortgage and other asset backed securities, and U.S. Treasury and agency obligations.

The carrying value of the Company's fixed maturity portfolio totaled $9,388,726,000 and $8,195,573,000 at December 31, 2010 and 2009, respectively. Fixed maturity securities represent 77.0% and 75.2% of total invested assets at December 31, 2010 and 2009, respectively. At December 31, 2010 and 2009 publicly traded fixed maturity securities comprised 79.0% and 80.2%, respectively, of the total fixed maturity portfolio.

The Company invests in private placement fixed maturity securities to enhance the overall value of its portfolio, increase diversification and obtain higher yields than are possible with comparable publicly traded securities. Generally, private placement fixed maturity securities provide broader access to management information, strengthened negotiated protective covenants, call protection features and, frequently, improved seniority of collateral protection. Private placement securities generally are only tradable subject to restrictions by federal and state securities laws and are, therefore, less liquid than publicly traded fixed maturity securities.

The Company holds CMBS that may be originated by single or multiple issuers, which are collateralized by mortgage loans secured by income producing commercial properties such as office buildings, multi-family dwellings, industrial, retail, hotels and other property types.

The Company's RMBS portfolio consists of pass-through securities, which are pools of mortgage loans collateralized by single-family residences and primarily issued by government sponsored entities (e.g., GNMA, FNMA and FHLMC), and structured pass-through securities, such as collateralized mortgage obligations, that may have specific prepayment and maturity profiles and may be issued by either government sponsored entities or "private label" issuers. The Company's RMBS portfolio primarily contains loans made to borrowers with strong credit histories. The Company's portfolio consisted of $1,705,746,000 and $1,693,337,000 agency backed RMBS and $317,090,000 and $306,202,000 non-agency backed RMBS as of December 31, 2010 and 2009, respectively. The Company's RMBS portfolio also includes Alt-A mortgage loans to customers who have good credit ratings but have limited documentation for their source of income or some other standards used to underwrite the mortgage loan, and subprime residential loans to customers with weak credit profiles, including mortgages originated using relaxed mortgage-underwriting standards. The fair value of the Company's subprime securities as of December 31, 2010 was $73,914,000 with unrealized losses totaling $11,107,000. The fair value of the Company's subprime securities as of December 31, 2009 was $53,060,000 with unrealized losses totaling $15,378,000.

The Company's asset-backed securities investment portfolio consists of securities collateralized by the cash flows of receivables relating to credit cards, automobiles, manufactured housing and other asset class loans.

The equity securities portfolio is managed with the objective of capturing long-term capital gains with a moderate level of current income. The carrying value of the Company's equity security portfolio totaled $230,537,000 and $305,378,000 as of December 31, 2010 and 2009, respectively.

The amortized cost, gross unrealized gains and losses, OTTI recognized in accumulated other comprehensive loss (AOCL) and fair value of fixed maturity and equity securities by type of investment were as follows:

in thousands December 31, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL[1]	Fair value
U.S. government securities	$ 140,960	$ 18,094	$ 210	$ –	$ 158,844
Agencies not backed by the full faith and credit of the U.S. government	47,321	3,187	416	–	50,092
Foreign government securities	47,769	4,723	–	–	52,492
Corporate securities	5,192,965	366,254	14,466	(10,988)	5,555,741
Asset-backed securities	491,782	31,891	1,926	(5,450)	527,197
CMBS	954,629	28,484	10,796	4,864	967,453
RMBS	1,988,688	86,914	11,498	41,268	2,022,836
Total fixed maturity securities, available-for-sale	8,864,114	539,547	39,312	29,694	9,334,655
Equity securities – unaffiliated	187,951	33,645	1,343	–	220,253
Total	$ 9,052,065	$ 573,192	$ 40,655	$ 29,694	$ 9,554,908

[1] Amounts include net unrealized (gains) losses on OTTI securities subsequent to the impairment measurement date.

in thousands December 31, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL[2]	Fair value
U.S. government securities	$ 129,281	$ 12,517	$ 535	$ –	$ 141,263
Agencies not backed by the full faith and credit of the U.S. government	58,961	3,374	533	–	61,802
Foreign government securities	46,166	2,578	983	–	47,761
Corporate securities	4,360,392	227,276	21,523	(724)	4,566,869
Asset-backed securities	454,436	27,665	5,026	1,908	475,167
CMBS	949,791	10,410	69,486	46,434	844,281
RMBS	2,050,215	63,207	33,965	79,918	1,999,539
Total fixed maturity securities, available-for-sale[1]	8,049,242	347,027	132,051	127,536	8,136,682
Equity securities – unaffiliated	244,743	43,601	2,328	–	286,016
Total	$ 8,293,985	$ 390,628	$ 134,379	$ 127,536	$ 8,422,698

[1] As noted in footnote 2, certain fixed maturity securities were reclassified between categories in 2010. Prior year balances have been adjusted to be consistent with amounts reported as of and for the year ended December 31, 2010.

[2] Amounts include net unrealized (gains) losses on OTTI securities subsequent to the impairment measurement date.

The amortized cost, gross unrealized gains and losses, OTTI recognized in AOCL and fair value of fixed maturity and equity securities on loan by type of investment were as follows:

in thousands December 31, 2010	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL	Fair value
U.S. government securities	$ 28,288	$ 1,920	$ 329	$ –	$ 29,879
Agencies not backed by the full faith and credit of the U.S. government	5,708	472	–	–	6,180
Corporate securities	15,462	582	40	–	16,004
Asset-backed securities	2,011	–	3	–	2,008
Total fixed maturity securities	51,469	2,974	372	–	54,071
Equity securities – unaffiliated	8,624	1,689	29	–	10,284
Total	$ 60,093	$ 4,663	$ 401	$ –	$ 64,355

in thousands December 31, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL	Fair value
U.S. government securities	$ 39,325	$ 820	$ 1,454	$ –	$ 38,691
Foreign government securities	703	8	21	–	690
Corporate securities	18,502	1,063	55	–	19,510
Total fixed maturity securities	58,530	1,891	1,530	–	58,891
Equity securities – unaffiliated	15,563	3,870	71	–	19,362
Total	$ 74,093	$ 5,761	$ 1,601	$ –	$ 78,253

The amortized cost and fair value of fixed maturity securities at December 31, 2010, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Available-for-sale securities on loan	
in thousands	**Amortized cost**	**Fair value**	**Amortized cost**	**Fair value**
Due in one year or less	$ 217,281	$ 222,139	$ 861	$ 872
Due after one year through five years	1,926,206	2,079,766	17,060	17,588
Due after five years through ten years	2,883,349	3,095,397	23,621	23,827
Due after ten years	402,179	419,867	7,916	9,776
	5,429,015	5,817,169	49,458	52,063
Asset-backed and mortgage-backed securities	3,435,099	3,517,486	2,011	2,008
Total	**$ 8,864,114**	**$ 9,334,655**	**$ 51,469**	**$ 54,071**

The Company had certain investments with a reported fair value lower than the cost of the investments as follows:

in thousands	Less than 12 months			12 months or greater		
December 31, 2010	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**
U.S. government securities	$ 18,235	$ 18,445	$ 210	$ –	$ –	$ –
Agencies not backed by the full faith and credit of the U.S. government	3,419	3,521	102	3,871	4,185	314
Corporate securities	586,296	599,308	13,012	20,300	21,768	1,468
Asset-backed securities	36,910	37,832	922	13,276	15,576	2,300
CMBS	106,988	110,344	3,356	108,848	131,047	22,199
RMBS	165,473	169,420	3,947	216,770	268,972	52,202
Equity securities – unaffiliated	17,450	18,577	1,127	880	1,096	216

in thousands	Less than 12 months			12 months or greater		
December 31, 2009[1]	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**
U.S. government securities	$ 36,500	$ 37,035	$ 535	$ –	$ –	$ –
Agencies not backed by the full faith and credit of the U.S. government	5,306	5,811	505	635	663	28
Foreign government securities	24,109	25,092	983	–	–	–
Corporate securities	312,038	316,396	4,358	303,561	323,546	19,985
Asset-backed securities	89,388	92,739	3,351	24,255	27,989	3,734
CMBS	126,309	138,091	11,782	374,861	479,489	104,628
RMBS	444,444	475,331	30,887	215,538	302,499	86,961
Equity securities – unaffiliated	11,640	12,299	659	75,036	76,705	1,669

[1] As noted in footnote 2, certain fixed maturity securities were reclassified between categories in 2010. Prior year balances have been adjusted to be consistent with amounts reported as of and for the year ended December 31, 2010.

The Company had certain investments on loan with a reported fair value lower than the cost of the investments as follows:

in thousands	Less than 12 months			12 months or greater		
December 31, 2010	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**
U.S. government securities	$ 18,776	$ 19,105	$ 329	$ –	$ –	$ –
Corporate securities	4,362	4,402	40	–	–	–
Asset-backed securities	2,008	2,011	3	–	–	–
Equity securities – unaffiliated	210	239	29	–	–	–

in thousands	Less than 12 months			12 months or greater		
December 31, 2009	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**	**Fair value**	**Amortized cost**	**Unrealized losses and OTTI in AOCL**
U.S. government securities	$ 32,071	$ 33,525	$ 1,454	$ –	$ –	$ –
Foreign government securities	497	518	21	–	–	–
Corporate securities	5,310	5,364	54	424	425	1
Equity securities – unaffiliated	1,249	1,320	71	–	–	–

For fixed maturity securities in an unrealized loss position, the Company expects to collect all principal and interest payments. In determining whether an impairment is other than temporary, the Company evaluates its intent and need to sell a security prior to its anticipated recovery in fair value. The Company performs ongoing analysis of liquidity needs, which includes cash flow testing. Cash flow testing includes duration matching of the investment portfolio and policyholder liabilities. As of December 31, 2010, the Company does not intend to sell and does not believe that it will be required to sell investments with an unrealized loss prior to recovery.

The following paragraphs summarize the Company's evaluation of investment categories with unrealized losses as of December 31, 2010.

U.S. government securities by their nature are impaired due to current interest rates and not credit-related reasons.

Agencies not backed by the full faith and credit of the U.S. government are also normally impaired due to interest rates and not credit-related reasons. Although not backed by the full faith and credit of the U.S. government, these securities generally trade as if they are.

Corporate security valuations are impacted by both interest rates and credit industry specific issues. The Company recognizes an OTTI due to credit issues if the Company feels the security will not recover in a reasonable period of time. Unrealized losses are primarily due to the interest rate environment and credit spreads.

CMBS and RMBS are impacted by both interest rates and the value of the underlying collateral. The Company utilizes discounted cash flow models using outside assumptions to determine if an OTTI is warranted.

The Company's RMBS portfolio primarily consists of prime residential mortgages with loans made to customers with strong credit histories. The slowdown in the U.S. housing market has impacted the valuations across the entire asset class. As of December 31, 2010, 84.3% of the RMBS portfolio was invested in agency pass-through securities. At December 31, 2010, the Company had RMBS securities that were in an unrealized loss position for twelve months or longer. The fair values of these securities were 78.2% investment grade (BBB or better). Credit support for the RMBS holdings remains high.

The Company's CMBS portfolio had initial ratings of AA or higher and are diversified by property type and geographic location. The Company's CMBS portfolio is primarily super senior and senior securities as opposed to mezzanine or below. Weaknesses in commercial real estate fundamentals have impacted most of the asset class and the Company has recognized OTTI when warranted. At December 31, 2010, the Company had CMBS securities that had been in an unrealized loss position for twelve months or longer. The fair values of these securities were 78.1% investment grade.

Equity securities with unrealized losses at December 31, 2010 primarily represent highly diversified publicly traded equity securities that have positive outlooks for near-term future recovery.

At December 31, 2010 and 2009, fixed maturity securities and cash equivalents with a carrying value of $32,803,000 and $31,916,000, respectively, were on deposit with various regulatory authorities as required by law.

Mortgage Loans

The Company underwrites commercial mortgages on general purpose income producing properties including office buildings, retail facilities, apartments/other, industrial and hotel properties. Geographic and property type diversification is also considered in analyzing investment opportunities, as well as property valuation and cash flow. The mortgage loan portfolio totaled $1,276,154,000 and $1,263,581,000 at December 31, 2010 and 2009, respectively.

All of the Company's commercial mortgage loan investments are owned by Minnesota Life Insurance Company and are managed and serviced directly by an affiliate, Advantus Capital Management, Inc. (Advantus). The Company currently does not hold any condominium commercial mortgage loan, construction, mezzanine or land loan investments.

If information is obtained on commercial mortgage loans that indicate a potential problem (likelihood of the borrower not being able to comply with the present loan repayment terms), the loan is placed on an internal surveillance list, which is routinely monitored by the Company. Among the criteria that would indicate a potential problem are: borrower bankruptcies, major tenant bankruptcies, loan relief/restructuring requests, delinquent tax payments, late payments, and vacancy rates.

Real estate acquired in satisfaction of debt is accounted for at the lower of the property's fair value less expected selling costs or the loan balance. In 2010, the Company acquired two properties in lieu of foreclosure. The total carrying value of those properties at December 31, 2010 was $8,400,000 and is included in other invested assets on the consolidated balance sheets. There were also two restructured loans with a total carrying value of $10,229,000 and no foreclosed loans in the commercial mortgage loan portfolio at December 31, 2010. The Company had one restructured loan with a carrying value of $4,655,000 and no foreclosed loans or real estate owned as of December 31, 2009. The Company did not have any outstanding commitments to lend additional funds to borrowers with restructured loans as of December 31, 2010.

Realized losses on mortgage loans are the result of foreclosures, sales of loans and write-down in anticipation of losses. The Company recognized $3,144,000 of realized losses in 2010 on commercial mortgage loans where the properties were acquired in lieu of foreclosure. The Company did not recognize any realized capital losses on commercial mortgage loans for the years ended December 31, 2009 and 2008. The valuation allowance held for mortgage loans was $3,700,000 as of December 31, 2010 and $100,000 as of December 31, 2009. The change in valuation allowance was $3,600,000, $100,000 and $0 for the years ending December 31, 2010, 2009 and 2008, respectively.

Alternative Investments

Alternative investments primarily consist of venture capital funds, middle market leveraged buyout funds, distressed debt funds, mezzanine debt funds, hedge funds and other miscellaneous equity investments. Alternative investments are attempted to be diversified by type, general partner, vintage year, and geographic location – both domestic and international.

The Company's composition of alternative investments by type were as follows:

	December 31, 2010		December 31, 2009	
in thousands	Carrying value	Percent of total	Carrying value	Percent of total
Alternative investments				
Private equity funds	$ 261,399	51.6%	$ 244,590	52.0%
Mezzanine debt funds	172,029	34.0%	156,180	33.2%
Hedge funds	72,866	14.4%	69,654	14.8%
Total alternative investments	**$ 506,294**	**100.0%**	$ 470,424	100.0%

Net Investment Income

Net investment income for the years ended December 31 was as follows:

in thousands	2010	2009	2008
Fixed maturity securities	$ 484,873	$ 445,444	$ 415,949
Equity securities	9,587	12,468	21,061
Mortgage loans	76,925	77,362	80,917
Policy loans	24,649	24,515	24,040
Cash equivalents	421	1,585	5,366
Alternative investments	13,052	3,930	5,266
Derivative instruments	231	(85)	(101)
Other invested assets	6,159	4,205	6,113
Gross investment income	615,897	569,424	558,611
Investment expenses	(5,063)	(3,595)	(3,786)
Total	**$ 610,834**	$ 565,829	$ 554,825

Net Realized Investment Gains (Losses)

Net realized investment gains (losses) for the years ended December 31 were as follows:

in thousands	2010	2009	2008
Fixed maturity securities	$ 1,400	$ (28,930)	$ (304,931)
Equity securities	29,494	47,362	(92,880)
Mortgage loans	(6,744)	(74)	-
Alternative investments	1,362	(15,267)	(2,070)
Derivative instruments	10,087	21,434	(50,844)
Other invested assets	(380)	(1,093)	108
Securities held as collateral	4,503	4,276	(47,019)
Total	**$ 39,722**	$ 27,708	$ (497,636)

Gross realized gains (losses) on the sales of fixed maturity securities, equity securities and alternative investments for the years ended December 31 were as follows:

in thousands	**2010**	2009	2008
Fixed maturity securities, available-for-sale:			
Gross realized gains	**$ 43,839**	$ 103,277	$ 16,273
Gross realized losses	**(19,863)**	(86,184)	(97,453)
Equity securities:			
Gross realized gains	**34,046**	79,699	50,241
Gross realized losses	**(4,501)**	(28,087)	(66,329)
Alternative investments:			
Gross realized gains	**24,412**	5,085	10,173
Gross realized losses	**(9,018)**	(21)	(70)

Other-than-temporary impairments by asset type recognized in net realized investment gains (losses) for the years ended December 31 were as follows:

in thousands	**2010**	2009	2008
Fixed maturity securities			
Corporate securities	**$ 1,840**	$ 14,776	$ 56,556
Asset-backed securities	**2,923**	16	14,516
CMBS	**10,538**	1,141	29,363
RMBS	**7,275**	30,090	123,316
Mortgage loans	**3,144**	–	–
Equity securities	**51**	4,250	76,792
Alternative investments	**14,032**	20,331	12,173
Other invested assets	**971**	1,150	–
Securities held as collateral	**–**	–	47,019
Total other-than-temporary impairments	**$ 40,774**	$ 71,754	$ 359,735

The cumulative credit loss component of other-than-temporary impairments on fixed maturity securities still held by the Company at December 31, for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income, was as follows:

in thousands	**2010**	2009
Balance at beginning of year	**$ 93,118**	$ –
Credit loss component of OTTI loss not reclassified to other comprehensive loss in the cumulative effect transition adjustment	**–**	87,767
Additions:		
Initial impairments – credit loss OTTI recognized on securities not previously impaired	**6,660**	34,360
Additional impairments – credit loss OTTI recognized on securities previously impaired	**15,917**	11,663
Reductions:		
Due to sales (or maturities, pay downs, or prepayments) during the period of securities previously credit loss OTTI impaired	**(48,357)**	(40,672)
Balance at end of year	**$ 67,338**	$ 93,118

NOTE 7

DERIVATIVE INSTRUMENTS

Derivatives are financial instruments whose values are derived from interest rates, foreign currency exchange rates, or other financial indices. Derivatives may be exchange-traded or contracted in the over-the-counter market. The Company currently enters into derivative transactions that do not qualify for hedge accounting, or in certain cases, elects not to utilize hedge accounting. The Company does not enter into speculative positions. Although certain transactions do not qualify for hedge accounting or the Company chooses not to utilize hedge accounting, they provide the Company with an assumed economic hedge, which is used as part of its strategy for certain identifiable and anticipated transactions. The Company uses a variety of derivatives including swaps, forwards, futures and option contracts to manage the risk associated with changes in estimated fair values related to the Company's financial assets and liabilities, to utilize replication strategies and manage other risks due to the variable nature of the Company's cash flows. The Company also issues certain insurance policies that have embedded derivatives.

Freestanding derivatives are carried on the Company's consolidated balance sheet either as assets within derivative instruments or as liabilities within other liabilities at estimated fair value as determined through the use of quoted market prices for exchange-traded derivatives and interest rate forwards or through the use of pricing models for over-the-counter derivatives. Derivative valuations can be affected by changes in interest rates, foreign currency exchange rates, financial indices, credit spreads, default risk (including the counterparties to the contract), volatility, liquidity and changes in estimates and assumptions used in the pricing models.

The Company is exposed to various risks relating to its ongoing business operations, including interest rate risk, foreign currency risk and equity market risk. The Company uses a variety of strategies to attempt to manage these risks. The following table presents the notional amount, estimated fair value, and primary underlying risk exposure of the Company's derivative financial instruments, excluding embedded derivatives held at:

in thousands

		December 31, 2010			December 31, 2009		
			Fair Value			Fair Value	
Preliminary underlying risk exposure	**Instrument type**	**Notional amount**	**Assets**	**Liabilities[1]**	**Notional amount**	**Assets**	**Liabilities[1]**
Interest rate	Interest rate swaps	$ 101,500	$ 9,943	$ –	$ 101,500	$ 3,287	$ –
	Interest rate futures	271,500	3	–	162,100	5	–
	TBAs	123,208	124,840	–	39,361	41,056	–
Foreign currency	Foreign currency swaps	17,000	(2,257)	–	–	–	–
	Foreign currency futures	–	–	–	6	–	–
Equity market	Equity futures	130,040	2	–	89,320	2	–
	Equity options	497,491	32,759	9,840	61,160	3,119	673
Total derivatives		**$ 1,140,739**	**$ 165,290**	**$ 9,840**	$ 453,447	$ 47,469	$ 673

[1] The estimated fair value of all derivatives in a liability position is reported within other liabilities on the consolidated balance sheets.

The majority of the freestanding derivatives utilized by the Company, other than TBAs, are for specific hedging programs related to various annuity and insurance product liabilities that have market risk. The trading activity for these programs is influenced by two major factors – the sales growth of products and the volatility in the interest and equity markets. The volume and frequency of trading increased during the volatile equity markets in late 2008 and early 2009. For most of 2009 and 2010 the trading volume and frequency was at expected levels.

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). In an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional principal amount. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by the counterparty at each due date.

The Company used interest rate futures to manage duration in certain portfolios within the general account of the Company. The trading volume and frequency was stable in these portfolios during 2010 and 2009. In addition, the Company utilized a total return strategy in 2008 that replicated the S&P 500 by investing in corporate bonds and total rate of return swaps. The swaps were unwound in 2008.

In exchange traded interest rate futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of interest rate securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily fair market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded interest rate futures are used primarily to hedge mismatches between the duration of the assets in a portfolio and the duration of liabilities supported by those assets, to hedge against changes in value of securities the Company owns or anticipates acquiring, and to hedge against changes in interest rates on anticipated liability issuances. The value of interest rate futures is substantially impacted by changes in interest rates and they can be used to modify or hedge existing interest rate risk.

Foreign currency swaps are used by the Company to offset foreign currency exposure on interest and principal payments of fixed maturity securities denominated in a foreign currency. In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a fixed exchange rate, generally set at inception, calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party.

Foreign currency forwards are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. In a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency in the specified future date.

In exchange-traded equity futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different classes of equity securities, and to post variation margin on a daily basis in an amount equal to the difference in the daily market values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange. Exchange-traded equity futures are used primarily to hedge liabilities embedded in certain variable annuity products offered by the Company.

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products offered by the Company. To hedge against adverse changes in equity indices, the Company enters into contracts to sell the equity index within a limited time at a contracted price. The contracts will be net settled in cash based on differentials in the indices at the time of exercise and the strike price. In certain instances, the Company may enter into a combination of transactions to hedge adverse changes in equity indices within a pre-determined range through the purchase and sale of options.

Total rate of return swaps (TRRs) are swaps whereby the Company agrees with another party to exchange, at specified intervals, the difference between the economic risk and reward of an asset or a market index and LIBOR, calculated by reference to an agreed notional principal amount. No cash is exchanged at the outset of the contract. Cash is paid and received over the life of the contract based on the terms of the swap. These transactions are entered into pursuant to master agreements that provide for a single net payment to be made by the counterparty at each due date. The Company uses TRRs to synthetically create investments. There were no TRRs at December 31, 2010 or December 31, 2009.

The Company holds TBA forward contracts that require the Company to take delivery of a mortgage-backed security at a settlement date in the future. A majority of the TBAs are settled at the first available period allowed under the contract. However, the deliveries of some of the Company's TBA securities happen at a later date, thus extending the forward contract date.

The following tables present the amount and location of gains (losses) recognized in income from derivatives:

in thousands

December 31, 2010	**Net realized investment gains (losses)**	**Net investment income**	**Policyholder benefits**
Interest rate swaps	**$ 10,999**	**$ (83)**	**$ –**
Interest rate futures	**6,301**	**–**	**9**
TBAs	**356**	**–**	**–**
Foreign currency swaps	**(2,346)**	**322**	**–**
Foreign currency forwards	**(203)**	**(8)**	**–**
Equity futures	**(15,030)**	**–**	**8,869**
Equity options	**(412)**	**–**	**6,282**
Total (losses) gains recognized in income from derivatives	**$ (335)**	**$ 231**	**$ 15,160**

in thousands

December 31, 2009	**Net realized investment gains (losses)**	**Net investment income**	**Policyholder benefits**
Interest rate swaps	$ (19,339)	$ (83)	$ 3,414
Interest rate futures	(12,010)	–	–
TBAs	1,075	–	–
Foreign currency forwards	53	(2)	–
Equity futures	(24,521)	–	–
Equity options	–	–	768
Total (losses) gains recognized in income from derivatives	$ (54,742)	$ (85)	$ 4,182

in thousands

December 31, 2008	**Net realized investment gains (losses)**	**Net investment income**	**Policyholder benefits**
Interest rate swaps	$ 24,115	$ (23)	$ 141
Interest rate futures	15,946	–	–
TBAs	1,065	–	–
Foreign currency forwards	26	(78)	–
Equity futures	5,025	–	–
Equity options	(65)	–	–
Total return swaps	(2,767)	–	–
Total gains (losses) recognized in income from derivatives	$ 43,345	$ (101)	$ 141

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to the positive estimated fair value of derivative contracts at the reporting date after taking into consideration the existence of netting agreements and any collateral received pursuant to credit support annexes.

The Company manages its credit risk related to over-the-counter derivatives by entering into transactions with highly rated counterparties, maintaining collateral arrangements and through the use of master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination. Because exchange traded futures are purchased through regulated exchanges, and positions are settled on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments.

The Company enters into various collateral arrangements, which require both the pledging and accepting of collateral in connection with its derivative instruments. The Company was not obligated to receive any cash collateral at either December 31, 2010 or December 31, 2009.

The Company's collateral arrangements for its over-the-counter derivatives generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the fair value of that counterparty's derivatives reaches a pre-determined threshold. The Company does not have any over-the-counter derivatives that are in a net liability position, after considering the effect of netting arrangements, as of December 31, 2010 and therefore, was not required to pledge collateral.

Embedded Derivatives

The Company has certain embedded derivatives that are required to be separated from their host contracts and accounted for as derivatives. These embedded derivatives take the form of guaranteed withdrawal benefits on variable annuities, a guaranteed payout floor on a variable payout annuity, and equity linked interest credits on both fixed annuity and fixed universal life products.

The following table presents the fair value of the Company's embedded derivatives at December 31:

in thousands	**2010**	2009
Embedded derivatives within annuity products:		
Guaranteed withdrawal benefits	**$ (8,470)**	$ (17,176)
Guaranteed payout floors	**(12,107)**	(13,823)
Other	**(3,831)**	(3,489)
Embedded derivatives within life insurance products:		
Equity-linked index credits	**$ (31,470)**	$ (9,625)

The following table presents the changes in fair value related to embedded derivatives for the years ended December 31:

in thousands	**2010**	2009	2008
Embedded derivatives within annuity products:			
Net investment gains (losses)	**$ 10,422**	$ 76,176	$ (94,189)
Policyholder benefits	**(342)**	(1,838)	(464)
Embedded derivatives within life insurance products:			
Policyholder benefits	**$ (21,845)**	$ (8,879)	$ (207)

At December 31, 2010 and 2009, fixed maturity securities with a carrying value of $19,161,000 and $29,989,000, respectively, were pledged as collateral to a regulatory authority as part of the Company's derivative program.

NOTE 8

VARIABLE INTEREST ENTITIES

The Company is involved with various special purpose entities and other entities that are deemed to be variable interest entities (VIE). A VIE is an entity that either has investors that lack certain characteristics of a controlling financial interest or lacks sufficient equity to finance its own activities without financial support provided by other entities.

The Company performs ongoing qualitative assessments of its VIEs to determine whether the Company has a controlling financial interest in the VIE and is therefore the primary beneficiary. The Company is deemed to have controlling financial interest when it has both the ability to direct the activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or right to receive benefits from the VIE that could potentially be significant to the VIE.

Consolidated VIEs

As of December 31, 2010 and 2009, the Company held an investment in a trust for which it was the primary beneficiary and where the results were consolidated in the Company's financial results. The assets held under the VIE as of December 31, 2010 and 2009 were $4,774,000 and $4,746,000, respectively, and are included in other invested assets on the consolidated balance sheets.

Non-Consolidated VIEs

The Company, through normal investment activities, makes passive investments in structured securities issued by VIEs. These structured securities typically invest in fixed income investments and include asset-backed securities, CMBS and RMBS. The Company has not provided financial or other support with respect to these investments other than its original investment. The Company has determined it is not the primary beneficiary of these investments due to the relative size of the Company's investment in comparison to

the principal amount of the structured securities issued by the VIEs, the level of credit subordination, which reduces the Company's obligation to absorb losses or right to receive benefits, 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 structured investments is limited to the amount of the investment. See Note 5 for details regarding the carrying amount and classification of these assets.

In addition, the Company invests in alternative investments that may or may not be VIEs. The Company has determined that it is not required to consolidate these entities because it does not have the ability to direct the activities of the entities and it does not have the obligation to absorb losses or the right to receive benefits from the entities that could be potentially significant. The maximum exposure to loss associated with the entities is equal to the carrying amounts of the investment in the VIE plus any unfunded commitments. The carrying amount was $506,294,000 and $470,424,000 and the maximum exposure was $721,610,000 and $681,896,000 at December 31, 2010 and December 31, 2009, respectively.

NOTE 9

NET FINANCE RECEIVABLES

Finance receivables as of December 31 were as follows:

in thousands	**2010**	2009
Direct installment loans	**$ 244,695**	$ 227,107
Retail installment notes	**34,401**	38,301
Accrued interest	**4,528**	4,458
Gross receivables	**283,624**	269,866
Unearned finance charges	**(74,433)**	(68,177)
Allowance for losses	**(11,335)**	(10,764)
Finance receivables, net	**$ 197,856**	$ 190,925

Direct installment loans, at December 31, 2010 and 2009, consisted of $168,175,000 and $156,309,000, respectively, of discount basis loans, net of unearned finance charges and unearned other charges, and $10,177,000 and $11,276,000, respectively, of interest-bearing loans and generally have a maximum term of 84 months. The retail installment notes are principally discount basis, arise from borrowers purchasing household appliances, furniture, and sundry services, and generally have a maximum term of 48 months.

Total finance receivables, net of unearned finance charges, by date of final maturity at December 31, 2010 were as follows:

in thousands	
2011	**$ 22,846**
2012	**61,716**
2013	**103,364**
2014	**19,778**
2015	**305**
2016 and thereafter	**1,182**
Total finance receivables, net of unearned finance charges	**209,191**
Allowance for losses	**(11,335)**
Finance receivables, net	**$ 197,856**

During the years ended December 31, 2010, 2009 and 2008, principal cash collections of direct installment loans were $78,324,000, $74,312,000 and $74,441,000, respectively, and the percentages of these cash collections to average net balances were 47%, 46% and 47%, respectively. Retail installment notes' principal cash collections were $42,079,000, $37,770,000 and $38,200,000, respectively, and the percentages of these cash collections to average net balances were 160%, 148% and 149% for the years ended December 31, 2010, 2009 and 2008, respectively.

The ratio of the allowance for losses to total finance receivables, net of unearned finance charges, at December 31, 2010 and 2009 was 5.4% and 5.3%, respectively.

Changes in the allowance for losses for the years ended December 31 were as follows:

in thousands	**2010**	2009	2008
Balance at beginning of year	**$ 10,764**	$ 10,369	$ 10,067
Provision for credit losses	**8,804**	10,116	8,487
Charge-offs	**(12,279)**	(13,553)	(11,907)
Recoveries	**4,046**	3,832	3,722
Balance at end of year	**$ 11,335**	$ 10,764	$ 10,369

At December 31, 2010 and 2009, the recorded investments in certain direct installment loans were considered to be impaired. The balances of such loans at December 31, 2010 and 2009 and the related allowance for losses were as follows:

in thousands	**Installment loans**
Balances at December 31, 2010	**$ 55**
Related allowance for losses	**$ 55**
Balances at December 31, 2009	$ 77
Related allowance for losses	$ 63

All loans deemed to be impaired are placed on non-accrual status. Interest income on impaired loans is recognized on a cash basis. The average balance of impaired loans during the years ended December 31, 2010 and 2009 was $63,000 and $86,000, respectively.

There were no commitments to lend additional funds to customers whose loans were classified as impaired at December 31, 2010 or 2009.

The net investment in receivables on which the accrual of finance charges and interest was suspended at and which are being accounted for on a cash basis at December 31, 2010 and 2009 was $19,386,000 and $23,168,000, respectively. There was no investment in receivables past due more than 60 days that were accounted for on an accrual basis at December 31, 2010 and 2009.

NOTE 10

NOTES RECEIVABLE

The Company has two notes receivable with the Housing and Redevelopment Authority (HRA) of the City of St. Paul, Minnesota that were issued in connection with the Company's construction of an additional home office facility. The first note is a tax-exempt note which had a balance at December 31, 2010 and 2009 of $12,992,000. The remaining note is a taxable note with a balance at December 31, 2010 and 2009 of $844,000 and $1,391,000, respectively. For the years ended December 31, 2010 and 2009, the Company received principal payments of $548,000 and $445,000, respectively, and interest payments of $1,123,000 and $1,146,000, respectively, on the notes. At December 31, 2010 and 2009, the accrued interest on the notes was $457,000 and $470,000, respectively. To the extent payments are received from the HRA in excess of scheduled principal payments and accrued interest, the excess is applied against the principal balance of the taxable note first and then against the principal balance of the tax-exempt note. The loan balances are included in other invested assets and accrued interest is included in accrued interest income on the consolidated balance sheets, and interest income is included in net investment income on the consolidated statement of operations.

NOTE 11

INCOME TAXES

Income tax expense (benefit) varies from the amount computed by applying the federal income tax rate of 35% to income (loss) from operations before taxes. The significant components of this difference were as follows:

in thousands	**2010**	2009	2008
Computed tax expense (benefit)	**$ 82,021**	$ 57,052	$ (123,376)
Difference between computed and actual tax expense:			
Dividends received deduction	**(17,265)**	(8,113)	(7,991)
Tax credits	**(3,211)**	(927)	(5,257)
Change in valuation allowance	**617**	(244)	37,247
Expense adjustments and other	**(2,902)**	1,940	5,459
Total tax expense (benefit)	**$ 59,260**	$ 49,708	$ (93,918)

The tax effects of temporary differences that give rise to the Company's net deferred federal tax liability at December 31 were as follows:

in thousands	**2010**	2009
Deferred tax assets:		
Policyholder liabilities	**$ 36,598**	$ 20,170
Pension, postretirement and other benefits	**74,812**	72,595
Tax deferred policy acquisition costs	**138,471**	125,208
Deferred gain on individual disability coinsurance	**7,981**	9,320
Net realized capital losses	**69,890**	67,019
Ceding commissions and goodwill	**285**	2,913
State net operating losses	**3,391**	2,987
Other	**9,937**	7,554
Gross deferred tax assets	**341,365**	307,766
Less valuation allowance	**(1,837)**	(1,221)
Deferred tax assets, net of valuation allowance	**339,528**	306,545
Deferred tax liabilities:		
Deferred policy acquisition costs	**262,815**	257,052
Premiums	**17,144**	23,547
Real estate and property and equipment depreciation	**5,882**	6,532
Basis difference on investments	**6,875**	6,471
Net unrealized capital gains	**209,776**	59,377
Other	**20,721**	18,379
Gross deferred tax liabilities	**523,213**	371,358
Net deferred tax liability	**$ 183,685**	$ 64,813

As of December 31, 2010, the Company recorded a $616,000 valuation allowance related to tax benefits of certain state operating loss carryforwards. The valuation allowance reflects management's assessment, based on available information, that it is more likely than not that the deferred income tax asset for certain state operating loss carryforwards will not be realized. Management has determined that a valuation allowance was not required for other deferred tax items based on management's assessment that it is more likely than not that these deferred tax assets will be realized through future reversals of existing taxable temporary differences and future taxable income.

As of December 31, 2009, management determined that a valuation allowance was not required a portion for these deferred tax asset items based on management's assessment that it is more likely than not that these deferred tax assets will be realized through future reversals of existing taxable temporary differences and future taxable income. The net cumulative effect adjustment of adopting the OTTI Guidance effective January 1, 2009, resulted in a $31,000,000 reduction of the valuation allowance. Of the remaining $7,465,000 of valuation allowance, $6,000,000 was released as an increase to other comprehensive income and $244,000 was released as a decrease to income tax expense on the consolidated statements of operations.

The increase (decrease) in deferred tax asset valuation allowance for the years ended December 31, 2010, 2009, and 2008, was $616,000, $(37,244,000) and $37,247,0000, respectively.

At December 31, 2010, state net operating loss carryforwards were $50,395,000, the majority of which will expire beginning in 2017.

Income taxes paid (refunded) for the years ended December 31, 2010, 2009 and 2008, were $6,628,000, $(46,710,000), and $17,928,000, respectively.

A reconciliation of the beginning and ending balance amount of unrecognized tax benefits is as follows:

in thousands	**2010**	2009
Balance at beginning of year	**$ 24,653**	$ 25,291
Additions based on tax positions related to current year	**1,143**	2,426
Additions for tax positions of prior years	**2,161**	5,071
Reductions for tax positions of prior years	**(11,241)**	(8,135)
Settlements	**(1,458)**	–
Balance at end of year	**$ 15,258**	$ 24,653

Included in the balance of unrecognized tax benefits at December 31, 2010 are potential benefits of $235,000 that, if recognized, would affect the effective tax rate on income from operations.

As of December 31, 2010, accrued interest and penalties of $532,000 are recorded as current income tax liabilities on the consolidated balance sheets and $(666,000) is recognized as a current income tax expense on the consolidated statements of operations.

At December 31, 2010, there were no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within 12 months of the reporting date.

During 2010, the Company was informed that the IRS Office of Appeals had fully conceded the disagreed issue from the IRS audit of the consolidated federal income tax returns for Minnesota Mutual Companies, Inc. and Subsidiaries for years 2003 and 2004 and the Company received a refund of its Section 6603 deposit. The Company paid its applicable share of the taxes assessed for the agreed audit issues arising from the IRS audit of the consolidated tax returns for years 2005-2007 and reached a settlement with the IRS Office of Appeals for the disagreed issues. The Company received a refund of its Section 6603 deposit and has accrued for the settlement refund. The consolidated tax returns for the years 2008 and 2009 are currently under examination by the IRS. The Company believes that any additional taxes refunded or assessed as a result of the examination will not have a material impact on its financial position.

NOTE 12

EMPLOYEE BENEFIT PLANS

Pension and Other Postretirement Plans

The Company has non-contributory defined benefit retirement plans covering substantially all employees and certain agents. Benefits are based upon years of participation and the employee's average monthly compensation or the agent's adjusted annual compensation. In 2011, the Company expects to contribute the amounts necessary to meet the minimum funding requirements to its non-contributory defined benefit plans. In addition, it may contribute additional tax deductible amounts.

The Company also has an unfunded non-contributory defined benefit retirement plan, which provides certain employees with benefits in excess of limits for qualified retirement plans, and a non-contributory defined benefit plan which provides certain agents with benefits.

The Company also has postretirement plans that provide certain health care and life insurance benefits to substantially all retired employees and agents. Eligibility is determined by age at retirement and years of service. Health care premiums are shared with retirees, and other cost-sharing features include deductibles and co-payments. In 2009, for substantially all of its employees, the Company adopted an amendment to reduce the premium subsidy. The Company has a 401(h) account through its non-contributory defined benefit plan to partially fund retiree medical costs for non-key employees. The Company does not expect to contribute to the 401(h) account in 2011, but may contribute additional tax deductible amounts.

As described in note 4, effective December 31, 2008 the Company adopted the requirement to measure the funded status for its pension and other postretirement plans as of the date of its year-end financial statements. Prior to implementation of this change, the measurement date for the majority of the Company's pension and other postretirement plans was December 1. Upon adoption of the change in measurement date, the Company recorded a decrease to retained earnings of $1,287,000, net of taxes, and an increase to accumulated other comprehensive income (loss) of $88,000, net of taxes.

The change in the benefit obligation and plan assets for the Company's plans as of December 31 was calculated as follows:

	Pension Benefits		Other Benefits	
in thousands	**2010**	2009	**2010**	2009
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 541,268**	$ 506,456	**$ 58,005**	$ 89,066
Service cost	**21,081**	20,913	**1,284**	2,814
Interest cost	**32,200**	29,498	**3,426**	4,780
Amendments	**–**	–	**–**	(17,791)
Actuarial loss (gain)	**37,945**	(5,786)	**5,883**	(19,143)
Benefits paid	**(11,536)**	(9,813)	**(2,101)**	(1,721)
Benefit obligation at end of year	**$ 620,958**	$ 541,268	**$ 66,497**	$ 58,005
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 435,955**	$ 369,328	**$ 14,748**	$ 8,641
Actual return on plan assets	**49,718**	54,044	**1,514**	2,341
Employer contribution	**38,841**	22,396	**1,844**	5,487
Benefits paid	**(11,536)**	(9,813)	**(2,101)**	(1,721)
Fair value of plan assets at end of year	**$ 512,978**	$ 435,955	**$ 16,005**	$ 14,748
Net amount recognized:				
Funded status	**$ (107,980)**	$ (105,313)	**$ (50,492)**	$ (43,257)
Amounts recognized on the consolidated balance sheets:				
Accrued benefit cost	**$ (107,980)**	$ (105,313)	**$ (50,492)**	$ (43,257)
Amounts recognized in accumulated other comprehensive income (loss):				
Prior service benefit	**$ 2,233**	$ 2,689	**$ 25,369**	$ 27,725
Net actuarial loss	**(166,166)**	(146,017)	**(15,318)**	(10,018)
Accumulated other comprehensive (loss) income at end of year	**$ (163,933)**	$ (143,328)	**$ 10,051**	$ 17,707
Accumulated benefit obligation	**$ 448,282**	$ 388,705	**$ 66,497**	$ 58,005
Plans with accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	**$ 115,708**	$ 101,613		
Accumulated benefit obligation	**89,165**	80,007		
Fair value of plan assets	**34,744**	33,176		
Weighted average assumptions used to determine benefit obligations:				
Discount rate	**5.52%**	6.05%	**5.48%**	5.98%
Rate of compensation increase	**5.73%**	5.73%	**–**	–
Components of net periodic benefit cost:				
Service cost	**$ 21,081**	$ 20,913	**$ 1,284**	$ 2,814
Interest cost	**32,200**	29,498	**3,426**	4,780
Expected return on plan assets	**(36,301)**	(33,782)	**(1,160)**	(726)
Prior service benefit amortization	**(456)**	(444)	**(2,355)**	(1,173)
Recognized net actuarial loss	**4,379**	5,673	**229**	1,089
Net periodic benefit cost	**$ 20,903**	$ 21,858	**$ 1,424**	$ 6,784
Other changes in plan assets and benefit obligations recognized in other comprehensive (loss) income:				
Prior service credit	**$ –**	$ –	**$ –**	$17,791
Net (loss) gain	**(24,528)**	26,048	**(5,529)**	20,758
Amortization of prior service benefit	**(456)**	(444)	**(2,355)**	(1,173)
Amortization of net loss	**4,379**	5,673	**229**	1,089
Total recognized in other comprehensive (loss) income	**$ (20,605)**	$ 31,277	**$ (7,655)**	$ 38,465

Prepaid benefit costs are included in other assets on the consolidated balance sheets. Accrued benefit costs are included in pension and other postretirement benefits on the consolidated balance sheets.

The estimated prior service credit and net actuarial loss for the pension plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2011 are $456,000 and $8,024,000, respectively. The estimated prior service credit and net actuarial loss for the other postretirement benefit plans that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2011 are $2,355,000 and $554,000, respectively.

	Pension Benefits		Other Benefits	
	2010	2009	**2010**	2009
Weighted average assumptions used to determine net periodic benefit costs:				
Discount rate	**6.05%**	5.78%	**5.98%**	5.77%
Expected long-term return on plan assets	**7.77%**	7.75%	**7.00%**	7.00%
Rate of compensation increase	**5.73%**	5.72%	**–**	–

Estimated future benefit payments for pension and other postretirement benefits:

in thousands	Pension benefits	Other benefits	Medicare subsidy
2011	$ 14,228	$ 2,360	$ 104
2012	15,506	2,441	120
2013	18,367	2,572	134
2014	19,892	2,763	146
2015	20,904	2,885	158
2016 – 2020	138,121	18,106	1,027

For measurement purposes, the assumed health care cost trend rates start at 8.0% in 2010 and decrease gradually to 5.5% for 2015 and remain at that level thereafter. For 2009, the assumed health care cost trend rates start at 8.5% in 2009 and decrease gradually to 5.5% for 2015 and remain at that level thereafter.

The assumptions presented herein are based on pertinent information available to management as of December 31, 2010 and 2009. Actual results could differ from those estimates and assumptions. For example, increasing the assumed health care cost trend rates by one percentage point would increase the postretirement benefit obligation as of December 31, 2010 by $8,427,000 and the estimated eligibility cost and interest cost components of net periodic benefit costs for 2010 by $539,000. Decreasing the assumed health care cost trend rates by one percentage point would decrease the postretirement benefit obligation as of December 31, 2010 by $6,999,000 and the estimated eligibility cost and interest cost components of net periodic postretirement benefit costs for 2010 by $452,000.

To determine the discount rate for each plan, the present value of expected future benefit payments is calculated using returns on a theoretical yield curve consisting of AA rated corporate fixed maturity securities and Treasury par curve data. The discount rate for each plan is the single rate which results in the same present value of benefits as that obtained using the yield curve.

Historical rates of return for individual asset classes and future estimated returns are used to develop expected rates of return. These rates of return are applied to the plan's investment policy to determine a range of expected returns. The expected long-term rate of return on plan assets is selected from this range.

Generally, the investment objective of the non-contributory defined benefit plans is to pursue high returns but to limit the volatility of returns to levels deemed tolerable, which will mitigate (1) the liquidation of depressed assets for benefit payments, (2) the increase in contributions and pension expense due to investment losses, and (3) the decline in the funded ratios due to investment losses. This objective is achieved by strategically allocating assets among equities, fixed maturity securities and other investments. The majority of plans' assets are invested in equity securities, as equity portfolios have historically provided higher average returns than other asset classes over extended periods and are expected to do so in the future. The higher levels of risk entailed in equity securities is balanced by investing a significant portion of the plans' assets in high quality fixed maturity securities and the insurance company general account.

The target asset allocation as of December 31, 2010, for each of the broad investment categories, weighted for all plans combined is as follows:

Equity securities	**51% to 70%**
Fixed maturity securities	**23% to 42%**
Insurance company general account	**7% to 10%**
Other	**0% to 2%**

The Company's non-contributory defined benefit plans weighted average asset allocations by asset category at December 31 are as follows:

	2010	2009
Equity securities	**56%**	57%
Fixed maturity securities	**37%**	36%
Insurance company general account	**7%**	7%

Equity securities, as classified in the above table, include direct investments in common stocks, mutual funds and pooled separate accounts. Fixed maturity securities include investments in pooled separate accounts. Pooled separate accounts are under either an immediate participation guaranteed contract or a group annuity contract with Minnesota Life Insurance Company and represent segregated funds administered by an unaffiliated asset management firm and consist principally of marketable fixed maturity and equity securities.

The insurance company general account, as classified in the above table, represents assets held within the general account of Minnesota Life Insurance Company. These assets principally consist of fixed maturity securities, commercial mortgage loans and equity securities.

At times, investments may be made in nontraditional asset classes with the approval of the Company's non-contributory defined benefit plan trustees. Current investments include private equity limited partnerships which are classified as equity securities for asset allocation purposes.

The Company's investment policy includes various guidelines and procedures designed to ensure that the plans' assets can reasonably be expected to achieve the objective of the policy. The investment policy is periodically reviewed by the plans' respective trustees.

The primary investment objective of the postretirement plans is to balance capital appreciation and preservation. These plan assets are currently allocated to 54% equity securities and 46% fixed maturity securities. The target asset allocation as of December 31, 2010 is 50% equity securities and 50% fixed maturity securities.

The fair value of the Company's pension and other postretirement plans financial assets and financial liabilities has been determined using available market information as of December 31, 2010. Although the Company is not aware of any factors that would significantly affect the fair value of the pension and other postretirement plans financial assets and financial liabilities, such amounts have not been comprehensively revalued since those dates. Therefore, estimates of fair value subsequent to the valuation dates may differ significantly from the amounts presented herein. Considerable judgment is required to interpret market data to develop the estimates of fair value. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The Company maximizes the use of observable inputs and minimizes the use of unobservable inputs. Observable inputs reflect the assumptions market participants would use in valuing a financial instrument based on market data obtained from sources independent of the Company. Unobservable inputs reflect the Company's estimates about the assumptions market participants would use in valuing financial assets and financial liabilities based on the best information available in the circumstances.

The Company is required to categorize its financial assets and financial liabilities recorded on the consolidated balance sheets according to a three-level hierarchy. A level is assigned to each financial asset and financial liability based on the lowest level input that is significant to the fair value measurement in its entirety. The levels of fair value hierarchy are as follows:

Level 1 – Fair value is based on unadjusted quoted prices for identical assets or liabilities in an active market. The types of assets and liabilities utilizing Level 1 valuations generally include cash, money-market funds, actively-traded equity securities, investments in mutual funds with quoted market prices and certain investments in pooled separate accounts.

Level 2 – Fair value is based on significant inputs, other than quoted prices included in Level 1, that are observable in active markets for identical or similar assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include certain investments in pooled separate accounts.

Level 3 – Fair value is based on at least one or more significant unobservable inputs. These inputs reflect the Company's assumptions about the inputs market participants would use in pricing the assets or liabilities. The types of assets and liabilities utilizing Level 3 valuations generally include private equity investments, certain investments in pooled separate accounts which invest in privately placed fixed maturities and investments in an insurance company general account.

The Company uses prices and inputs that are current as of the measurement date. In periods of market disruption, the ability to observe prices and inputs may be reduced, which could cause an asset or liability to be reclassified to a lower level.

Inputs used to measure fair value of an asset or liability may fall into different levels of the fair value hierarchy. In these situations, the Company will determine the level in which the fair value falls based upon the lowest level input that is significant to the determination of the fair value.

The following table summarizes the Company's pension benefit plans' financial assets measured at fair value on a recurring basis:

in thousands

December 31, 2010	Level 1	Level 2	Level 3	Total
Equity securities:				
Intermediate-term bond	$ 95,018	$ –	$ –	$ 95,018
U.S. large-cap	64,695	–	–	64,695
Global bond	40,719	–	–	40,719
Emerging market stocks	37,959	–	–	37,959
International large value	19,532	–	–	19,532
Domestic real estate	16,001	–	–	16,001
Total equity securities	273,924	–	–	273,924
Investment in pooled separate accounts	162,942	4,705	–	167,647
Insurance company general account	–	–	34,743	34,743
Private equity funds	–	–	35,427	35,427
Cash and cash equivalents	1,225	–	–	1,225
Total investments	438,091	4,705	70,170	512,966
Total financial assets	**$ 438,091**	**$ 4,705**	**$ 70,170**	**$ 512,966**

in thousands

December 31, 2009	Level 1	Level 2	Level 3	Total
Equity securities:				
Intermediate-term bond	$ 92,222	$ –	$ –	$ 92,222
U.S. large-cap	83,218	–	–	83,218
Global bond	36,035	–	–	36,035
Emerging market stocks	31,902	–	–	31,902
International large value	18,306	–	–	18,306
Domestic real estate	8,734	–	–	8,734
Total equity securities	270,417	–	–	270,417
Investment in pooled separate accounts	100,718	2,704	–	103,422
Insurance company general account	–	–	33,176	33,176
Private equity funds	–	–	27,309	27,309
Cash and cash equivalents	471	–	–	471
Total investments	371,606	2,704	60,485	434,795
Total financial assets	$ 371,606	$ 2,704	$ 60,485	$ 434,795

Equity securities

Equity securities consist primarily of investments in mutual funds and common stock of publicly traded companies. The fair values of equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1.

Investments in pooled separate accounts

Investments in pooled separate accounts are stated at the corresponding unit value of the pooled separate account. The estimated fair value of separate account assets are based on the fair value of the underlying assets owned by the separate account and are generally based on observable valuation inputs. Assets within the Company's separate accounts include: mutual funds, fixed maturity securities, equity securities, alternative investments and cash and cash equivalents.

Insurance company general account

Deposits in the insurance company general account are stated at cost plus accrued interest, which represents fair value. These assets principally consist of fixed maturity securities, commercial mortgage loans and equity securities are classified as Level 3.

Private equity funds

Investment in private equity funds primarily include limited partnership investments. The fair value of these investments are determined using assumptions that are generally unobservable and the investments typically have significant liquidity restrictions and are therefore classified as Level 3.

Cash and cash equivalents

Cash equivalents primarily include money market instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets and are reflected in Level 1.

The following table provides a summary of changes in fair value of the Company's pension benefit plans' Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2010:

in thousands	Balance at beginning of year	Total appreciation (depreciation) in fair value	Purchases, sales and settlements, net	Balance at end of year
Insurance company general account	$ 33,176	$ 1,567	$ –	$ 34,743
Private equity funds	27,309	2,909	5,209	35,427
Total financial assets	**$ 60,485**	**$ 4,476**	**$ 5,209**	**$ 70,170**

Transfers of securities among the levels occur at the beginning of the reporting period. Transfers between Level 1 and Level 2 were not material for the year ended December 31, 2010. There were no transfers in to or out of level 3 for the year ended December 31, 2010.

The following table provides a summary of changes in fair value of the Company's pension benefit plans' Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2009:

in thousands	Balance at beginning of year	Total appreciation (depreciation) in fair value	Purchases, sales and settlements, net	Balance at end of year
Investment in pooled separate accounts	$ 219	$ (125)	$ (94)	$ –
Insurance company general account	31,487	1,689	–	33,176
Private equity funds	23,717	(1,060)	4,652	27,309
Total financial assets	$ 55,423	$ 504	$ 4,558	$ 60,485

The following table summarizes the Company's other postretirement benefit plan's financial assets measured at fair value on a recurring basis:

in thousands

December 31, 2010	Level 1	Level 2	Level 3	Total
Investment in pooled separate accounts	$ 8,600	$ –	$ –	$ 8,600
Equity securities:				
Intermediate-term bond	7,404	–	–	7,404
Cash and cash equivalents	1	–	–	1
Total investments	16,005	–	–	16,005
Total financial assets	**$ 16,005**	**$ –**	**$ –**	**$ 16,005**

in thousands

December 31, 2009	Level 1	Level 2	Level 3	Total
Investment in pooled separate accounts	$ 7,724	$ –	$ –	$ 7,724
Equity securities:				
Intermediate-term bond	7,001	–	–	7,001
Total investments	14,725	–	–	14,725
Total financial assets	$ 14,725	$ –	$ –	$ 14,725

The following table provides a summary of changes in fair value of Level 3 financial assets held at fair value on a recurring basis during the year ended December 31, 2009:

in thousands	Balance at beginning of year	Total appreciation (depreciation) in fair value	Purchases, sales and settlements, net	Balance at end of year
Investment in pooled separate accounts	$ 49	$ (28)	$ (21)	$ –
Total financial assets	$ 49	$ (28)	$ (21)	$ –

The Plans did not have any assets or liabilities reported at fair value on a nonrecurring basis.

Profit Sharing Plans

The Company also has profit sharing plans covering substantially all employees and agents. The Company's contribution rate to the employee plan is determined annually by the directors of the Company and is applied to each participant's prior year earnings. The Company's contribution to the agent plan is made as a certain percentage, based upon years of service, applied to each agent's total annual compensation. The Company recognized contributions to the plans during 2010, 2009, and 2008 of $10,994,000, $7,580,000 and $11,340,000, respectively. Participants may elect to receive a portion of their contributions in cash.

NOTE 13

LIABILITY FOR UNPAID ACCIDENT AND HEALTH CLAIMS, AND CLAIM AND LOSS ADJUSTMENT EXPENSES

Activity in the liability for unpaid accident and health claims, and claim and loss adjustment expenses is summarized as follows:

in thousands	**2010**	2009	2008
Balance at January 1	**$ 597,612**	$ 609,855	$ 605,881
Less: reinsurance recoverable	**528,938**	539,379	530,261
Net balance at January 1	**68,674**	70,476	75,620
Incurred related to:			
Current year	**75,687**	78,649	76,109
Prior years	**652**	(3,996)	(2,403)
Total incurred	**76,339**	74,653	73,706
Paid related to:			
Current year	**48,698**	50,909	46,272
Prior years	**29,490**	25,546	32,578
Total paid	**78,188**	76,455	78,850
Net balance at December 31	**66,825**	68,674	70,476
Plus: reinsurance recoverable	**520,567**	528,938	539,379
Balance at December 31	**$ 587,392**	$ 597,612	$ 609,855

In addition to pending policy and contract claims, this table reflects disabled life reserves that are included in future policy and contract benefits on the consolidated balance sheets.

As a result of changes in estimates of claims incurred in prior years, the accident and health claims, and claim and loss adjustment expenses incurred increased (decreased) by $652,000, $(3,996,000), and $(2,403,000) in 2010, 2009, and 2008. The remaining changes in amounts are the result of normal reserve development inherent in the uncertainty of establishing the liability for unpaid accident and health claims, and claim and loss adjustment expenses.

NOTE 14

REINSURANCE

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance companies. To the extent that a reinsurer is unable to meet its obligation under the reinsurance agreement, the Company remains liable. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Allowances are established for amounts deemed to be uncollectible.

The Company's consolidated financial statements reflect the effects of assumed and ceded reinsurance transactions. Assumed reinsurance refers to the acceptance of certain insurance risks that other insurance companies have underwritten. Ceded reinsurance involves transferring certain insurance risks, along with the related written and earned premiums, the Company has underwritten to other insurance companies who agree to share these risks. The primary purpose of ceded reinsurance is to protect the Company from potential losses in excess of the amount it is prepared to accept.

Reinsurance is accounted for over the lives of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

The effect of reinsurance on premiums for the years ended December 31 was as follows:

in thousands	**2010**	2009	2008
Direct premiums	**$ 1,780,335**	$ 1,641,540	$ 1,662,085
Reinsurance assumed	**28,187**	305,106	436,166
Reinsurance ceded	**(300,160)**	(199,839)	(191,540)
Net premiums	**$ 1,508,362**	$ 1,746,807	$ 1,906,711

Reinsurance recoveries on ceded reinsurance contracts included in policyholder benefits on the consolidated statements of operations were $255,912,000, $194,021,000 and $167,954,000 during 2010, 2009 and 2008, respectively.

The Company terminated its coinsurance participation in the Servicemembers Group Life Insurance (SGLI) and Federal Employees Group Life Insurance (FEGLI) reinsurance programs effective July 1, 2009 and October 1, 2009, respectively. The Company recognized total revenues of $274,909,000 and $398,401,000 in 2009 and 2008, respectively, related to the SGLI and FEGLI programs. Total assumed reserves recognized by the Company related to the SGLI and FEGLI programs were $0 as of December 31, 2009. The impact of the SGLI and FEGLI programs on the Company's 2009 and 2008 net income (loss) was immaterial.

NOTE 15

CERTAIN NONTRADITIONAL LONG-DURATION CONTRACTS AND SEPARATE ACCOUNTS

The Company issues certain nontraditional long-duration contracts including universal life, variable life and deferred annuities that contain either certain guarantees or sales inducements.

The Company issues variable contracts through its separate accounts for which investment income and investment gains and losses accrue directly to, and investment risk is borne by, the contractholder. The Company also issues variable annuity contracts through separate accounts where the Company contractually guarantees to the contractholder either (a) return of no less than total deposits made to the contract adjusted for partial withdrawals, (b) total deposits made to the contract adjusted for partial withdrawals plus a minimum return, (c) the highest contract value on a specified anniversary date adjusted for withdrawals following the contract anniversary, or (d) a minimum payment on a variable immediate annuity. These guarantees include benefits that are payable in the event of death, withdrawal or annuitization based upon the specific contract selected. The Company also issues universal life and variable life contracts where the Company provides to the contractholder a no-lapse guarantee.

The assets supporting the variable portion of the traditional variable annuities, variable contracts with guarantees, universal life and variable life contracts are carried at fair value and reported as summary total separate account assets with an equivalent summary total reported for liabilities. For variable annuity contracts, amounts assessed against the contractholders for mortality, administrative, and other services are included in policy and contract fees, changes in liabilities for minimum guarantees on deferred annuities are included in policyholder benefits, and changes in liabilities for the minimum guaranteed payments on variable immediate annuities are included in net realized investment gains on the consolidated statements of operations. For universal life and variable life contracts, the amounts assessed against the contractholders for mortality, administrative, and other services are included in policy and contract fees and changes in liabilities for guaranteed benefits are included in policyholder benefits on the consolidated statements of operations. For variable annuity, universal life and variable life contracts, separate account net investment income, net investment gains and losses and the related liability changes are offset within the same line item on the consolidated statements of operations. There were no investment gains or losses on transfers of assets from the general account to the separate account during 2010, 2009 or 2008.

The Company's variable annuity contracts with guarantees may offer more than one type of guarantee in each contract; therefore, the amounts listed are not mutually exclusive. For guarantees of amounts in the event of death, the net amount at risk is defined as the current guaranteed minimum death benefit in excess of the current account balance at the balance sheet date. For guaranteed withdrawal amounts, the net amount at risk is defined as the guaranteed minimum withdrawal benefit base in excess of the current account balance at the balance sheet date. For guarantees of amounts at annuitization, the net amount at risk is defined as the present value of the minimum guaranteed annuity payments available to the contractholder, determined in accordance with the terms of the contract, in excess of the current account balance. For the guaranteed payout annuity floor, the net amount at risk is defined as the guaranteed benefit in excess of the current benefit payable measured as a monthly amount. For universal life and variable life contracts the net amount at risk is defined as the current death benefit in excess of the current balance, excluding reinsurance.

At December 31, the Company had the following variable annuity contracts with guarantees:

in thousands	**2010**	2009
Return of net deposits:		
In the event of death		
Account value	**$ 2,127,498**	$ 1,787,289
Net amount at risk	**$ 15,435**	$ 60,682
Average attained age of contractholders	**58.1**	57.1
As withdrawals are taken		
Account value	**$ 800,688**	$ 627,129
Net amount at risk	**$ 19,877**	$ 43,415
Average attained age of contractholders	**63.4**	62.7
Return of net deposits plus a minimum return:		
In the event of death		
Account value	**$ 150,313**	$ 126,118
Net amount at risk	**$ 17,599**	$ 26,754
Average attained age of contractholders	**67.3**	66.7
At annuitization		
Account value	**$ 456,474**	$ 312,231
Net amount at risk	**$ –**	$ –
Weighted average period remaining until expected annuitization (in years)	**6.5**	6.5
Highest specified anniversary account value:		
In the event of death		
Account value	**$ 590,460**	$ 530,450
Net amount at risk	**$ 22,804**	$ 72,685
Average attained age of contractholders	**58.4**	57.5
Guaranteed payout annuity floor:		
Account value	**$ 48,272**	$ 47,078
Net amount at risk	**$ 30**	$46
Average attained age of contractholders	**70.3**	69.8

At December 31, the Company had the following universal life and variable life contracts with guarantees:

in thousands	**2010**	2009
Account value (general and separate accounts)	**$ 2,967,384**	$ 2,443,848
Net amount at risk	**$ 40,722,237**	$ 38,079,563
Average attained age of policyholders	**49.0**	51.0

Liabilities for guarantees on universal life and variable contracts reflected in the general account as of December 31, 2010 are:

in thousands	**Minimum guaranteed death and income benefits**	**Guaranteed payout annuity floor**	**Minimum guaranteed withdrawal benefit**	**Universal life and variable life**
Balance at beginning of year	**$ 2,539**	**$ 13,823**	**$ 17,176**	**$ 19,488**
Incurred guarantee benefits	**149**	**(1,161)**	**(8,706)**	**14,336**
Paid guaranteed benefits	**(1,511)**	**(555)**	**–**	**(9,817)**
Balance at end of year	**$ 1,177**	**$ 12,107**	**$ 8,470**	**$ 24,007**

Liabilities for guarantees on universal life and variable contracts reflected in the general account as of December 31, 2009 are:

in thousands	**Minimum guaranteed death and income benefits**	**Guaranteed payout annuity floor**	**Minimum guaranteed withdrawal benefit**	**Universal life and variable life**
Balance at beginning of year	$ 5,961	$ 23,923	$ 83,252	$ 16,247
Change in accounting principle	154	–	–	–
Incurred guarantee benefits	(889)	(9,014)	(66,076)	11,284
Paid guaranteed benefits	(2,687)	(1,086)	–	(8,043)
Balance at end of year	$ 2,539	$ 13,823	$ 17,176	$ 19,488

The minimum guaranteed death benefit liability and the guaranteed minimum income liability is determined each period end by estimating the expected value of death benefits in excess of the projected account balance and recognizing the excess ratably over the accumulation period based on total expected assessments. The guaranteed payout annuity floor and minimum guaranteed withdrawal benefits are considered to be derivatives and are recognized at fair value through earnings. The universal life and variable life liabilities are determined by estimating the expected value of death benefits in excess of projected account balances and recognizing the excess ratably over the accumulation period based on total expected assessments. For variable annuity, universal life and variable life contracts with guarantees, 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.

The following assumptions and methodology were used to determine the minimum guaranteed death and income benefit liability on variable annuities at December 31, 2010 and 2009 (except where noted otherwise):

- For 2010 and 2009, data was compiled from 1,000 stochastically generated investment performance scenarios. These were ranked by wealth factors and put into 100 groups of 10 sequentially. The mid-point of each group was chosen to run the projections used.
- Mean investment performance was 5.78% and 6.38% for 2010 and 2009, respectively, and is consistent with DAC projections over a 10 year period.
- Annualized monthly standard deviation was 15.28% for 2010 and 2009.
- Assumed mortality was 100% of the A200 table for 2010 and 100% of the 1983a table for 2009.
- Lapse rates varied by contract type and policy duration, ranging from 1% to 25%, with an average of 9%.
- Discount rates varied by contract type and policy duration and were consistent with discount rates used in DAC models.

The following assumptions and methodology, which are consistent with those used for DAC models, were used to determine the universal life and variable life liability at December 31, 2010 and 2009 (except where noted otherwise):

- Separate account investment performance assumption was 8%.
- Assumed mortality was 100% of pricing levels.
- Lapse rates varied by policy duration, ranging from 2% to 9%.
- Long-term general account discount rate grades up 7.5% over five years beginning in 2010. General account discount rate was 5.0% for 2009.
- Separate account discount rate was 7.73% for 2010 and 2009.

Account balances for contracts with guarantees were invested in variable separate accounts by mutual fund grouping as follows at December 31:

in thousands	Variable annuity contracts		Variable life contracts	
	2010	2009	**2010**	2009
Equity	**$ 1,676,968**	$ 1,465,394	**$ 1,508,274**	$ 1,372,254
Bond	**456,412**	347,370	**146,928**	140,177
Balanced	**542,233**	425,486	**217,805**	208,002
Money market	**61,125**	68,093	**34,089**	33,272
Mortgage	**65,052**	79,920	**44,979**	47,052
Real estate	**66,481**	57,595	**44,158**	37,967
Total	**$ 2,868,271**	$ 2,443,858	**$ 1,996,233**	$ 1,838,724

NOTE 16

UNREMITTED PREMIUMS AND CLAIMS PAYABLE

The Company acts as an agent of certain insurance underwriters and has a fiduciary responsibility to remit the appropriate percentage of monies collected from each financial institution customer to the corresponding insurance underwriters. The remittance is equal to the premiums collected from the financial institution customer, less any commissions earned by the Company. The Company recognizes a liability equal to the amount of the premiums that have not yet been remitted to the insurance underwriters. At December 31, 2010 and 2009, the liability associated with unremitted premiums and claims payable was $19,997,000 and $19,593,000, respectively and is reported as part of other liabilities on the consolidated balance sheets. As described in note 2, as of December 31, 2010 and 2009, the Company had restricted the use of $19,997,000 and $19,593,000, respectively, of its cash and cash equivalents to satisfy these premium and claims remittance payables.

NOTE 17

NOTES PAYABLE

In September 1995, the Company issued surplus notes with a face value of $125,000,000, at 8.25%, due in 2025. The surplus notes are subordinate to all current and future policyholders interests, including claims, and indebtedness of the Company. At December 31, 2010 and 2009, the balance of the surplus notes was $120,000,000 and $125,000,000, respectively. During 2010, the Company repurchased $5,000,000 of its outstanding surplus notes. The Company paid a market premium for the repurchase and as a result recorded a $984,000 loss on the transaction, which is included within general operating expenses on the consolidated statements of operations.

All payments of interest and principal on the notes are subject to the approval of the Minnesota Department of Commerce (Department of Commerce). As of December 31, 2010 and 2009, the approved accrued interest was $2,883,000 and $3,008,000, respectively. Interest paid on the surplus notes for the years ended December 31, 2010, 2009 and 2008 was $10,307,000, $10,313,000 and $10,313,000, respectively.

The issuance costs of $1,421,000 are deferred and amortized over 30 years on a straight-line basis. At December 31, 2010 and 2009, accumulated amortization was $717,000 and $640,000, respectively.

At December 31, 2010, the aggregate minimum annual notes payable maturities for the next five years and thereafter are as follows: 2011, $0; 2012, $0; 2013, $0; 2014, $0; 2015, $0; thereafter, $120,000,000.

Total interest paid by the Company for the years ended December 31, 2010, 2009 and 2008, was $10,314,000, $10,241,000 and $10,424,000, respectively.

NOTE 18

BUSINESS COMBINATIONS

During 2010, the Company acquired a certain insurance related agency and the account rights of an additional insurance related agency. The aggregate purchase price of $5,518,000 was allocated to various assets and liabilities including $2,940,000 to finite-lived intangible assets and $2,229,000 to goodwill. During 2010, the Company also recorded additional minimum consideration of $948,000 it expects to pay or has paid in relation to 2008 acquisitions, all of which was recorded as goodwill.

The amount of acquisition-related additional cash consideration the Company may have to pay in 2011 and future years if certain thresholds are attained is $26,490,000 of which $4,574,000 was accrued at December 31, 2010.

During 2009, the Company acquired certain insurance related agencies. The aggregate purchase price of $5,750,000 was allocated to various assets and liabilities including $3,701,000 to finite-lived intangible assets and $3,500,000 to goodwill. These acquisitions include potential future additional consideration based on attaining thresholds through 2012. The maximum potential additional consideration related to the acquisitions is $1,750,000, of which $1,500,000 was accrued in 2009. The Company also recorded additional minimum consideration it paid or expects to pay in relation to 2008 and 2006 acquisitions of $1,770,000 and $203,000, respectively, all of which was recorded as goodwill. During 2009, the Company completed

the final fair value evaluation of assets acquired related to 2008 business combinations, which resulted in a increase to goodwill of $230,000.

During 2008, the Company acquired various businesses including insurance-related agencies and a registered broker-dealer and its affiliated companies. The aggregate cash purchase price of $45,775,000 was allocated to various assets and liabilities including $21,510,000 to finite-lived intangible assets and $21,536,000 to goodwill.

All acquisitions have been accounted for using the purchase method of accounting, which requires that assets purchased and liabilities assumed be valued at fair value. The effects of the acquisitions are immaterial to the Company's consolidated statements of operations and financial position.

NOTE 19
GOODWILL AND INTANGIBLE ASSETS

The amount of goodwill included on the consolidated balance sheets in goodwill and intangible assets, net, as of December 31, was as follows:

in thousands		**2010**		2009
Balance at beginning of year	**$**	**58,210**	$	52,507
Additions		**3,177**		5,473
Adjustments to prior year acquisitions		**–**		230
Balance at end of year	**$**	**61,387**	$	58,210

Annual impairment testing of goodwill was completed in 2010. The Company uses appropriate measures on a case by case basis when testing goodwill impairment. Methods may include, but are not limited to, historical and future projected financial performance, discounted future cash flows and reviews of various pricing multiples. The Company's evaluation of goodwill completed during 2010 resulted in no impairment losses.

The amount of intangible assets, excluding the value of business acquired assets (VOBA), included on the consolidated balance sheets in goodwill and intangible assets, net, as of December 31, was as follows:

in thousands		**2010**		2009
Balance at beginning of year	**$**	**22,537**	$	23,606
Acquisitions		**2,940**		3,721
Amortization		**(4,474)**		(4,790)
Balance at end of year	**$**	**21,003**	$	22,537

The Company has intangible assets resulting from business and asset acquisitions. Intangible assets acquired during 2009 include non-compete agreements amortizable on a straight-line basis over three to ten years and customer lists amortized over their assigned economic useful lives. Intangible assets acquired during 2008 include non-compete agreements amortizable on a straight-line basis over three years and customer lists and agent relationships amortizable over their assigned economic useful lives. The remaining intangible assets consist of customer/client contracts, lists or relationships. These intangible assets are amortized on a straight-line basis over their estimated useful lives based on the related life of the underlying customer/client contract, list or relationship purchased, which vary in length between three to fifteen years. The appropriate estimated useful life for each intangible asset class is reviewed annually. A change in expected useful life could potentially indicate impairment of these assets. The Company completes annual impairment testing of all intangible assets. The annual review did not result in any changes to expected useful life and no intangible impairments were recorded in 2010, 2009 or 2008.

Intangible asset amortization expense for 2010, 2009 and 2008 in the amount of $4,474,000, $4,790,000 and $3,606,000, respectively, is included in general operating expenses. Projected amortization expense for the next five years is as follows: 2011, $4,050,000; 2012, $3,378,000; 2013, $2,860,000; 2014, $2,184,000; 2015, $1,659,000.

NOTE 20
RELATED PARTY TRANSACTIONS

The Company has agreements with its affiliates for expenses including allocations for occupancy costs, data processing, compensation, advertising and promotion, and other administrative expenses, which the Company incurs on behalf of its affiliates and is reimbursed. At December 31, 2010 and 2009, the amount payable to the Company was $674,000 and $685,000, respectively. The amount of expenses incurred by and reimbursed to the Company for the years ended December 31, 2010, 2009, and 2008 were $1,852,000, $1,690,000, and $1,944,000, respectively.

NOTE 21

OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) is defined as any change in stockholder's equity originating from non-owner transactions. The Company has identified those changes as being comprised of net income (loss), adjustments to pension and other postretirement plans, unrealized gains (losses) on securities and related adjustments.

The components of comprehensive income (loss) and related tax effects, other than net income (loss) are illustrated below:

in thousands	**2010**	2009	2008
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on securities	**$ 360,234**	$ 868,689	$ (1,215,091)
Reclassification adjustment for (gains) losses included in net income (loss)	**(32,255)**	(2,311)	399,881
Unrealized gains (losses) on securities – OTTI	**97,842**	(37,943)	–
Adjustment to deferred policy acquisition costs	**(83,725)**	(181,639)	151,153
Adjustment to reserves	**(14,903)**	(52,512)	11,007
Adjustment to unearned policy and contract fees	**25,924**	29,884	(31,074)
Adjustment to pension and other postretirement plans	**(28,260)**	69,743	(156,368)
	324,857	693,911	(840,492)
Income tax (expense) benefit related to items of other comprehensive income (loss)	**(115,058)**	(241,138)	298,391
Other comprehensive income (loss), net of tax	**$ 209,799**	$ 452,773	$ (542,101)

The components of accumulated other comprehensive income (loss) and related tax effects at December 31 were as follows:

in thousands	**2010**	2009
Gross unrealized gains	**$ 688,611**	$ 458,843
Gross unrealized losses	**(63,530)**	(161,741)
Gross unrealized losses – OTTI	**(29,694)**	(127,536)
Adjustment to deferred policy acquisition costs	**(120,656)**	(36,931)
Adjustment to reserves	**(74,106)**	(59,203)
Adjustment to unearned policy and contract fees	**25,680**	(244)
Adjustment to pension and other postretirement plans	**(153,881)**	(125,621)
	272,424	(52,433)
Deferred federal income tax (expenses) benefits	**(90,950)**	24,108
Net accumulated other comprehensive income (loss)	**$ 181,474**	$ (28,325)

NOTE 22

STOCK DIVIDENDS, CAPITAL CONTRIBUTIONS AND PLAN OF RECAPITALIZATION

The Company declared and paid cash dividends to SHC totaling $500,000, $0 and $750,000 during the years ended December 31, 2010, 2009, and 2008, respectively.

Dividend payments received by SFG from Minnesota Life Insurance Company cannot exceed the greater of 10% of statutory capital and surplus or the statutory net gain from operations as of the preceding year-end, as well as the timing and amount of dividends paid in the preceding 12 months, without prior approval from the Department of Commerce. Based on these limitations and 2010 statutory results, the maximum amount available for the payment of dividends during 2011 by Minnesota Life Insurance Company without prior regulatory approval is $193,921,000.

For the years ended December 31, 2010 and December 31, 2009 there were no capital contributions from SHC to the Company. For the year ended December 31, 2008, SHC contributed $47,850,000 of equity securities, $15,482,000 of alternative investments, $2,259,000 of cash and a deferred tax asset of $1,799,000 to the Company.

NOTE 23

COMMITMENTS AND CONTINGENCIES

The Company is involved in various pending or threatened legal proceedings arising out of the normal course of business. In the opinion of management, the ultimate resolution of such litigation will likely not have a material adverse effect on consolidated operations or the financial position of the Company.

In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of benefits paid by ceding reinsurance to other insurance companies (reinsurers). To the extent that a reinsurer is unable to meet its obligations under the reinsurance agreement, the Company remains liable. The Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. Allowances are established for amounts deemed uncollectible.

The Company holds TBA securities with extended forward contract dates which represent a future commitment. As of December 31, 2010 and 2009, these securities were reported at fair value of $124,840,000 and $41,056,000, respectively.

The Company has long-term commitments to fund alternative investments and real estate investments totaling $216,316,000 as of December 31, 2010. The Company estimates that $87,000,000 of these commitments will be invested in 2011, with the remaining $129,316,000 invested over the next four years.

As of December 31, 2010, the Company had committed to purchase mortgage loans totaling $63,803,000 but had not completed the purchase transactions.

The Company has a long-term lease agreement with an affiliated company, Capitol City Property Management, Inc, for rental space in downtown St. Paul. Minimum gross rental commitments under the lease are as follows: 2011, $11,267,000; 2012, $11,267,000; 2013, $11,267,000; 2014, $11,267,000; 2015, $11,267,000. The Company sub-leases space in downtown St. Paul. Commitments to the Company from these agreements are as follows: 2011, $500,000; 2012, $408,000; 2013, $372,000; 2014, $355,000; 2015, $326,000. Lease expense, net of sub-lease income, for the years ended December 31, 2010, 2009 and 2008 was $8,561,000, $8,613,000, and $8,502,000, respectively. The Company also has long-term lease agreements with unaffiliated companies for office facilities and equipment. Minimum gross rental commitments under these leases are as follows: 2011, $3,357,000; 2012, $2,249,000; 2013, $1,863,000; 2014, $1,717,000; 2015, $1,867,000.

At December 31, 2010, the Company had guaranteed the payment of $62,600,000 of policyholder dividends and discretionary amounts payable in 2011. The Company has pledged fixed maturity securities, valued at $99,057,000 to secure this guarantee. Pursuant to the Escrow Trust Account Agreement dated December 13, 1991 between Minnesota Life Insurance Company and Wells Fargo Bank, N.A., the Company pays irrevocable dividends to certain policyholders of the Company. Policyholders may choose the form in which the irrevocable dividend is applied, which include the cash payment of the dividend to the policyholder, using the dividend to purchase additional coverage or to increase the cash value of the policy. The policyholders covered by the Escrow Trust Account Agreement primarily includes owners of certain individual life insurance policies issued by the Company, but does not include all of the dividend-paying insurance policies issued by the Company.

The Company has a 100% coinsurance agreement for its individual disability line within its Individual Financial Security business unit. Under the terms of this agreement, assets supporting the reserves transferred to the reinsurer are held under a trust agreement for the benefit of the Company in the event that the reinsurer is unable to perform its obligations. At December 31, 2010 and 2009, the assets held in trust were $575,508,000 and $587,656,000, respectively. These assets are not reflected on the accompanying consolidated balance sheets.

Occasionally, the Company will enter into arrangements whereby certain lease obligations related to general agents' office space are guaranteed. Additionally, the Company will occasionally enter into loan guarantees for general agents. The accrual related to these guarantees is immaterial at December 31, 2010.

In connection with the dissolution of one of the Company's subsidiaries, MIMLIC Life Insurance Company, the Company has agreed to guarantee all obligations and liabilities of MIMLIC Life Insurance Company that arise in the normal course of business. Management does not consider an accrual necessary relating to this guarantee.

In connection with the sale of a subsidiary company in 1997, the Company has guaranteed the adequacy of claim reserves transferred under the agreement for a period of 10 years subsequent to the date of transfer. To the extent that these reserves were over or under provided for, an exchange of the difference is required by the agreement. In 2008, the Company amended the agreement to extend the reserve guarantee by an additional 10 years to December 31, 2017, at which point a settlement payment/receipt will be determined. The Company expects the settlement of this agreement to be immaterial to its consolidated financial position.

The Company has minimum compensation agreements with certain sales and employee groups, the terms of which expire at various times through 2013. Such agreements, which have been revised from time to time, provide for minimum compensation for these groups. The aggregate future minimum commitment under these agreements at December 31, 2010 and 2009 was approximately $2,828,000 and $2,780,000, respectively.

The Company has guaranteed the payment of benefits under certain of its affiliates' non-qualified pension plans in the event that the affiliate is unable to make such payment. This guarantee is unfunded, unsecured and may be amended, modified or waived with written consent by the parties to the agreement. Management does not consider an accrual necessary relating to these guarantees.

The Company is contingently liable under state regulatory requirements for possible assessments pertaining to future insolvencies and impairments of unaffiliated insurance companies. The Company records a liability for future guaranty fund assessments based upon known insolvencies, according to data received from the National Organization of Life and Health Insurance Guaranty Association. At December 31, 2010 and 2009 the amount was immaterial to the consolidated financial statements. An asset is recorded for the amount of guaranty fund assessments paid, which can be recovered through future premium tax credits. This asset was $1,994,000 and $2,111,000 as of December 31, 2010 and 2009, respectively. These assets are being amortized over a five-year period.

The Company has provided guarantees to certain states to provide additional capital contributions to affiliated insurance companies to maintain capital and surplus amounts at the greater of financial admission requirements and risk-based capital (RBC) requirements. The Company expects no impact to its consolidated financial position as a result of these guarantees.

NOTE 24

STATUTORY ACCOUNTING PRACTICES

The Company's insurance operations, domiciled in the states of Minnesota and Georgia, prepare statutory financial statements in accordance with the accounting practices prescribed or permitted by the insurance departments of the states of domicile. Prescribed statutory accounting practices are those practices that are incorporated directly or by reference in state laws, regulations and general administrative rules applicable to all insurance enterprises domiciled in a particular state. Permitted statutory accounting practices include practices not prescribed by the domiciliary state, but allowed by the domiciliary state regulatory authority. The Company's insurance operations have no material statutory accounting practices that differ from those of the state of domicile or the NAIC accounting practices. See note 22 for discussion of statutory dividend limitations.

Each insurance company subsidiary within the Company is required to meet certain minimum RBC requirements, which are imposed by the respective state of domicile. The formulas within the RBC calculation were developed by the NAIC. The RBC requirements were designed to monitor capital adequacy and to raise the level of protection for policyholders. Companies that have an RBC ratio below certain trigger points are required to take specified corrective action. Each of the Company's insurance subsidiaries exceeded the minimum RBC requirements for the years ended December 31, 2010, 2009 and 2008.

The Company's insurance operations are required to file financial statements with state and foreign regulatory authorities. The accounting principles used to prepare these statutory financial statements follow prescribed and permitted accounting principles, which differ from GAAP. On a statutory accounting basis, the Company's insurance operations reported net income (loss) of $106,608,000 in 2010, $63,462,000 in 2009 and $(232,881,000) in 2008. Statutory surplus of these operations was $2,026,987,000 and $1,819,958,000 as of December 31, 2010 and 2009, respectively.

NOTE 25

SUBSEQUENT EVENTS

Through March 7, 2011, the date these financial statements were issued, there were no material subsequent events that required recognition or additional disclosure in the Company's financial statements.

The Board of Directors and Stockholder
Securian Financial Group, Inc.:

We have audited the accompanying consolidated balance sheets of Securian Financial Group, Inc. and subsidiaries (collectively, the Company) as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in stockholder's equity and cash flows for each of the years in the three-year period ended December 31, 2010. These consolidated financial statements are the responsibility of the Company's management. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Securian Financial Group, Inc. and subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

As discussed in note 4 to the consolidated financial statements, the Company changed its method of accounting for other-than-temporary impairments of fixed maturity investment securities due to the adoption of FASB Staff Position No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (included in FASB ASC Topic 320, *Investments-Debt and Equity Securities*), as of January 1, 2009.

KPMG LLP

March 7, 2011

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F27027 Rev 3-2011 DOFU 4-2011
A01238-0311