SECURIAN FINANCIAL GROUP

2009 ANNUAL REPORT

SOLID STRONG SECURE

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 more than $609 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 soundness 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 94

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

For Information Contact

Communications
Securian Financial Group
400 Robert Street North
St. Paul, Minnesota 55101-2098
651.665.3064
651.665.4128 fax
www.securian.com

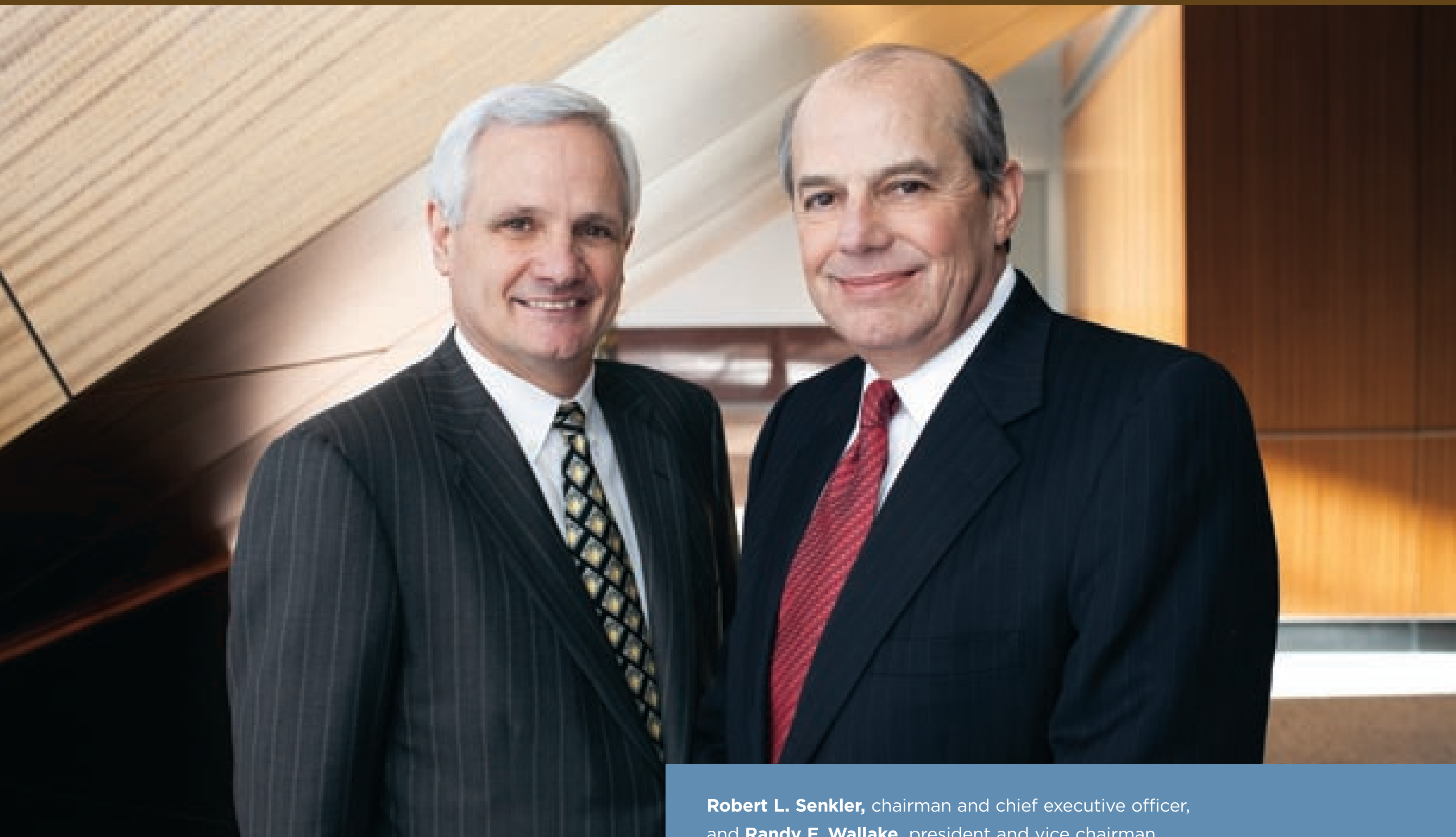
SECURIAN FINANCIAL GROUP FULLY PARTICIPATED IN THE ECONOMIC RECOVERY OF 2009, a year characterized by the resurgence of investment markets and emerging sales opportunities for financially strong companies. Our robust capital position, asset quality and the diversification of our businesses prepared us well to weather the economic storm that began in 2008. Our total equity increased 29 percent to $2.7 billion, due primarily to a significant recovery of unrealized investment losses, and total revenue increased 16 percent to $3.2 billion. We are strongly positioned to gain competitive advantage in 2010.

From a sales perspective, we benefited from the disruption caused by the global financial crisis, but results were mixed. Not surprisingly, sales of institutional investment-based products, which reflected the depressed economy and market disruptions, were poor. Conversely, combined sales of proprietary individual and group life insurance increased 17 percent, and individual annuity sales by advisors increased 38 percent, setting new records. Total sales of nearly $5 billion drove a 10 percent increase in insurance in force, the primary protection we provide, to $609 billion. Assets under management, including the funds we safeguard for our clients, increased 14 percent to $28 billion.

All of our insurance-related strategic business units were profitable in 2009, but operating earnings of $95 million were down seven percent, reflecting the impact of adverse investment markets during the first half of the year. The market recovery combined with our effective expense management drove above-goal earnings in the second half of the year but not enough to fully make up for the slow start.

Validating our fundamental management principles, our results demonstrate the resiliency of our balance sheet and our ability to drive long-term growth in bad times as well as good. Over the past 10 years, product revenue grew at a compound annual rate of eight percent, insurance in force grew 13 percent and assets under management grew three percent. Our results also reflect our mutual governance with a strong focus on managing our businesses in the long-term interest of our clients.

Ultimately, our purpose is fulfilled through the benefits we provide.
In 2009, we paid nearly $3.8 billion in statutory benefits, including $1.4 billion of life insurance death benefits. We sell a promise to pay, and our performance clearly demonstrates our ability to keep all of the promises we make.



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

Overall, our 2009 results validated our investment practices, financial management principles and market conduct decisions. Our strong balance sheet enabled us to continue attracting distribution and sales opportunities. For the second year in a row, we paid no fines to any insurance regulator and had no market conduct-related lawsuits. Finally, we maintained our position among the most highly rated companies in the life insurance industry.

Stressful economic times test the strength of a company's financial fundamentals and enterprise risk management (ERM). The last half of 2008 and first half of 2009 provided the stress, and Securian passed the test. Demonstrating our financial strength and the effectiveness of our ERM capabilities, we maintained our high level of capital. Amidst the turmoil of 2009, we utilized Securian's next-generation ERM framework to analyze risks and make good business decisions for our entire balance sheet.

Downgrades were prevalent in the life insurance industry in 2009 as the independent rating agencies reacted to the economic crisis, placing the entire industry on negative watch. Although Securian was not immune to their actions, we maintained our highly rated status and our relative position among the very highly rated companies. Only 15 other companies are rated the same or higher by all four major rating agencies. Our Comdex ranking, which compares our ratings to other insurers, improved from 92 to 94 in 2009.

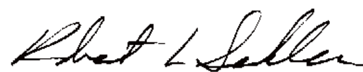
Difficult economic times also put compliance practices to the test, and we continued to protect our reputation for integrity in all aspects of our business. For the second year in a row, we paid no fines to any state insurance regulator and had no market conduct-related lawsuits. Our long-standing reputation for transparency and full disclosure enhanced opportunities for growth in our core markets.

Often the best evidence of an organization's integrity is its balance sheet. Viewed over many investment cycles, Securian's balance sheet does not contain the kind of negative surprises produced by many companies. The quality and transparency of our balance sheet serve our constituencies well, especially in an environment that punishes companies with less rigorous standards.

The importance of people to our success cannot be overstated. During 2009, we retained 97 percent of our headquarters associates, and we continued to receive national recognition as an employer of choice. Our constituents are well served by the high caliber of our people, and our results are derived from our ability to attract — and retain — high-quality associates.

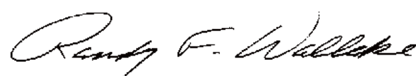
Last year, Securian Financial Group not only survived but prospered in an extremely challenging environment. By sticking to our fundamentals, we successfully weathered the financial storm. Strongly positioned for future growth and success, we are well capitalized, the quality and diversification of our assets are excellent, and our businesses are well diversified with 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

OUR STRATEGY SERVED US WELL

With a balance sheet built on a high level of capital, investment quality and liquidity, Securian Financial Group was well prepared for the global economic crisis that continued in 2009. Our strategy served us well during the crisis, and we fully participated in the economic recovery.

While not completely immune to the economic crisis, Securian's 2009 financial results reflect our overall enterprise risk management and our investment strategy to maintain high quality and diversification. Our results also reflect our mutual governance with a strong focus on managing our businesses in the long-term interest of our customers.

TOTAL REVENUE

Total revenue increased 15.6 percent to $3.2 billion, including $2.6 billion of product revenue[1] and $565 million of net investment income. Over the past 10 years, product revenue has grown at a compound annual rate of eight percent.

SALES[2]

Although results were mixed, 2009 was a good sales year, overall.

Sales of annual proprietary individual life insurance increased 55 percent to nearly $123 million and group life insurance sales increased six percent to a record $176 million. Individual annuity sales by advisors were up 38 percent.

As expected, institutional investment-based sales reflected the depressed economy. Institutional annuity sales dropped from $249 million in 2008 to $9 million as institutional investors withdrew from this market. Employer plan sales decreased from $649 million to $444 million. Sales by Advantus Capital Management dropped from $753 million to $222 million due to market disruptions.

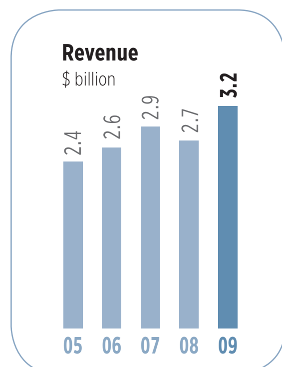
Sales of all products distributed by Securian Financial Group and its subsidiaries totaled $4.96 billion, down 20 percent from 2008.

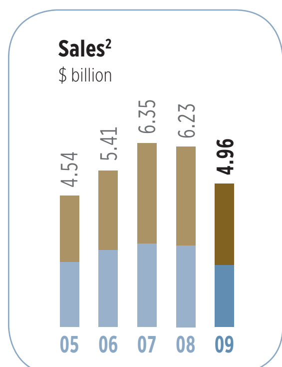
LIFE INSURANCE

Representing the primary financial protection we provide, life insurance in force[3] increased 10 percent to $609 billion.

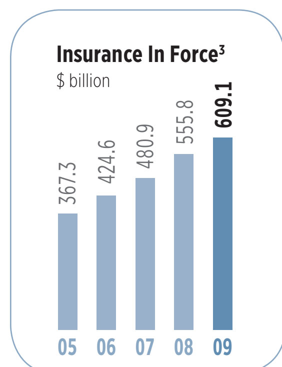
EARNINGS

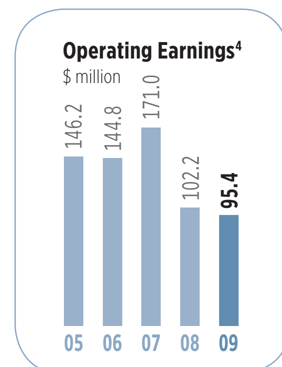
The major remnants of the economic downturn were reflected in our earnings. While our results were excellent during the second half of 2009, earnings were lower than expected during the first half of the year. As a result, operating earnings[4] of $95.4 million decreased seven percent compared to 2008.





Nonproprietary
Proprietary





[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 Employees' 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.

STOCKHOLDER'S EQUITY

Stockholder's equity increased 29 percent to $2.7 billion compared to $2.1 billion in 2008.

INVESTMENTS

Our commitment to an investment strategy focused on maintaining the high quality and diversification of our assets served us well in 2009. Company assets increased 16 percent to $25.1 billion, due to the recovery in the equity markets and an influx of general account assets as a result of increased insurance and annuity sales. Our net yield was 5.69 percent, and our total return on investments was 10.2 percent.

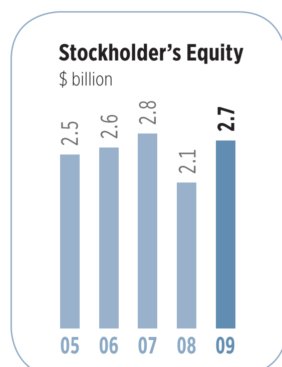
As capital market turmoil continued in the first part of 2009, we prudently managed our investments, reducing exposure to sectors and securities that presented a higher degree of risk while carefully managing liquidity. We held a relatively high position in cash because of market uncertainty. We selectively purchased securities that improved diversification and provided exceptional value and were well positioned for the market recovery. We also persisted in our efforts to enhance our risk management process, using derivatives to hedge risk in our product lines.

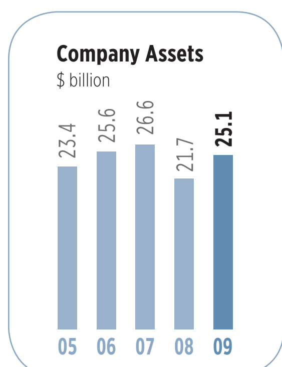
Effective management of the general account during one of the most difficult investment environments in history helped Securian maintain its competitive market position and strong balance sheet. The credit quality of the general account remained strong, and the general account performed very well overall.

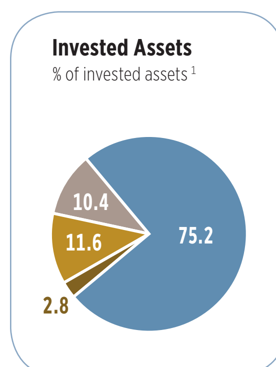
In 2009, the diversification and quality of our general account assets continued to exceed industry benchmarks. On the basis of quality, measured by the percentage of underperforming assets, we consistently outperform the industry and our peer group. Our exposure to noninvestment-grade bonds remained well below industry norms.

The yield on our fixed maturity securities was 6.18 percent. Demonstrating the high quality of our fixed maturity securities portfolio, only 13 fixed maturity securities representing 0.08 percent of our portfolio were in default at year end. Diversification is key to our fixed maturity securities performance. At year end, we were invested in more than 800 companies with no significant concentration of investment in a single issuer.

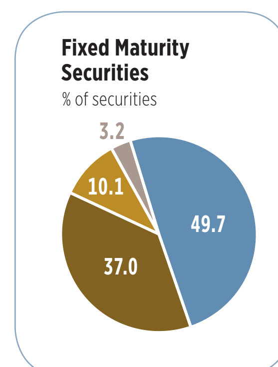
The yield on our commercial mortgage loan portfolio was 6.15 percent. We invest in mortgage obligations with safe, predictable cash flows and competitive returns. Our investments are highly diversified, consisting mainly of high-quality commercial mortgages in all regions of the country with no significant concentration in any one state. Reflecting the quality of our holdings, we had no mortgages in default or in the process of foreclosure in 2009.







Fixed Maturity Securities
Equity Securities
Mortgages
Other Invested Assets



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

[1] Excludes separate accounts.

A GOOD PLACE TO START A CAREER A GOOD PLACE TO STAY

Securian is committed to helping associates succeed in their careers — and find balance in their personal and professional lives. Securian's robust training and education opportunities provide the tools to help associates reach their highest potential — and help us maintain our reputation for professionalism and excellence in customer service.

More than 90 percent of associates participated in training in 2009. Over lunch time, associates took advantage of the nearly 100 Noontime Seminars to learn more about topics from parenting to financial planning to health and wellness.

Each and every associate — in each and every job — has strengths upon which to build, skills to develop and long-term goals to achieve. Training and education, through courses, group programs and one-on-one career development sessions, make Securian a great place to work and contributes to our exceptional associate retention: 97 percent in 2009.

BEST PLACE TO WORK

Year after year, Securian is recognized as a best place to work, and in 2009 we received these honors:

- Computerworld 100 Best Places to Work in IT for the 14th consecutive year, ranking sixth
- AARP Best Employers for Workers over 50 for the fourth time
- InformationWeek 500 for innovative business technology
- American Heart Association Fit-Friendly 2009 Gold Level for providing fitness and wellness opportunities
- Patriot Award for employer support of the National Guard and Reserve

By challenging associates to discover and acquire new skills, we develop the talent needed for future growth. Securian's commitment to training and development helps individuals grow and flourish in their careers, as evidenced by long-term associates (left to right) Sandra Erben, Mark Haugh, Sharon Schmitz and Sheri Stover.

IN ROUND NUMBERS

Company-sponsored volunteerism — 5,000-plus hours
Habitat for Humanity building — 2,000 hours
Neighborhood House food drives — 4,000 pounds
Red Cross Blood drives — 525 pints
Securian Frozen 5K and Half Marathon — 600 volunteer hours
United Way Annual Campaign — $1 million
Nonprofit boards — 85 Securian associates
Matching gifts — $195,000
Volunteer Plus — 50 associates (50-plus hours to nonprofits)
Mentoring — 1,000 hours

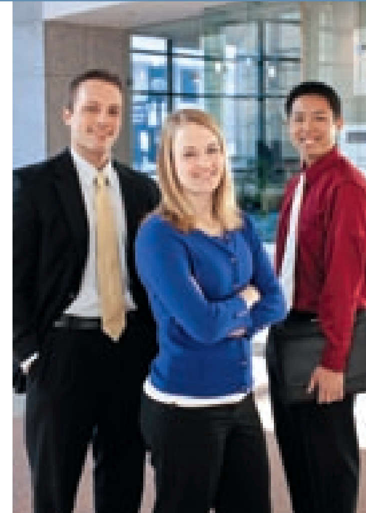
DOING GOOD WORKS

In 2009, associates continued to live out Securian's long-standing tradition of doing for others. One such worthwhile endeavor: volunteering nearly 1,000 hours to mentor youth in our community — from kindergarteners to high school kids.

Mentoring is a key component of our community outreach for good reason: research confirms it works. Mentored youth have better attendance in school and a greater chance of going on to higher education. Mentoring promotes positive social attitudes and relationships. Kids who have caring, nurturing adults in their lives have the best chance of growing up to become responsible, productive, caring adults themselves.

It's all about making our community better.

Securian associates offered guidance and shared wisdom through proven programs such as Junior Achievement, Bridges to Success, Multicultural Excellence Program, BestPrep and BestPrep E-mentoring, a program connecting mentor and student via e-mail.



Giving advice on setting goals and developing good study habits are some ways Matthew Bauler, Ashley Westerman and Allen Ng support students through mentoring opportunities offered by Securian.

You've got mail

Along with meeting face to face, Paras Gandhi, assistant analyst in our Management Development Program, trades e-mails weekly with his 10th grade student mentee. "A lot of high schoolers are not sure about what they want to do or how to approach the next few years of their lives," says Paras. "Having someone who is willing to listen and give advice is really beneficial."

Inspiring young minds

Julie Gauger, manager in the Management Development Center, and Kathy Galbraith, supervisor in Facilities Planning, team-teach kindergarteners at Eagle Point Elementary School in nearby Oakdale, Minnesota, through Junior Achievement. "Having children of my own, I understand the value of engaging and inspiring young minds. Volunteering gives me the opportunity to make a difference," says Julie.

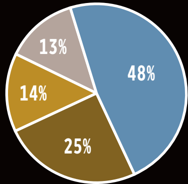
Breaking cultural barriers

"I love working with children, especially minority children who come from families new to the United States," says Faulata Wathum-Ocama, a senior administrator in Securian Retirement, who volunteers as a friend and guide to a 9-year-old girl from Ethiopia. "These children need mentors to affirm how beautiful and smart they are, and that they can achieve anything they want in this country."

KEEPING OUR COMMUNITY STRONG

Through philanthropy and volunteerism, in 2009 the company and Securian Foundation contributed more than $2 million in cash gifts and approximately $1 million in in-kind gifts and volunteer services to the arts, education, civic, health and human services organizations.

- Health and Human Services
- Education
- Civic and Community Needs
- Arts and Culture



GOING GREEN

Being a good steward of the environment is nothing new to Securian. We've spent years developing and implementing operating efficiencies in our buildings and cultivating responsible habits.

In 2009, Securian's 401 building was awarded the prestigious LEED-EB certification — Leadership in Energy and Environmental Design. Widely considered the premier recognition for green buildings, the certification is the most rigorous standard of achievement, given only to the world's greenest, energy-efficient, high-performing buildings.

For the second consecutive year, Securian earned the Environmental Protection Agency's respected ENERGY STAR, the national symbol for energy efficiency and environmental protection.

Our green efforts extend beyond our walls. Saving paper and resources, we offer our policyholders the option of electronic delivery of financial documents including prospectuses, semiannual and annual reports and supplements.

Julio Fesser, director of Corporate Facilities, with the esteemed LEED-EB award, a well-respected and demanding-to-achieve certification.

GROWING MARKET SHARE

In 2009, the flight to quality companies in the troubled economic environment provided major opportunities for Securian's businesses to gain market share.

Building diversified distribution, we expanded our presence in the markets we serve. In the Individual Financial Security market, our Independent Distribution Group (IDG) added 37 new brokerage firms for a total of more than one hundred, and our partnership with Waddell & Reed yielded excellent sales results. In the Retirement market, new individual annuity sales records were set by independent broker-dealers, and independent marketing organizations. Distribution of employer retirement plans through non-advisor channels accounted for 83 percent of total sales. And Financial Institution Group expanded into new market segments and acquired two new distribution outlets.

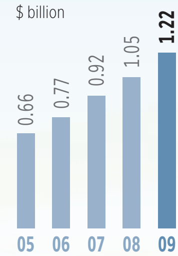
Broadening our product portfolio, Financial Institution Group rolled out six new direct response products and five new point-of-sale products. In the Individual market, our indexed universal life insurance product — Eclipse — continued to be a sales leader. And in the Retirement market, our new guaranteed minimum income benefit annuity, launched in fourth quarter 2009, positions us well for future sales opportunities.

Investing in technology, we continued to enhance our value proposition for clients and distribution channels. Group Insurance implemented a new claims web site and introduced a new reporting and client file management system. Individual Financial Security increased online services for independent distributors of our individual life insurance products, and Financial Institution Group expanded billing capabilities for customers of financial institution clients. Retirement introduced online statements for employer plan participants, individual annuity straight-through processing, and revamped web sites and online compensation statements for distributors. And Advantus Capital Management continued improvements to systems and processes to help maintain competitive client service.

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 • Survivorship Universal Life • Whole Life • Brokerage Accounts • Mutual Funds • Investment Advisory • Trust Services	• Securian Financial Network[1] – 46 firms – 1,729 representatives • Independent broker-dealers • Affiliated third-party producers • Affiliated broker-dealers
• Large 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	• Variable Group Universal Life • Group Universal Life • Portable Group Term Life • Group Term Life • Accidental Death and Dismemberment • Business Travel Accident • Dental	• 17 regional offices • 32 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 Insurance • Credit Life and Disability Insurance • Accidental Death and Dismemberment Insurance • Accident Protection • Term Life • Debt Protection • Guaranteed Asset Protection • Collateral Protection Insurance • 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 • Insight derived from intellectual capital, practical experience and collaboration • Proprietary research, fundamental security analysis • Client-focused culture • Customizable investment solutions	• General Account Management • Institutional Separate Accounts • Insurance Series Fund • Subadvisory Services • Investment Styles – Fixed Income – Real Estate Securities – Equity Indexes – Private Equity/Venture Capital	• National institutional sales staff • 17 sales and service staff • Institutional consultants • Securian Financial Network[1] • Strategic partners • Broker-dealers

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



Overall Group Insurance results were outstanding in 2009. Direct premium and policy fee income grew to over $1.2 billion — a 16 percent increase over 2008 — due to strong sales, high retention of existing clients and excellent service. Life insurance in force[1] grew 11 percent.

GROUP INSURANCE STRONG SALES AND HIGH RETENTION

The seamless transition of Group Insurance leadership from Jim Johnson, retiring executive vice president, to Von Peterson, senior vice president (far left) is underscored by a successful growth strategy supported by the commitment of all associates, represented by (left to right) Jennifer Peterson, Debra McLean, John Erickson, Beth Voermans, Breanna Duke, Jane Korf, Carolyn Allard, Sue Skarda, Daniel Girard, Robert Nelson and Lisa Milbert.

Five-year client retention rate

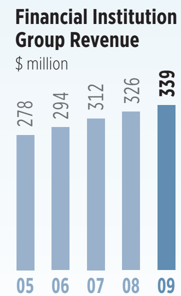
98%

Sales increased six percent to a record $176 million, including sales to 23 Fortune 1000-type organizations. And, despite a very tough market, we retained 96 percent of our existing clients. Our five-year average retention is 98 percent.

With the goal of becoming the best provider of group life insurance in the world, we continued our investment in technology to accelerate the advantage we hold over our competitors. In addition to increasing efficiency, our investments in claims, financial experience reporting and client file management systems are producing important service-enhancing benefits for our clients at each phase of plan rollout.

Maintaining the human touch in Group Insurance's high-tech world is critical. In 2009, our biennial client satisfaction survey indicated that 99 percent of our clients are satisfied with our overall service and 98 percent would recommend us. One hundred percent of new clients were satisfied with their plan implementation, continuing a record of extraordinarily high satisfaction with our implementation services since we began measuring in 2003.

[1] Insurance in force excludes Federal Employees' Group Life Insurance (FEGLI) and Servicemembers' Group Life Insurance (SGLI).



FINANCIAL INSTITUTION GROUP ANOTHER RECORD-BREAKING YEAR

Financial Institution Group overcame a difficult consumer lending environment to achieve another record-breaking year. In 2009, sales set a record at $566 million, six percent higher than 2008. Total product revenue reached a new high of $339 million, up four percent from 2008. Sales and revenue results were led by property-casualty product sales, which grew 77 percent; sales from new clients and new marketing campaigns, up 46 percent; and nonproprietary product sales, which grew 10 percent.

Product development and expansion were very active with the rollout of six new direct response products and five new point-of-sale products. Our Payment Assurance program, which provides protection for involuntary unemployment, won the National Association of Federal Credit Union's innovation award for new product development. Our accident and sickness product, PremierGuard, and ProtectorPlus Accidental Death and Dismemberment™ were instrumental in continuing our expansion into the direct deposit account and credit card markets.

The successful consolidation of the largest debt protection sale in Securian's history — to Founders Federal Credit Union — was accomplished thanks to the partnership established between Allied Solutions, represented by (above) Mark Thomas, regional vice president; and Founders' executive team including (right) Bruce Brumfield, president and chief executive officer; Larry Higgins, senior vice president and general counsel; Resa Blackman, senior vice president of loan administration, Secondary Market; and Mike Bragg, chief operations officer, Branch Administration.

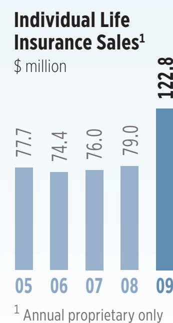
Our primary distribution arm, Allied Solutions, continued to demonstrate its relevance in the overall financial institution market, achieving a 55 percent market presence in the large credit union market, a 54 percent presence in the large bank market, and a 16 percent presence in the community bank market. In addition, we completed two new distribution acquisitions and expanded the number of selling agreements with independent distributors.

Our distribution service results were very strong in 2009, as we achieved a Net Promoter®[1] score of 57 in our first ever distributor survey, and 79 in our client implementation survey. These scores reflect a very high level of distributor loyalty and indicate that our distributors are very likely to recommend us based on their experience.

Reflecting our record of excellent client service, we retained 98 percent of financial institution clients' premium in 2009.

[1] Net Promoter® is a registered trademark of Bain & Company and Satmetrix Systems, Inc. Companies with NPS® scores between 50 and 80 are ranked as "most efficient" in terms of market growth when compared to other companies.

In partnership with our largest bank clients, including Wells Fargo, we established new programs to provide important protection to customers. Pictured (left to right) Ron Zickert, president, and Robert Dudacek, senior vice president, Wells Fargo Insurance, Inc.; Johnna Ashton, client marketing manager, and Tom Goodwin, senior vice president, Allied Solutions; and Dave Seidel, vice president and actuary, and Tani Helgemoe, campaign management manager, Securian Financial Group.



INDIVIDUAL FINANCIAL SECURITY

Driven by expanded distribution and our indexed universal life insurance product, sales of proprietary life insurance increased 55 percent to nearly $123 million. This record result reflects our rapidly expanding manufacturing capabilities, the flight to quality companies, the success of our Independent Distribution Group (IDG) and other distribution relationships.

In 2009, we continued implementing a multi-year initiative to modernize our value proposition and create the career distribution platform of the future — client centric, advisor focused and firm driven. Our value proposition includes a full spectrum of risk protection and investment products, services, and technology that meet the financial needs of business owners and high-net worth individuals.

Despite the market turmoil, we retained 95 percent of our top 400 Securian advisors in 2009, and more than 400 Securian advisors qualified for Million Dollar Round Table membership. For the fifth consecutive year, we achieved our goal to rank among the top 10 domestic companies based on membership.

We leveraged our newly implemented administration system and illustration platform to broaden our product portfolio, which includes an array of fixed, variable and indexed life insurance products. In addition to enhancements to Eclipse, our indexed universal life product, we introduced a new policy exchange option, giving existing clients additional flexibility to maintain their life insurance protection during the economic downturn. We also continued technology innovation to support all of our distribution channels.

Individual life policyholders who would recommend us

94%

Securian advisors, including Joe Fox, North Star Resource Group, took extra care to stay connected with their clients to help them meet the challenges of the economic downturn and retain their business, with support from a wide range of Securian departments. Pictured with Joe (left to right) are Pat Kulzer, director, Client Development and Marketing Strategies; Mary Anne Smith, second vice president, Individual Career Distribution; and Danica Goshert, director, Development Center.

Our comprehensive platform of products, underwriting, compensation and service that make it easy for advisors to do business with us, supported a tenfold increase in Independent Distribution Group sales from $5 million to $57 million. Pictured (clockwise from left) Maggie Mattson, manager, Broker Development, IDG; Jerry Capecchi, senior life underwriting consultant, Individual Life New Business; Ellen Kusilek, case management specialist, Individual Life New Business; Chris Wilson, compensation specialist, IDG; and Joe Freking, application manager, Individual Systems.

SECURE PRODUCTS AND EXPANDING DISTRIBUTION

INDIVIDUAL FINANCIAL SECURITY
CONTINUED

In 2009, we continued building our life insurance wholesaling capabilities, adding new internal and external distribution channels. We formed a distribution alliance with Securian Financial Institution Group and continued building market share with key partners such as Waddell & Reed and the major brokerage general agencies affiliated with IDG.

Reflecting the caliber of our service and the overall financial value we deliver, 94 percent of our individual life insurance policyholders were satisfied with our overall service and 94 percent would recommend us. In the Individual market, our retention rate, based on life insurance face amount, was 92 percent.

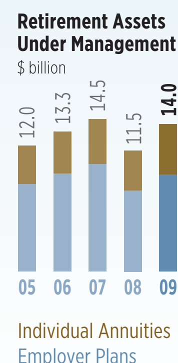
Our broker-dealer, Securian Financial Services, offers an array of best-of-class investment products, tools, support, and investment advisory services. Operational excellence, strong strategic partnerships and innovative marketing programs all contributed to the broker-dealer's continually growing value proposition. Total production revenue decreased 14 percent due to market turmoil during the first half of the year. Strong performance in the second half of 2009 positioned us well for a strong start in 2010.

In 2009, Securian Trust Company focused on generating new assets from our career advisors and other partners such as Waddell & Reed and Capital Financial Group, as well as centers of influence and community banks. As a result, total assets uder management increased 24 percent from $916 million to $1.14 billion. Securian Trust also improved operational efficiency and reduced expenses by integrating investment portfolio management with Securian Financial Services.

Maintaining high service standards to our clients and our career advisors during a challenging year was a responsibility shared by all Individual Financial Security departments. Recognized for the service they provided in 2009 were Gero Feaman, senior new business suitability analyst, Securian Financial Services; and Nicole Carlson, senior recognition and conference planner, Securian Advisor Services.

Keeping your dreams on course.™

Securian's enterprise-wide retirement income initiative — Retirement GPS — provides advisors with tools, resources and support to help build their retirement income business, a fast-growing segment of the financial services market.



RETIREMENT

Securian's financial strength and our diversified retirement distribution strategy — particularly alliances with new partners — were key to achieving Retirement sales of nearly $1.3 billion in 2009. Individual annuity sales were $836 million and employer plan sales were $444 million. Collected premium totaled $2.1 billion and net cash flow was $512 million, a new record. Retention of Retirement business, measured in assets, was 93 percent for individual annuities and 94 percent for employer plans — both strong results.

In the individual annuity market, we benefited from the flight to quality companies caused by the turbulent economy. Sales of noninstitutional fixed annuities more than doubled, increasing 135 percent. Demand for our Secure Option Select CD-style annuity led the way and our new immediate annuity, *IncomeToday!®*, contributed to that success.

Annuity sales by advisors increased 38 percent in 2009, and new sales records were set by two of our distribution channels — independent broker-dealers, and independent marketing organizations. The institutional annuity business that comprised 29 percent of 2008 sales declined to one percent in 2009 as institutional investors withdrew from this market.

Our new Guaranteed Minimum Income Benefit option, available on our individual variable annuities, as well as the introduction of our new retirement income initiative, Retirement GPS: Keeping Your Dreams on Course,™ positions us well for future sales opportunities.

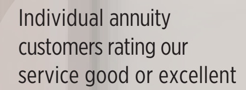
In the employer plan market, the challenging economic environment and high unemployment dampened demand for new plans, particularly among small employers, and reduced deposits in existing 401(k) plans. Distribution through non-advisor and other channels accounted for 83 percent of total sales in 2009. Collected premium totaled $1.3 billion for the year, and we served 3,000 plan sponsors and 216,000 plan participants.

Despite the tough market, our success in maintaining our role as a trusted provider was reflected in the ongoing adoption of our asset allocation tools — TargetAge™ and ExpressInvest™ — by 401(k) plan sponsors and participants. In 2009, we rolled out Retirement Success Accounts™ designed to help participants changing jobs or retiring retain their accumulated savings while offering the expense flexibility plan sponsors seek for keeping these participants under the plan.

In 2009, our surveys showed that 99 percent of individual annuity customers rated our service excellent or good, and 96 percent would recommend us. Ninety-seven percent of our employer plan sponsors were satisfied with our overall service, and 94 percent would recommend us.

Our Retirement Retool campaign helped 401(k) plan participants rebuild their retirement accounts with the use of multi-channel tools (e.g., online, onsite, printed) and education positively focused on long-term financial outcomes. Jody Smith (right), marketing representative, led the development of the Retirement Retool program and Stephanie Mehta, senior retirement services representative, worked with plan sponsors to increase client awareness.

Individual annuity customers rating our service good or excellent



99%

In a market seeking quality, our *IncomeToday!®* immediate annuity — offering advance withdrawal benefits — was a timely and well-received solution. The *IncomeToday!®* administration and marketing team includes (left to right) Laura Johnson, supervisor, Annuity Services; Jack Delsing, senior internal wholesaler, Annuity Sales; and Dave Mooers, annuity production consultant, Annuity Actuarial.

DIVERSIFIED DISTRIBUTION AND FINANCIAL STRENGTH

ASSET MANAGEMENT STRONG INVESTMENT RESULTS

In 2009, Advantus Capital Management — Securian's asset management affiliate — posted strong investment results amid volatile investment markets. Standing the test of time, Advantus celebrated its twenty-fifth year as a registered investment advisor, with investment roots that go back to Securian's founding in 1880.

Advantus assets under management grew 11 percent to $18.5 billion in 2009. That growth was largely due to increased general account deposits from sales of Securian's fixed insurance and annuity products, driven by Securian's high quality and relative strength within the insurance marketplace.

Advantus' management of the general account during one of the most difficult investment environments in history helped Securian maintain its competitive market position and strong balance sheet. The credit quality of the general account remained strong, and the portfolio performed very well.

As the market recovered, the portfolios we manage for other insurance companies also performed well, continuing our strong performance. In addition, the Real Estate Securities composite generated a 26 percent net return, exceeding its benchmark[1] on a net basis over three-, five- and 10-year periods ending December 31, 2009. And total return fixed income strategies rebounded, outperforming their benchmarks by a considerable margin.

Advantus' focus on client satisfaction resulted in retention of 93 percent of external asset management clients. In 2009, Advantus improved systems and processes that enhance client service capabilities and prepare the firm for future client growth. Our systems will enhance our performance attribution, investment accounting and client reporting. These improvements will help us maintain competitive client service, increase delivery efficiency and deepen client relationships.

Advantus' research-intensive, fundamental approach to equity investments was validated as markets stabilized in 2009. Members of the Advantus equity portfolio team include (left to right) Joshua Klaetsch, investment analyst, Real Estate Securities; Karen Maw, equity trader, Equities; Lowell Bolken, investment officer, Real Estate; Joe Betlej, senior investment officer, Real Estate; and Jim Seifert, associate investment officer, Index.

[1] The Dow Jones Wilshire Real Estate Securities Index is a market capitalization-weighted index of equity securities whose primary business is equity ownership of commercial real estate (REITs). The index contains equity and hybrid REITs and real estate operating companies.

Advantus uses quantitative analysis and computer-based models to enhance our ability to provide performance and attribution analytics and manage hedging programs for specific financial risks on Securian's balance sheet. Members of the quantitative management team include (left to right) Won Jung, associate quantitative analyst; Merlin Erickson, senior quantitative analyst; and Craig Stapleton-Corcoran, associate portfolio manager, General Account.

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CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

December 31, 2009 and 2008

in thousands	**2009**	2008
Assets		
Fixed maturity securities:		
Available-for-sale, at fair value (amortized cost $8,049,242 and $6,642,851)	**$ 8,136,682**	$ 6,010,253
Equity securities, at fair value (cost $244,743 and $351,776)	**286,016**	353,182
Mortgage loans, net	**1,263,581**	1,250,198
Finance receivables, net	**190,925**	185,317
Policy loans	**340,362**	334,986
Alternative investments (cost $445,213 and $436,365)	**470,424**	475,016
Fixed maturity securities on loan, at fair value (amortized cost $58,530 and $194,767)	**58,891**	216,753
Equity securities on loan, at fair value (cost $15,563 and $35,039)	**19,362**	36,950
Derivative instruments	**47,469**	57,413
Other invested assets	**84,139**	54,471
Total investments	**10,897,851**	8,974,539
Cash and cash equivalents	**370,306**	608,178
Securities held as collateral	**40,170**	214,604
Deferred policy acquisition costs	**905,127**	1,039,071
Accrued investment income	**99,602**	89,665
Premiums and fees receivable	**176,739**	185,394
Property and equipment, net	**85,391**	91,893
Income tax recoverable:		
Current	**6,076**	74,267
Deferred	**–**	170,459
Reinsurance recoverables	**868,473**	854,217
Goodwill and intangible assets, net	**80,747**	76,113
Other assets	**83,754**	68,198
Separate account assets	**11,447,608**	9,239,747
Total assets	**$ 25,061,844**	$ 21,686,345
Liabilities and Stockholder's Equity		
Liabilities:		
Policy and contract account balances	**$ 6,092,352**	$ 5,392,546
Future policy and contract benefits	**2,616,824**	2,549,792
Pending policy and contract claims	**314,910**	292,688
Other policyholder funds	**734,756**	719,001
Policyholder dividends payable	**41,481**	44,363
Unearned premiums and fees	**280,181**	318,632
Pension and other postretirement benefits	**148,570**	217,835
Income tax liability:		
Deferred	**64,813**	–
Other liabilities	**459,993**	457,438
Notes payable	**125,000**	125,000
Securities lending collateral	**80,750**	271,667
Separate account liabilities	**11,447,608**	9,239,747
Total liabilities	**22,407,238**	19,628,709
Stockholder's equity:		
Common stock, $.01 par value, 850,000 shares authorized with 100,000 shares issued and outstanding	**1**	1
Additional paid in capital	**71,553**	71,553
Accumulated other comprehensive income (loss)	**(28,325)**	(424,315)
Retained earnings	**2,611,377**	2,410,397
Total stockholder's equity	**2,654,606**	2,057,636
Total liabilities and stockholder's equity	**$ 25,061,844**	$ 21,686,345

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Years ended December 31, 2009, 2008, and 2007

in thousands	**2009**	2008	2007
Revenues:			
Premiums	**$ 1,746,807**	$ 1,906,711	$ 1,505,626
Policy and contract fees	**510,170**	503,646	486,590
Net investment income	**564,879**	553,952	546,216
Net realized investment gains (losses)			
Other-than-temporary-impairments on fixed maturity securities	**(89,010)**	(223,751)	(41,186)
Other-than-temporary-impairments on fixed maturity securities transferred to other comprehensive income (loss)	**42,987**	–	–
Other net realized investment gains (losses)	**73,731**	(273,885)	93,939
Total net realized investment gains (losses)	**27,708**	(497,636)	52,753
Finance charge income	**53,777**	53,286	49,755
Commission income	**175,575**	136,478	140,658
Other income	**94,745**	89,129	70,552
Total revenues	**3,173,661**	2,745,566	2,852,150
Benefits and expenses:			
Policyholder benefits	**1,758,233**	1,871,283	1,453,716
Interest credited to policies and contracts	**325,965**	288,288	280,096
General operating expenses	**577,076**	548,368	529,882
Commissions	**315,625**	282,159	252,757
Administrative and sponsorship fees	**60,312**	65,419	62,873
Dividends to policyholders	**10,898**	10,891	10,412
Interest on notes payable	**10,241**	10,424	10,306
Amortization of deferred policy acquisition costs	**208,946**	248,818	188,567
Capitalization of policy acquisition costs	**(256,640)**	(227,580)	(228,801)
Total benefits and expenses	**3,010,656**	3,098,070	2,559,808
Income (loss) from operations before taxes	**163,005**	(352,504)	292,342
Income tax expense (benefit):			
Current	**24,336**	(70,728)	75,534
Deferred	**25,372**	(23,190)	10,274
Total income tax expense (benefit)	**49,708**	(93,918)	85,808
Net income (loss)	**$ 113,297**	$ (258,586)	$ 206,534

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY

Years ended December 31, 2009, 2008, and 2007

in thousands	Common stock	Additional paid in capital	Accumulated other comprehensive income (loss)	Retained earnings	Total stockholder's equity
2007:					
Balance, beginning of year	$ 1,000	$ 3,164	$ 158,477	$ 2,478,563	$ 2,641,204
Comprehensive income:					
Net income	–	–	–	206,534	206,534
Other comprehensive loss	–	–	(18,287)	–	(18,287)
Total comprehensive income					188,247
Changes in accounting principle	–	–	(22,492)	(4,661)	(27,153)
Dividends to stockholder	–	–	–	(9,400)	(9,400)
Stock recapitalization	(999)	999	–	–	–
Balance, end of year	$ 1	$ 4,163	$ 117,698	$ 2,671,036	$ 2,792,898
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**

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended December 31, 2009, 2008, and 2007

in thousands	2009	2008	2007
Cash Flows from Operating Activities			
Net income (loss)	**$ 113,297**	$ (258,586)	$ 206,534
Adjustments to reconcile net income (loss) to net cash provided by (used for) operating activities:			
Interest credited to annuity and insurance contracts	**281,163**	258,007	247,577
Fees deducted from policy and contract balances	**(364,474)**	(338,399)	(425,291)
Change in future policy benefits	**92,728**	296,263	22,504
Change in other policyholder liabilities, net	**17,382**	15,692	41,305
Amortization of deferred policy acquisition costs	**208,946**	248,818	188,567
Capitalization of policy acquisition costs	**(256,640)**	(227,580)	(228,801)
Change in premiums and fees receivable	**8,655**	(10,916)	(16,893)
Deferred tax provision	**25,189**	(23,190)	9,909
Change in income tax recoverable – current	**68,191**	(91,226)	(6,561)
Net realized investment losses (gains)	**(27,656)**	497,636	(52,753)
Change in reinsurance recoverables	**(14,256)**	(29,223)	(32,307)
Other, net	**6,055**	(10,351)	(5,640)
Net cash provided by (used for) operating activities	**158,580**	326,945	(51,850)
Cash Flows from Investing Activities			
Proceeds from sales of:			
Fixed maturity securities	**1,656,308**	1,535,734	970,990
Equity securities	**329,629**	380,607	604,956
Alternative investments	**19,365**	26,065	72,265
Derivative instruments	**139,037**	120,445	1,438
Other invested assets	**2,212**	2,489	5,680
Proceeds from maturities and repayments of:			
Fixed maturity securities	**768,867**	596,392	787,754
Mortgage loans	**96,375**	109,559	76,606
Purchases and originations of:			
Fixed maturity securities	**(3,615,858)**	(2,478,263)	(1,886,504)
Equity securities	**(156,242)**	(265,118)	(439,534)
Mortgage loans	**(109,810)**	(112,527)	(189,938)
Alternative investments	**(43,612)**	(110,756)	(93,322)
Derivative instruments	**(172,338)**	(127,450)	(1,908)
Other invested assets	**(4,404)**	(103)	(1,212)
Finance receivable originations or purchases	**(131,521)**	(131,565)	(138,901)
Finance receivable principal payments	**115,880**	116,363	116,286
Securities in transit	**(16,571)**	18,113	23,463
Other, net	**(47,634)**	(81,908)	(65,967)
Net cash used for investing activities	**(1,170,317)**	(401,923)	(157,848)
Cash Flows from Financing Activities			
Deposits credited to annuity and insurance contracts	**2,742,147**	2,551,249	2,342,490
Withdrawals from annuity and insurance contracts	**(1,977,430)**	(2,171,046)	(2,116,797)
Change in amounts drawn in excess of cash balances	**7,922**	455	55,607
Contributed capital	**–**	2,259	–
Dividends paid to stockholder	**–**	(750)	(4,000)
Other, net	**1,226**	6,304	27,363
Net cash provided by financing activities	**773,865**	388,471	304,663
Net increase (decrease) in cash and cash equivalents	**(237,872)**	313,493	94,965
Cash and cash equivalents, beginning of year	**608,178**	294,685	199,720
Cash and cash equivalents, end of year	**$ 370,306**	$ 608,178	$ 294,685

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) and its wholly-owned subsidiaries, Minnesota Life Insurance Company, Securian Financial Network, Inc., Securian Ventures, Inc., Advantus Capital Management, Inc., Securian Financial Services, Inc., Securian Trust Company, N.A., Securian Casualty Company, CNL Financial Corporation, H. Beck, Inc., Capital Financial Group, Inc., and CFG Insurance Services, Inc. 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	**2009**	2008	2007
Individual Financial Security	**$ 594,887**	$ 536,781	$ 567,421
Financial Institution Group	**360,406**	338,680	346,575
Group Insurance	**1,513,009**	1,424,112	1,326,988
Retirement	**459,923**	447,006	331,263
Asset Management	**18,942**	19,508	21,905
Total strategic business units	**2,947,167**	2,766,087	2,594,152
Subsidiaries and corporate product line	**226,494**	(20,521)	257,998
Total	**$ 3,173,661**	$ 2,745,566	$ 2,852,150

The Company serves over 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.

On November 30, 2008, the Company acquired H. Beck, Inc., a registered broker-dealer, and its affiliated companies, Capital Financial Group, Inc. and CFG Insurance Services, Inc. See note 18 for additional description of the transaction.

The Company sold its wholly-owned, software development subsidiary, I.A. Systems, Inc. (IA Systems), to an unaffiliated company on June 11, 2007. The Company recognized a gain of $8,539,000 on the sale, which is included in net realized investment gains on the consolidated statements of operations. Additional realized gains of $1,184,000 were recognized during 2008 based on the results of earn-out provisions included within the sales agreement. IA Systems had total revenues of $2,878,000 included in the consolidated statements of operations of the Company for the year ended 2007.

The Company sold its wholly-owned indirect subsidiary, Northstar Life Insurance Company (Northstar), a New York domiciled life insurance company, to an unaffiliated insurance company on July 1, 2007. Prior to the sale transaction, a majority of the Northstar policies and contracts were transferred to Securian Life Insurance Company (Securian Life) via an assumption reinsurance transaction effective June 30, 2007. The remaining policies and contracts within Northstar after the sale were 100% reinsured to Securian Life via a coinsurance agreement with an effective date of July 1, 2007. Northstar had total revenues of $3,605,000 included in the consolidated statements of operations for the year ended 2007. The sale of Northstar did not have a material impact on the consolidated results of operations or financial position of the Company.

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 (ETF) 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 (NAV). 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, 2009 and 2008, 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.

Fair values of fixed maturity and marketable equity securities are based on quoted market prices obtained from third party pricing services when available.

For fixed maturity securities where quoted market prices are not available, generally private placement securities, securities that do not trade regularly, and embedded derivatives included in such securities, an internally developed pricing model using a commercial software application is most often 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.

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. As of December 31, 2008, 85.3% of fixed maturity fair values were obtained from quoted market prices, 14.0% from the internal methods described above and 0.7% from other sources, primarily broker bids. Due to extreme volatility in the fixed maturity markets beginning in late 2007 and throughout 2008 and 2009, the Company performed additional procedures to ensure fair values obtained as of December 31, 2009 and 2008 were appropriate. The additional procedures were primarily performed on fixed maturities where the fair value obtained was less than 90% of par value which supplemented the Company's routine review of the securities valued between 90% and par. For these securities, the additional procedures performed included: review of price history and ratings, comparison of original projected returns to actual returns, analysis of underlying collateral, and documentation supporting the valuation used.

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 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 consoli-

dated balance sheets as discussed in detail in note 16. The use of restricted funds is limited to the satisfaction of the unremitted premiums payable owed to the underwriter.

The amount of restricted cash reported in cash and cash equivalents on the consolidated balance sheets is $19,593,000 and $19,792,000 at December 31, 2009 and 2008, 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, 2009 and 2008 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, 2009 and 2008 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. Derivative instrument fair values are based on quoted market prices or dealer quotes. 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. Interest income generated by derivative instruments is reported in net realized investment gains (losses) on the consolidated statements of operations.

The significant inputs to the pricing models for most over-the-counter derivatives are inputs that 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 over-the-counter 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 over-the-counter derivatives after taking into account the effects of netting agreements and collateral arrangements. Counterparty credit risk of the derivative instruments are monitored closely by the Company along with concentration of similar counterparty credit risks in other assets of the investment portfolio.

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 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. The Company uses economic hedges including futures contracts, interest rate swaps and exchange traded options, in its efforts to minimize the financial risk associated with these product guarantees.

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, 2009 or 2008.

The Company provides valuation allowances for impairments of mortgage loans on a specific identification basis. Mortgage loans are considered to be impaired 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 agreement. When the Company determines that a loan is impaired, a provision for loss is established equal to the difference between the carrying value and the present value of expected future cash flows or the fair value of the collateral, if the loan is collateral dependent. Changes in the valuation allowance are recorded in 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. When these loan transactions occur, the lending broker provides cash equivalent collateral equal to 102% to 105% of the fair value of the loaned securities.

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 securities lending collateral, 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.

Securities lending income is recorded in net investment income and was $199,000, $1,285,000, and $1,335,000 for the years ended December 31, 2009, 2008, and 2007, respectively. Securities, consisting of equity securities and fixed maturity securities, were loaned to other financial institutions. Amounts loaned as of December 31, 2009 and 2008 were $78,253,000 and $253,703,000, respectively. As of December 31, 2009 and 2008, the fair value of the collateral associated with securities lending was $80,750,000 and $214,604,000, respectively.

As a result of deteriorating collateral asset quality the Company recognized other-than-temporary impairments of $0, $47,019,000 and $10,044,000 for the years ended December 31, 2009, 2008 and 2007, respectively, on defaulted or distressed fixed income securities contained within its securities lending portfolio. These impairments are included in net realized investment gains (losses) on the consolidated statements of operations. As of December 31, 2009, the Company recognized unrealized gains of $12,016,000 due to the recovery in fair value of certain securities lending collateral assets that were previously impaired in 2008 and 2007. The Company also recorded net realized investment gains of $4,276,000 in 2009 due to the subsequent sale of securities lending collateral assets that were previously impaired in 2008 and 2007.

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, 2009 and 2008, the fair value of these investments included within equity securities on the consolidated balance sheets was $25,769,000 and $21,041,000, 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 and interest 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. Late charges are accrued only if two or fewer late charges are due and unpaid. 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, 2009 and 2008. 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	2009	2008
Balance at beginning of year	$ 9,726	$ 2,952
Capitalization	3,467	4,950
Amortization and interest	(715)	201
Adjustment for unrealized gains (losses)	(2,186)	1,623
Balance at end of year	$ 10,292	$ 9,726

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 intangible 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 $39,950,000 and $41,347,000 as of December 31, 2009 and 2008, respectively, and amortized software expense of $15,401,000, $14,683,000 and $13,501,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

Property and Equipment

Property and equipment are carried at cost, net of accumulated depreciation of $122,156,000 and $116,733,000 at December 31, 2009 and 2008, 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, 2009, 2008 and 2007, was $12,279,000, $12,415,000, and $12,211,000, 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, 2009, the Company has assumed an average rate of investment yields ranging from 4.65% to 5.24%.

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, 2009 and 2008, the total participating business in force was $1,918,937,000 and $1,719,000,000, respectively. As a percentage of total life insurance in force, participating business in force represents 0.3% at December 31, 2009 and 2008.

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 tax. 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.

Reclassification

Certain 2008 and 2007 financial statement balances have been reclassified to conform to the 2009 presentation.

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, 2009, approximately 90.6% 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 September 2009, the FASB issued Accounting Standards Update 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 5 (ASU 2009-5), 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 is currently evaluating the impact to its consolidated results of operations and financial position due to the adoption of ASU 2009-5.

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. The Company is currently evaluating the impact of this new guidance to its consolidated results of operations and financial position.

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 is currently evaluating the impact of this new guidance to its consolidated results of operations and financial position.

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.

In February 2007, the FASB issued guidance permitting entities to choose to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The application of this new guidance is required for fiscal years beginning after November 15, 2007. The adoption did not impact the Company's consolidated financial statements as no items were elected for measurement at fair value upon initial adoption. The Company will continue to evaluate eligible financial assets and liabilities on their election dates. Any future elections will be disclosed in accordance with the provision outlined within the guidance.

In September 2006, the FASB issued guidance that requires an employer to recognize the funded status of a defined benefit pension and other postretirement plan as an asset or liability on its consolidated balance sheets and to recognize changes in funded status in the year in which the changes occur through other comprehensive income (loss). In addition, this new guidance requires an employer to measure the funded status of a plan as of the date of its year-end financial statements. For employers without publicly traded equity securities, recognition of the funded status of a benefit plan was required to be adopted for fiscal years ending after June 15, 2007. The requirement to measure the funded status of a plan as of the date of its year-end financial statements was required for fiscal years ending after December 15, 2008. The Company adopted the requirement to recognize the funded status of its benefit plans as of December 31, 2007, which resulted in a $22,472,000 decrease to accumulated other comprehensive income (loss), net of taxes. The Company adopted the requirement to measure the funded status as of the date of its year-end financial statements on December 31, 2008, which resulted in a $1,287,000 decrease to retained earnings, net of taxes, and a $88,000 increase to accumulated other comprehensive income (loss), net of taxes.

In September 2006, the FASB issued guidance which establishes an authoritative definition of fair value, sets out a framework for measuring fair value, and requires additional disclosures regarding fair value measurements. The application of this new guidance was initially required for fiscal years beginning after November 15, 2007. During February 2008, the FASB issued guidance which delayed the effective date until fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis. During October 2008, the FASB issued additional guidance effective upon issuance which clarified the application of the fair value guidance in an inactive market, including: how internal assumptions should be considered when measuring fair value, how observable market information that is not active should be considered and how the use of market quotes should be used when assessing observable and unobservable data. There was no material impact to the Company's financial statements, other than disclosures, as a result of the adoption of this new guidance.

In June 2006, the FASB issued guidance which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This new guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Additional guidance is provided on derecognition, classification, interest and penalties, disclosure and transition. The application of this new guidance was required for fiscal years beginning after December 15, 2006. The Company adopted the new guidance effective January 1, 2007, which resulted in a cumulative effect adjustment to increase retained earnings $1,681,000, net of taxes.

In September 2005, guidance was issued by the AcSEC of the AICPA on accounting for DAC on internal replacements and certain investment contracts. This guidance was effective for internal replacements occurring in fiscal years beginning after December 15, 2006. The Company adopted this new guidance effective January 1, 2007, which resulted in a cumulative effect adjustment to decrease retained earnings $6,326,000, net of taxes, and decrease accumulated other comprehensive income $20,000, net of taxes.

NOTE 5
Fair Value of Financial Instruments

The fair value of the Company's financial assets and financial liabilities has been determined using available market information as of December 31, 2009 and 2008. 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.

Financial Assets and Financial Liabilities Reported at Fair Value

Effective January 1, 2008, the Company prospectively adopted the provisions of fair value measurement guidance for its financial assets and financial liabilities that are measured at fair value. 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 — 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 — Prices or valuations based on observable inputs other than quoted prices in active markets for identical 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 — Prices or valuations that require significant unobservable inputs. 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.

Refer to note 2 for additional information on techniques used to measure fair value and any changes in those techniques during 2009.

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

in thousands

December 31, 2009	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 141,263	$ –	$ –	$ 141,263
Agencies not backed by the full faith and credit of the U.S. government	–	84,401	–	84,401
Foreign government securities	–	25,162	–	25,162
Corporate securities	–	3,897,807	927,171	4,824,978
Asset-backed securities	–	186,423	34,434	220,857
Commercial mortgage-backed securities	–	848,137	89	848,226
Residential mortgage-backed securities	–	1,987,049	4,746	1,991,795
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 [1]	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 [2]	$ –	$ –	$ 12,579	$ 12,579
Future policy and contract benefits [2]	–	–	30,999	30,999
Derivative instruments	–	673	–	673
Securities lending collateral	6,876	73,874	–	80,750
Total financial liabilities	$ 6,876	$ 74,547	$ 43,578	$ 125,001

[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, 2008	Level 1	Level 2	Level 3	Total
Fixed maturity securities, available-for-sale:				
U.S. government securities	$ 43,226	$ 9,767	$ –	$ 52,993
Agencies not backed by the full faith and credit of the U.S. government	–	72,079	2,797	74,876
Foreign government securities	–	4,659	–	4,659
Corporate securities	–	2,494,461	852,751	3,347,212
Asset-backed securities	–	184,893	27,097	211,990
Commercial mortgage-backed securities	–	757,395	12,623	770,018
Residential mortgage-backed securities	–	1,531,901	16,604	1,548,505
Total fixed maturity securities, available-for-sale	43,226	5,055,155	911,872	6,010,253
Equity securities, available-for-sale	342,856	–	326	343,182
Fixed maturity securities on loan:				
U.S. government securities	109,172	3,500	–	112,672
Agencies not backed by the full faith and credit of the U.S. government	–	37,117	–	37,117
Corporate securities	–	13,942	–	13,942
Residential mortgage-backed securities	–	53,022	–	53,022
Total fixed maturity securities on loan	109,172	107,581	–	216,753
Equity securities on loan	36,950	–	–	36,950
Derivative instruments	9	57,404	–	57,413
Total investments	532,213	5,220,140	912,198	6,664,551
Cash equivalents	475,482	33,425	–	508,907
Securities held as collateral	13,528	201,076	–	214,604
Separate account assets [1]	8,977,964	259,683	2,100	9,239,747
Total financial assets	$ 9,999,187	$ 5,714,324	$ 914,298	$16,627,809
Policy and contract account balances [2]	$ –	$ –	$ 2,398	$ 2,398
Future policy and contract benefits [2]	–	–	107,175	107,175
Securities lending collateral	13,528	258,139	–	271,667
Total financial liabilities	**$ 13,528**	**$ 258,139**	**$ 109,573**	**$ 381,240**

[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.

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:

		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	Net transfers in (out) of Level 3	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	852,751	(6,103)	119,028	(22,250)	(16,255)	927,171
Asset-backed securities	27,097	(16)	(407)	24,182	(16,422)	34,434
Commercial mortgage-backed securities	12,623	–	15	(32)	(12,517)	89
Residential mortgage-backed securities	16,604	(1,314)	2,319	(12,393)	(470)	4,746
Total fixed maturities, available-for-sale	911,872	(7,433)	120,955	(10,493)	(48,461)	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)	$ (48,576)	$ 966,449

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

[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 income.

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, 2008:

in thousands	Balance at beginning of year	Total realized and unrealized gains (losses) included in: Net loss[1]	Other comprehensive loss	Purchases, sales and settlements, net	Net transfers in (out) of Level 3	Balance at end of year
Agencies not backed by the full faith and credit of the U.S. government	$ 3,979	$ –	$(1,182)	$ –	$ –	$ 2,797
Corporate securities	1,018,859	(11,813)	(139,982)	(19,335)	5,022	852,751
Asset-backed securities	15,939	(1,366)	(2,002)	(1,954)	16,480	27,097
Commercial mortgage-backed securities	29,743	(10,979)	(2,607)	2,724	(6,258)	12,623
Residential mortgage-backed securities	8,424	(1,365)	(4,741)	13,633	653	16,604
Total fixed maturities, available-for-sale	1,076,944	(25,523)	(150,514)	(4,932)	15,897	911,872
Equity securities, available-for-sale	2,369	(428)	89	(1,819)	115	326
Separate account assets [2]	10,061	(2,516)	–	(52)	(5,393)	2,100
Total financial assets	**$ 1,089,374**	**$ (28,467)**	**$ (150,425)**	**$ (6,803)**	**$ 10,619**	**$ 914,298**

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

[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.

There were no changes in unrealized gains (losses) included in net income (loss) related to assets held as of December 31, 2009 and 2008.

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:

in thousands	Balance at beginning of year	Total realized and unrealized (gains) losses included in: Net income[1]	Other comprehensive gain	Sales, issuances and settlements, net	Net transfers in (out) of Level 3	Balance at end of year
Policy and contract account balances	$ 2,398	$ 10,181	$ –	$ –	$ –	$ 12,579
Future policy and contract benefits	107,175	(75,090)	–	(1,086)	–	30,999
Total financial liabilities	$ 109,573	$ (64,909)	$ –	$ (1,086)	$ –	$ 43,578

[1] The amounts included in this column are reported in net realized investment gains (losses) 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, 2008:

in thousands	Balance at beginning of year	Total realized and unrealized (gains) losses included in: Net loss[1]	Other comprehensive loss	Sales, issuances and settlements, net	Net transfers in (out) of Level 3	Balance at end of year
Policy and contract account balances	$ 1,727	$ 671	$ –	$ –	$ –	$ 2,398
Future policy and contract benefits	12,986	94,599	–	(410)	–	107,175
Total financial liabilities	**$ 14,713**	**$ 95,270**	**$ –**	**$ (410)**	**$ –**	**$ 109,573**

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

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 change in unrealized (gains) losses included in net income (loss) related to liabilities held as of December 31, 2008 was $95,463,000, of which $94,792,000 was included in net realized investment gains (losses) and $671,000 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, 2009 and 2008 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, 2009 and 2008 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:

	2009		2008	
in thousands	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Mortgage loans, net	**$1,263,581**	**$1,231,777**	$1,250,198	$1,181,272
Finance receivables, net	**190,925**	**190,925**	185,317	185,317
Policy loans	**340,362**	**340,362**	334,986	334,986
Alternative investments	**470,424**	**470,424**	475,016	475,016

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

	2009		2008	
in thousands	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Deferred annuities	**$2,420,139**	**$2,532,103**	$2,005,003	$1,991,314
Annuity certain contracts	**72,789**	**76,544**	56,112	54,981
Other fund deposits	**1,560,268**	**1,558,257**	1,403,133	1,419,365
Supplementary contracts without life contingencies	**56,407**	**56,407**	52,524	52,524
Notes payable	**125,000**	**127,226**	125,000	127,179

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 $8,195,573,000 and $6,227,006,000 at December 31, 2009 and 2008, respectively. Fixed maturity securities represent 75.2% and 69.4% of total invested assets at December 31, 2009 and 2008, respectively. At December 31, 2009 and 2008 publicly traded fixed maturity securities comprised 80.2% and 78.3%, 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's mortgage-backed securities investment 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 holds commercial mortgage-backed securities (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 residential mortgage-backed securities (RMBS) portfolio primarily contains prime residential mortgages with loans made to borrowers with strong credit histories. The Company's portfolio consisted of $1,677,885,000 and $1,187,488,000 agency backed RMBS and $313,910,000 and $361,017,000 non-agency backed RMBS as of December 31, 2009 and 2008, 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, 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 $305,378,000 and $390,132,000 as of December 31, 2009 and 2008, 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, 2009	Amortized cost	Gross unrealized gains	Gross unrealized losses	OTTI in AOCL[1]	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	81,148	4,423	1,170	–	84,401
Foreign government securities	23,979	1,529	346	–	25,162
Corporate securities	4,597,195	252,995	25,936	(724)	4,824,978
Asset-backed securities	221,211	5,848	4,294	1,908	220,857
CMBS	952,662	11,126	69,128	46,434	848,226
RMBS	2,043,766	66,739	38,792	79,918	1,991,795
Total fixed maturities	8,049,242	355,177	140,201	127,536	8,136,682
Equity securities – unaffiliated	244,743	43,601	2,328	–	286,016
Total	$ 8,293,985	$ 398,778	$ 142,529	$ 127,536	$ 8,422,698

[1] Amounts include unrealized gains and losses on impaired securities subsequent to the impairment measurement date.

The amortized cost, gross unrealized gains and losses and fair value of fixed maturity and equity securities by type of investment were as follows:

in thousands **December 31, 2008**	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. government securities	$ 44,526	$ 8,600	$ 133	$ 52,993
Agencies not backed by the full faith and credit of the U.S. government	70,400	5,845	1,369	74,876
Foreign government securities	4,196	463	–	4,659
Corporate securities	3,662,198	36,460	351,446	3,347,212
Asset-backed securities	245,911	2,131	36,052	211,990
CMBS	994,640	2,991	227,613	770,018
RMBS	1,620,980	53,838	126,313	1,548,505
Total fixed maturities	6,642,851	110,328	742,926	6,010,253
Equity securities – unaffiliated	351,776	26,175	24,769	353,182
Total	$ 6,994,627	$ 136,503	$ 767,695	$ 6,363,435

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, 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 maturities	**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, gross unrealized gains and losses and fair value of fixed maturity and equity securities on loan by type of investment were as follows:

in thousands **December 31, 2008**	**Amortized cost**	**Gross unrealized gains**	**Gross unrealized losses**	**Fair value**
U.S. government securities	$ 94,122	$ 18,559	$ 9	$ 112,672
Agencies not backed by the full faith and credit of the U.S. government	35,841	1,276	–	37,117
Corporate securities	14,330	372	760	13,942
RMBS	50,474	2,568	20	53,022
Total fixed maturities	194,767	22,775	789	216,753
Equity securities – unaffiliated	35,039	3,038	1,127	36,950
Total	$ 229,806	$ 25,813	$ 1,916	$ 253,703

The amortized cost and fair value of fixed maturity securities at December 31, 2009, 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	$ 214,778	$ 220,828	$ 706	$ 706
Due after one year through five years	2,121,383	2,235,156	6,203	6,524
Due after five years through ten years	2,187,156	2,300,305	27,754	27,788
Due after ten years	308,286	319,515	23,867	23,873
	4,831,603	5,075,804	58,530	58,891
Asset-backed and mortgage-backed securities	3,217,639	3,060,878	–	–
Total	**$ 8,049,242**	**$ 8,136,682**	**$ 58,530**	**$ 58,891**

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

in thousands December 31, 2009	Less than 12 months			12 months or greater		
	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	**21,295**	**22,437**	**1,142**	**635**	**663**	**28**
Foreign government securities	**8,121**	**8,467**	**346**	**–**	**–**	**–**
Corporate securities	**326,251**	**331,319**	**5,068**	**305,565**	**325,709**	**20,144**
Asset-backed securities	**75,175**	**77,815**	**2,640**	**21,784**	**25,346**	**3,562**
CMBS	**126,309**	**138,091**	**11,782**	**367,674**	**471,454**	**103,780**
RMBS	**444,444**	**475,331**	**30,887**	**223,191**	**311,014**	**87,823**
Equity securities – unaffiliated	**11,640**	**12,299**	**659**	**75,036**	**76,705**	**1,669**

in thousands December 31, 2008	Less than 12 months			12 months or greater		
	Fair value	Amortized cost	Unrealized losses	Fair value	Amortized cost	Unrealized losses
U.S. government securities	$ 343	$ 476	$ 133	$ –	$ –	$ –
Agencies not backed by the full faith and credit of the U.S. government	4,906	6,127	1,221	952	1,100	148
Corporate securities	1,860,720	2,074,258	213,538	436,441	574,349	137,908
Asset-backed securities	170,679	201,542	30,863	5,731	10,920	5,189
CMBS	534,911	698,194	163,283	91,527	155,857	64,330
RMBS	224,832	297,885	73,053	83,507	136,767	53,260
Equity securities – unaffiliated	80,823	99,565	18,742	29,192	35,219	6,027

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

in thousands December 31, 2009	Less than 12 months			12 months or greater		
	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**	**–**	**–**	**–**

in thousands December 31, 2008	Less than 12 months			12 months or greater		
	Fair value	Amortized cost	Unrealized losses	Fair value	Amortized cost	Unrealized losses
U.S. government securities	$ 4,751	$ 4,760	$ 9	$ –	$ –	$ –
Corporate securities	6,862	7,242	380	2,749	3,129	380
RMBS	2,299	2,319	20	–	–	–
Equity securities – unaffiliated	5,520	6,629	1,109	106	124	18

U.S. government securities by their nature are impaired due to current interest rates and not credit-related reasons. The Company expects to collect all principal and interest and did not have an intent to sell these securities at December 31, 2009.

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. The Company expects to collect all principal and interest and did not have an intent to sell these securities at December 31, 2009.

Foreign governments are similar in nature to U.S. government and agency securities in that the primary impact to valuation is due to changes in interest rates. These securities are also impacted by foreign currency rates and the Company attempts to invest only in stable, top tier global markets. The Company expects to collect all principal and interest and did not have an intent to sell these securities at December 31, 2009.

Corporate security valuations are impacted by both interest rates and credit industry specific issues. The Company impairs securities 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. The Company expects to collect all principal and interest and did not have an intent to sell these securities at December 31, 2009.

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, 2009, 84.2% of the RMBS portfolio was invested in agency pass-through securities. At December 31, 2009, the Company had RMBS securities that were in an unrealized loss position for twelve months or longer. The fair value of these securities were 79.7% investment grade (BBB or better) and 68.8% of the unrealized losses were recognized as OTTI noncredit losses. 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, 2009, the Company had CMBS securities that had been in an unrealized loss position for twelve months or longer. The fair value of these securities were 94.2% investment grade and 35.7% of the unrealized losses were recognized as OTTI noncredit loss. Based on the results of discounted cash flow analysis, the Company expects to collect all principal and interest and did not have an intent to sell these securities at December 31, 2009.

Equity securities with unrealized losses at December 31, 2009 primarily represent highly diversified mutual funds that have positive outlooks for near-term future recovery.

At December 31, 2009 and 2008, fixed maturity securities and cash equivalents with a carrying value of $31,916,000 and $30,877,000, 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 $1,263,581,000 and $1,250,198,000 at December 31, 2009 and 2008, 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. The Company had no foreclosed loans or real estate owned as of December 31, 2009 or 2008.

Realized losses on mortgage loans are the result of foreclosures, sales of loans and write-down in anticipation of losses. The Company did not recognize any realized capital losses on commercial mortgage loans for the years ended December 31, 2009, 2008 and 2007. The valuation allowance held for mortgage loans was $100,000 and $0 as of December 31, 2009 and 2008. The change in valuation allowance was $100,000 for the year ending December 31, 2009 and $0 for the years ending December 31, 2008 and 2007.

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, 2009		December 31, 2008	
in thousands	Carrying value	Percent of total	Carrying value	Percent of total
Alternative Investments				
Private equity funds	**$ 244,590**	**52.0%**	$ 247,282	52.1%
Mezzanine debt funds	**156,180**	**33.2%**	160,294	33.7%
Hedge funds	**69,654**	**14.8%**	67,440	14.2%
Total alternative investments	**$ 470,424**	**100.0%**	$ 475,016	100.0%

Net Investment Income

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

in thousands	2009	2008	2007
Fixed maturity securities	**$ 445,444**	$ 415,949	$ 408,951
Equity securities	**12,468**	21,061	23,868
Mortgage loans	**77,362**	80,917	76,291
Policy loans	**24,515**	24,040	22,522
Cash equivalents	**1,585**	5,366	11,394
Alternative investments	**3,930**	5,266	2,577
Derivative instruments	**(85)**	(101)	53
Other invested assets	**4,205**	6,113	5,080
Gross investment income	**569,424**	558,611	550,736
Investment expenses	**(4,545)**	(4,659)	(4,520)
Total	**$ 564,879**	$ 553,952	$ 546,216

Net Realized Investment Gains (Losses)

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

in thousands	2009	2008	2007
Fixed maturity securities	**$ (28,930)**	$ (304,931)	$ (53,933)
Equity securities	**47,362**	(92,880)	92,130
Mortgage loans	**(74)**	–	–
Alternative investments	**(15,267)**	(2,070)	32,516
Derivative instruments	**21,434**	(50,844)	(7,921)
Other invested assets	**(1,093)**	108	5
Securities held as collateral	**4,276**	(47,019)	(10,044)
Total	**$ 27,708**	$ (497,636)	$ 52,753

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	2009	2008	2007
Fixed maturity securities:			
Gross realized gains	**$ 103,277**	$ 16,273	$ 22,317
Gross realized losses	**(86,184)**	(97,453)	(35,064)
Equity securities:			
Gross realized gains	**79,699**	50,241	117,158
Gross realized losses	**(28,087)**	(66,329)	(17,428)
Alternative investments:			
Gross realized gains	**5,085**	10,173	38,064
Gross realized losses	**(21)**	(70)	(78)

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	2009	2008	2007
Fixed maturity securities:			
Corporate securities	**$ 14,776**	$ 56,556	$ 10,602
Asset-backed securities	**16**	14,516	965
CMBS	**1,141**	29,363	4,723
RMBS	**30,090**	123,316	24,896
Equity securities	**4,250**	76,792	7,600
Alternative investments	**20,331**	12,173	5,470
Other invested assets	**1,150**	–	–
Securities held as collateral	**–**	47,019	10,044
Total other-than-temporary impairments	**$ 71,754**	$ 359,735	$ 64,300

The cumulative credit loss component of other-than-temporary impairments on fixed maturity securities still held by the Company at December 31, 2009, for which a portion of the other-than-temporary impairment loss was recognized in other comprehensive income, was as follows:

in thousands	2009
Balance at beginning of year	**$ –**
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	**33,815**
Additional impairments – credit loss OTTI recognized on securities previously impaired	**12,208**
Balance at end of year	**$ 133,790**

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, 2009			December 31, 2008		
			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**	**$ 3,287**	**$ –**	$ 101,500	$ 26,551	$ –
	Interest rate Futures	**162,100**	**5**	**–**	514,100	7	–
	TBAs	**39,361**	**41,056**	**–**	30,125	30,906	–
Foreign currency	*Foreign currency Forwards*	**6**	**–**	**–**	621	(54)	–
Equity market	*Equity futures*	**89,320**	**2**	**–**	94,390	3	–
	Equity options	**61,160**	**3,119**	**673**	–	–	–
Total derivatives		**$ 453,447**	**$ 47,469**	**$ 673**	$ 740,736	$ 57,413	$ –

[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 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 2008 and 2009 the trading volume and frequency was at expected levels.

The Company uses 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 2009 and 2008. In addition, the Company utilized a total return strategy in 2007 and 2008 that replicated the S&P 500 by investing in corporate bonds and total rate of return swaps. The swaps were unwound in 2008. The remaining use of derivatives is immaterial to the Company's results.

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.

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 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, 2009 or December 31, 2008.

The Company also holds certain mortgage backed TBA instruments that have not settled at their first available date to settle.

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

in thousands	Net realized investment gains (losses)	Net investment income	Policyholder benefits
December 31, 2009			
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 gains (losses) recognized in income from derivatives	**$ (54,742)**	**$ (85)**	**$ 4,182**

in thousands	Net realized investment gains (losses)	Net investment income	Policyholder benefits
December 31, 2008			
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	(1,767)	–	–
Total gains (losses) recognized in income from derivatives	$ 43,345	$ (101)	$ 141

in thousands	Net realized investment gains (losses)	Net investment income	Policyholder benefits
December 31, 2007			
Interest rate swaps	$ 121	$ –	$ (87)
Interest rate futures	(543)	–	–
TBAs	25	–	–
Foreign currency forwards	(327)	53	–
Equity futures	(1,586)	–	–
Equity options	2,474	–	–
Total return swaps	(340)	–	–
Total gains (losses) recognized in income from derivatives	$ (176)	$ 53	$ (87)

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, 2009 or December 31, 2008.

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, 2009 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	**2009**	2008
Embedded derivatives within annuity products:		
Guaranteed withdrawal benefits	**$ (17,176)**	$ (83,252)
Guaranteed payout floors	**(13,823)**	(23,923)
Other	**(2,954)**	(1,652)
Embedded derivatives within life insurance products:		
Equity-linked index credits	**$ (9,625)**	$ (746)

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

in thousands	**2009**	2008	2007
Embedded derivatives within annuity products:			
Net investment gains (losses)	**$ 76,176**	$ (94,189)	$ (7,745)
Policyholder benefits	**(1,302)**	(464)	(912)
Embedded derivatives within life insurance products:			
Policyholder benefits	**$ (8,879)**	$ (207)	$ (12)

At December 31, 2009 and 2008, fixed maturity securities with a carrying value of $29,989,000 and $15,804,000, respectively, were pledged as collateral to a regulatory authority as part of the Company's derivative program.

NOTE 8
Variable Interest Entities

An entity is considered a variable interest entity (VIE) if it has (1) equity that is insufficient to permit the entity to finance its activities without additional subordinated financial support from other parties, or (2) equity investors that cannot make significant decisions about the entity's operations, or that do not absorb the expected losses or receive the expected returns of the entity. A VIE is consolidated by its primary beneficiary, which is the party involved with the VIE that absorbs a majority of the expected losses, receives a majority of the expected residual returns or both.

The Company has reviewed all investments and relationships for potential VIEs. As of December 31, 2009 and 2008, the Company had identified one VIE for which it was the primary beneficiary. The Company held an investment in a trust for which it was the primary beneficiary and where results were consolidated in the Company's financial results. The assets held under this VIE as of December 31, 2009 and 2008 were $4,746,000 and $4,972,000, respectively and are included in other invested assets on the consolidated balance sheets.

The Company has identified VIE arrangements in which it holds significant variable interests, but is not the primary beneficiary and for which results have not been consolidated, as detailed below:

in thousands	**Total assets**	**Maximum exposure to loss**
December 31, 2009		
Alternative investments	**$ 31,614**	**$ 24,852**
Other invested assets	**2,286**	**2,286**

in thousands	**Total assets**	**Maximum exposure to loss**
December 31, 2008		
Alternative investments	$ 28,008	$ 25,080
Other invested assets	2,286	2,286

NOTE 9
Net Finance Receivables

Finance receivables as of December 31 were as follows:

in thousands	**2009**	2008
Direct installment loans	**$ 227,107**	$ 223,889
Retail installment notes	**38,301**	30,633
Accrued interest	**4,458**	4,289
Gross receivables	**269,866**	258,811
Unearned finance charges	**(68,177)**	(63,125)
Allowance for losses	**(10,764)**	(10,369)
Finance receivables, net	**$ 190,925**	$ 185,317

Direct installment loans, at December 31, 2009 and 2008, consisted of $156,309,000 and $153,144,000, respectively, of discount basis loans, net of unearned finance charges and unearned other charges, and $11,276,000 and $13,329,000, 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, 2009 were as follows:

in thousands	
2010	$ 23,991
2011	64,736
2012	92,536
2013	18,080
2014	543
2015 and thereafter	1,803
Total finance receivables, net of unearned finance charges	201,689
Allowance for losses	(10,764)
Finance receivables, net	**$ 190,925**

During the years ended December 31, 2009, 2008 and 2007, principal cash collections of direct installment loans were $74,312,000, $74,441,000 and $74,751,000, respectively, and the percentages of these cash collections to average net balances were 46%, 47% and 51%, respectively. Retail installment notes' principal cash collections were $37,770,000, $38,200,000 and $37,987,000, respectively, and the percentages of these cash collections to average net balances were 148%, 149% and 146% for the years ended December 31, 2009, 2008 and 2007, respectively.

The ratio of the allowance for losses to total finance receivables, net of unearned finance charges, at both December 31, 2009 and 2008 was 5.3%.

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

in thousands	**2009**	2008	2007
Balance at beginning of year	**$ 10,369**	$ 10,067	$ 9,227
Provision for credit losses	**10,116**	8,487	7,018
Charge-offs	**(13,553)**	(11,907)	(9,741)
Recoveries	**3,832**	3,722	3,549
Allowance on bulk purchases	**–**	–	14
Balance at end of year	**$ 10,764**	$ 10,369	$ 10,067

At December 31, 2009 and 2008, the recorded investments in certain direct installment loans were considered to be impaired. The balances of such loans at December 31, 2009 and 2008 and the related allowance for losses were as follows:

in thousands	**Installment loans**
Balances at December 31, 2009	$ 77
Related allowance for losses	$ 63
Balances at December 31, 2008	$ 97
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, 2009 and 2008 was $86,000 and $128,000, respectively.

There were no commitments to lend additional funds to customers whose loans were classified as impaired at December 31, 2009 or 2008.

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, 2009 and 2008 was $23,168,000 and $22,654,000, respectively. There was no investment in receivables past due more than 60 days that were accounted for on an accrual basis at December 31, 2009 and 2008.

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 with a balance at December 31, 2009 of $12,992,000. The remaining note is a taxable note with a balance at December 31, 2009 of $1,391,000. For the years ended December 31, 2009 and 2008, the Company received principal payments of $445,000 and $382,000, respectively, and interest payments of $1,146,000 and $1,173,000, respectively, on the notes. At December 31, 2009 and 2008, the accrued interest on the notes was $470,000 and $481,000, 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	2009	2008	2007
Computed tax expense (benefit)	**$ 57,052**	$ (123,376)	$ 102,320
Difference between computed and actual tax expense:			
Dividends received deduction	**(8,113)**	(7,991)	(11,416)
Tax credits	**(927)**	(5,257)	(6,532)
Change in valuation adjustment	**(244)**	37,247	(381)
Expense adjustments and other	**1,940**	5,459	1,817
Total tax expense (benefit)	**$ 49,708**	$ (93,918)	$ 85,808

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

in thousands	2009	2008
Deferred tax assets:		
Policyholder liabilities	**$ 20,170**	$ 3,395
Pension, postretirement and other benefits	**72,595**	92,584
Tax deferred policy acquisition costs	**125,208**	120,403
Deferred gain on individual disability coinsurance	**9,320**	10,746
Net realized capital losses	**67,019**	146,922
Net unrealized capital losses	**–**	203,475
Ceding commissions and goodwill	**2,913**	4,946
State net operating losses	**2,987**	2,849
Other	**7,554**	8,069
Gross deferred tax assets	**307,766**	593,459
Less valuation allowance	**(1,221)**	(38,465)
Deferred tax assets, net of valuation allowance	**306,545**	554,994
Deferred tax liabilities:		
Policyholder liabilities	**–**	28,538
Deferred policy acquisition costs	**257,052**	291,358
Premiums	**23,547**	31,048
Real estate and property and equipment depreciation	**6,532**	7,217
Basis difference on investments	**6,471**	7,223
Net unrealized capital gains	**59,377**	–
Other	**18,379**	19,151
Gross deferred tax liabilities	**371,358**	384,535
Net deferred tax asset (liability)	**$ (64,813)**	$ 170,459

As of December 31, 2008, the Company recorded a $38,465,000 valuation allowance related to capital losses and tax benefits of certain state operating loss carryforwards. The valuation allowance reflected management's assessment, based on available information at the time, that it was more likely than not that the deferred income tax asset for certain capital losses and certain state operating loss carryforwards would not be realized. The entire change in valuation allowance was recognized as income tax expense in 2008 on the consolidated statements of operations.

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, 2009, 2008, and 2007, was $(37,244,000), $37,247,000 and $(381,000), respectively.

At December 31, 2009, state net operating loss carryforwards were $49,084,000, the majority of which will expire beginning in 2017.

Income taxes paid (received) for the years ended December 31, 2009, 2008 and 2007, were $(46,710,000), $17,928,000, and $83,310,000, respectively.

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

in thousands	2009	2008
Balance at beginning of year	**$ 25,291**	$ 21,043
Additions based on tax positions related to current year	**2,426**	881
Additions for tax positions of prior years	**5,071**	5,225
Reductions for tax positions of prior years	**(8,135)**	(1,858)
Balance at end of year	**$ 24,653**	$ 25,291

Included in the balance of unrecognized tax benefits at December 31, 2009 are potential benefits of $7,825,000 that, if recognized, would affect the effective tax rate on income from operations.

As of December 31, 2009, accrued interest and penalties of $1,311,000 are recorded as current income tax liability on the consolidated balance sheets and $(1,143,000) is recognized as a current income tax expense on the consolidated statements of operations.

At December 31, 2009, 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.

In December 2009, the IRS completed their audit of the consolidated federal income tax returns for Minnesota Mutual Companies, Inc. and Subsidiaries for the years 2005 through 2007. Two Revenue Agent Reports were received upon the close of the audit, one for the agreed audit issues and one for the disagreed audit issues. The Company accrued for its applicable share of the taxes assessed on the agreed audit issues. For the disagreed issues, the Company made a Section 6603 deposit and is currently appealing those issues to the IRS Office of Appeals. In addition, the Company is still in Appeals for an issue arising from the audit of its tax returns for the years 2003 and 2004. The Company believes that any additional taxes refunded or assessed as a result of Appeals will not have a material effect on its accounting 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 2010, 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 expects to contribute $0 to the 401(h) account in 2009, and may contribute additional tax deductible amounts.

As described in note 4, effective December 31, 2007 the Company adopted the requirement for the recognition of the funded status of pension and other postretirement plans on the consolidated balance sheets and eliminated the requirement to recognize a minimum pension liability as a component of accumulated other comprehensive income. Upon adoption of the new guidance, the Company eliminated the additional minimum pension liability and recognized as an adjustment to accumulated other comprehensive income, net of income tax, those amounts of net actuarial losses, prior service costs and the remaining amount of net transition obligation that had not yet been included in net periodic benefit cost. The following table summarizes the adjustments to the December 31, 2007 consolidated balance sheet as a result of adopting the new guidance issued by FASB:

in thousands	Before adoption of new guidance	Adoption of new guidance	After adoption of new guidance
Other assets:			
Prepaid pension asset	$ 46,708	$ (23,882)	$ 22,826
Intangible asset	27	(27)	–
Pension and other postretirement benefits – pension	(44,430)	(14,822)	(59,252)
Pension and other postretirement benefits – other postretirement plans	(60,652)	4,162	(56,490)
Accumulated other comprehensive income	(4,562)	(34,569)	(39,131)

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	**2009**	2008	**2009**	2008
Change in benefit obligation:				
Benefit obligation at beginning of year	**$ 506,456**	$ 449,373	**$ 89,066**	$ 63,817
Measurement date change	**–**	4,081	**–**	542
Service cost	**20,913**	17,659	**2,814**	2,287
Interest cost	**29,498**	28,675	**4,780**	4,224
Amendments	**–**	–	**(17,791)**	–
Actuarial (gain) loss	**(5,786)**	17,877	**(19,143)**	20,549
Benefits paid	**(9,813)**	(11,209)	**(1,721)**	(2,353)
Benefit obligation at end of year	**$ 541,268**	$ 506,456	**$ 58,005**	$ 89,066
Change in plan assets:				
Fair value of plan assets at beginning of year	**$ 369,328**	$ 392,947	**$ 8,641**	$ 7,327
Measurement date change	**–**	2,731	**–**	49
Actual return on plan assets	**54,044**	(85,350)	**2,341**	(2,983)
Employer contribution	**22,396**	70,209	**5,487**	6,601
Benefits paid	**(9,813)**	(11,209)	**(1,721)**	(2,353)
Fair value of plan assets at end of year	**$ 435,955**	$ 369,328	**$ 14,748**	$ 8,641
Net amount recognized:				
Funded status	**$ (105,313)**	$ (137,128)	**$ (43,257)**	$ (80,425)
Amounts recognized on the consolidated balance sheets:				
Prepaid benefit cost	**$ –**	$282	**$ –**	$ –
Accrued benefit cost	**(105,313)**	(137,410)	**(43,257)**	(80,425)
Net amount recognized	**$ (105,313)**	$ (137,128)	**$ (43,257)**	$ (80,425)
Amounts recognized in accumulated other comprehensive income (loss):				
Prior service benefit	**$ 2,689**	$ 3,133	**$ 27,725**	$ 11,107
Net actuarial loss	**(146,017)**	(177,738)	**(10,018)**	(31,865)
Accumulated other comprehensive income (loss) at year end	**$ (143,328)**	$ (174,605)	**$ 17,707**	$ (20,758)
Accumulated benefit obligation	**$ 388,705**	$ 362,352	**$ 58,005**	$ 89,066
Plans with accumulated benefit obligation in excess of plan assets:				
Projected benefit obligation	**$ 101,613**	$ 70,622		
Accumulated benefit obligation	**80,007**	49,455		
Fair value of plan assets	**33,176**	12,055		
Weighted average assumptions used to determine benefit obligations:				
Discount rate	**6.05%**	5.78%	**5.98%**	5.77%
Rate of compensation increase	**5.73%**	5.72%	**–**	–
Components of net periodic benefit cost:				
Service cost	**$ 20,913**	$ 17,659	**$ 2,814**	$ 2,287
Interest cost	**29,498**	28,675	**4,780**	4,224
Expected return on plan assets	**(33,782)**	(30,649)	**(726)**	(590)
Transition obligation amortization	**–**	–	**–**	–
Prior service benefit amortization	**(444)**	(443)	**(1,173)**	(1,173)
Recognized net actuarial loss	**5,673**	2,810	**1,089**	436
Net periodic benefit cost	**$ 21,858**	$ 18,052	**$ 6,784**	$ 5,184
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):				
Prior service credit (cost)	**$ –**	$ –	**$ 17,791**	$ –
Net gain (loss)	**26,048**	(133,876)	**20,758**	(24,122)
Amortization of prior service benefit	**(444)**	(443)	**(1,173)**	(1,173)
Amortization of net loss	**5,673**	2,810	**1,089**	436
Total recognized in other comprehensive income (loss)	**$ 31,277**	$ (131,509)	**$ 38,465**	$ (24,859)

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 2010 are $456,000 and $5,007,000, 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 2010 are $2,285,000 and $588,000, respectively.

	Pension Benefits		Other Benefits	
in thousands	**2009**	2008	**2009**	2008
Weighted average assumptions used to determine net periodic benefit costs:				
Discount rate	**5.78%**	6.40%	**5.77%**	6.37%
Expected long-term return on plan assets	**7.75%**	7.77%	**7.00%**	7.00%
Rate of compensation increase	**5.72%**	5.71%	**–**	–

Estimated future benefit payments for pension and other postretirement benefits:

in thousands	Pension benefits	Other benefits	Medicare subsidy
2010	$ 12,710	$ 2,716	$ 91
2011	14,247	2,343	102
2012	15,723	2,420	118
2013	18,749	2,580	131
2014	19,369	2,775	143
2015 – 2019	132,163	16,589	912

For measurement purposes, an 8.0% and 8.5% annual rate of increase in the per capita cost of covered health care benefits was assumed for 2009 and 2008, respectively. The rate was assumed to decrease gradually to 5.5% for 2016 and remain at that level thereafter.

The assumptions presented herein are based on pertinent information available to management as of December 31, 2008 and 2007. 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, 2009 by $7,139,000 and the estimated eligibility cost and interest cost components of net periodic benefit costs for 2009 by $987,000. Decreasing the assumed health care cost trend rates by one percentage point would decrease the post-retirement benefit obligation as of December 31, 2009 by $5,933,000 and the estimated eligibility cost and interest cost components of net periodic postretirement benefit costs for 2009 by $818,000.

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 maturities 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, 2009, for each of the broad investment categories, weighted for all plans combined is as follows:

Equity securities	50% to 69%
Fixed maturity securities	23% to 41%
Insurance company general account	8% to 11%
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:

	2009	2008
Equity securities	**57%**	41%
Fixed maturity securities	**36%**	50%
Insurance company general account	**7%**	9%

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 52% equity securities and 48% fixed maturity securities. The target asset allocation as of December 31, 2009 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, 2009. 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.

Effective January 1, 2009, the Company prospectively adopted the provisions of fair value measurement guidance for its pension and other postretirement plans financial assets and financial liabilities that are measured at fair value. 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.

Investments in pooled separate accounts are stated at the corresponding unit value of the pooled separate account. The underlying fair value of the separate account investments consist primarily of marketable equity and fixed maturity securities and are generally based on observable valuation inputs. Underlying investments in pooled separate accounts can also include securities that require unobservable valuation inputs, such as private placement fixed maturity securities. Deposits in the insurance company general account are stated at cost plus accrued interest, which represents fair value.

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 — 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 — Prices or valuations based on observable inputs other than quoted prices in active markets for identical assets and liabilities. The types of assets and liabilities utilizing Level 2 valuations generally include certain investments in pooled separate accounts.

Level 3 — Prices or valuations that require significant unobservable inputs. 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.

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

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

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, 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	$ 49,521	$ (28,288)	$ (21,233)	$ –
Total financial assets	$ 49,521	$ (28,288)	$ (21,233)	$ –

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 2009, 2008, and 2007 of $7,583,000, $11,340,000 and $13,138,000, 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	**2009**	2008	2007
Balance at January 1	**$ 609,855**	$ 605,881	$ 603,401
Less: reinsurance recoverable	**539,379**	530,261	523,582
Net balance at January 1	**70,476**	75,620	79,819
Incurred related to:			
Current year	**78,649**	76,109	75,019
Prior years	**(3,996)**	(2,403)	(1,961)
Total incurred	**74,653**	73,706	73,058
Paid related to:			
Current year	**50,909**	46,272	43,390
Prior years	**25,546**	32,578	33,367
Total paid	**76,455**	78,850	76,757
Disposition of subsidiary	**–**	–	(500)
Net balance at December 31	**68,674**	70,476	75,620
Plus: reinsurance recoverable	**528,938**	539,379	530,261
Balance at December 31	**$ 597,612**	$ 609,855	$ 605,881

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 $(3,996,000), $(2,403,000), and $(1,961,000) in 2009, 2008, and 2007. 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	**2009**	2008	2007
Direct premiums	**$1,641,540**	$ 1,662,085	$ 1,262,013
Reinsurance assumed	**305,106**	436,166	426,721
Reinsurance ceded	**(199,839)**	(191,540)	(183,108)
Net premiums	**$ 1,746,807**	$ 1,906,711	$ 1,505,626

Reinsurance recoveries on ceded reinsurance contracts included in policyholder benefits on the consolidated statements of operations were $194,020,900, $167,954,000 and $165,509,000 during 2009, 2008 and 2007, 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, $398,401,000 and $384,911,000 in 2009, 2008 and 2007, respectively, related to the SGLI and FEGLI programs. Total assumed reserves recognized by the Company related to the SGLI and FEGLI programs were $0 and $22,037,000 as of December 31, 2009 and 2008, respectively. The impact of the SGLI and FEGLI programs on the Company's 2009, 2008 and 2007 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 2009, 2008 or 2007.

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	**2009**	2008
Return of net deposits:		
In the event of death		
Account value	**$ 1,787,289**	$ 1,362,207
Net amount at risk	**$ 60,682**	$ 246,130
Average attained age of contractholders	**57.1**	56.1
As withdrawals are taken		
Account value	**$ 627,129**	$ 358,692
Net amount at risk	**$ 43,415**	$ 103,740
Average attained age of contractholders	**62.7**	62.3
Return of net deposits plus a minimum return:		
In the event of death		
Account value	**$ 126,118**	$ 93,251
Net amount at risk	**$ 26,754**	$ 47,165
Average attained age of contractholders	**66.7**	66.2
At annuitization		
Account value	**$ 312,231**	$ 210,615
Net amount at risk	**$ –**	$ –
Weighted average period remaining until expected annuitization (in years)	**6.5**	6.9
Highest specified anniversary account value:		
In the event of death		
Account value	**$ 530,450**	$ 418,762
Net amount at risk	**$ 72,685**	$ 184,013
Average attained age of contractholders	**57.5**	56.6
Guaranteed payout annuity floor:		
Account value	**$ 47,078**	$ 41,879
Net amount at risk	**$ 46**	$ 97
Average attained age of contractholders	**69.8**	69.2

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

in thousands	**2009**	2008
Account value (general and separate accounts)	**$ 2,443,848**	$ 1,912,286
Net amount at risk	**$38,079,563**	$37,989,548
Average attained age of policyholders	**51.0**	48.0

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

Liabilities for guarantees on universal life and variable contracts reflected in the general account as of December 31, 2008 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	$ 1,501	$ 7,957	$ 5,029	$ 12,066
Incurred guarantee benefits	5,717	16,376	78,223	11,874
Paid guaranteed benefits	(1,257)	(410)	–	(7,693)
Balance at end of year	$ 5,961	$ 23,923	$ 83,252	$ 16,247

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, 2009 and 2008 (except where noted otherwise):

- For 2009 and 2008, 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 6.38% and 7.96% for 2009 and 2008, respectively, and is consistent with DAC projections over a 10 year period.
- Annualized monthly standard deviation was 15.28% for 2009 and 2008.
- Assumed mortality was 100% of the 1983a table.
- 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, 2009 and 2008 (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%.
- General account discount rate was 5.0% for 2009 and 2008.
- Separate account discount rate was 7.73% for 2009 and 2008.

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

	Variable annuity contracts		Variable life contracts	
in thousands	**2009**	2008	**2009**	2008
Equity	**$1,465,394**	$ 1,150,572	**$1,372,254**	$ 1,084,011
Bond	**347,370**	276,207	**140,177**	120,114
Balanced	**425,486**	264,336	**208,002**	125,477
Money market	**68,093**	92,373	**33,272**	52,999
Mortgage	**79,920**	84,874	**47,052**	49,325
Real estate	**57,595**	47,737	**37,967**	29,192
Total	**$2,443,858**	$ 1,916,099	**$1,838,724**	$ 1,461,118

NOTE 16
Unremitted Premiums 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, 2009 and 2008, the liability associated with unremitted premiums payable was $19,593,000 and $19,792,000, respectively and is reported as part of other liabilities on the consolidated balance sheets. As described in note 2, as of December 31, 2009 and 2008, the Company had restricted the use of $19,593,000 and $19,792,000, respectively, of its cash and cash equivalents to satisfy these premium 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. 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, 2009 and 2008, the approved accrued interest was $3,008,000. At December 31, 2009 and 2008, the balance of the surplus notes was $125,000,000. The issuance costs of $1,421,000 are deferred and amortized over 30 years on a straight-line basis. At December 31, 2009 and 2008, accumulated amortization was $640,000 and $592,000, respectively.

At December 31, 2009, the aggregate minimum annual notes payable maturities for the next five years are as follows: 2010, $0; 2011, $0; 2012, $0; 2013, $0; 2014, $0; thereafter $125,000,000.

Interest paid on notes for the years ended December 31, 2009, 2008 and 2007, was $10,241,000, $10,424,000 and $10,306,000, respectively.

NOTE 18
Business Combinations

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.

The amount of acquisition-related additional cash consideration the Company may have to pay in 2010 and future years if certain thresholds are attained is $26,665,000 of which $3,584,000 was accrued at December 31, 2009.

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	**2009**	2008
Balance at beginning of year	**$ 52,507**	$ 30,671
Additions	**5,473**	21,836
Adjustments to prior year acquisitions	**230**	–
Balance at end of year	**$ 58,210**	$ 52,507

Annual impairment testing of goodwill was completed in 2009. 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 2009 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	**2009**	2008
Balance at beginning of year	**$ 23,606**	$ 5,702
Acquisitions	**3,721**	21,510
Amortization	**(4,790)**	(3,606)
Balance at end of year	**$ 22,537**	$ 23,606

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 2009, 2008 or 2007.

Intangible asset amortization expense for 2009, 2008 and 2007 in the amount of $4,790,000, $3,606,000 and $2,537,000, respectively, is included in general operating expenses. Projected amortization expense for the next five years is as follows: 2010, $4,109,000; 2011, $3,477,000; 2012, $2,918,000; 2013, $2,456,000; 2014, $1,865,000.

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, 2009 and 2008, the amount payable to the Company was $685,000 and $775,000, respectively. The amount of expenses incurred by and reimbursed to the Company for the years ended December 31, 2009, 2008, and 2007 were $1,690,000, $1,944,000, and $2,174,000, 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	**2009**	2008	2007
Other comprehensive income (loss), before tax:			
Unrealized gains (losses) on securities	**$ 868,689**	$(1,215,091)	$ 42,211
Reclassification adjustment for (gains) losses included in net income (loss)	**(2,311)**	399,881	(70,713)
Unrealized losses on securities – OTTI	**(37,943)**	–	–
Adjustment to deferred policy acquisition costs	**(181,639)**	151,153	(2,410)
Adjustment to reserves	**(52,512)**	11,007	(2,673)
Adjustment to unearned policy and contract fees	**29,884**	(31,074)	754
Adjustment to pension and other postretirement plans	**69,743**	(156,368)	1,389
	693,911	(840,492)	(31,442)
Income tax (expense) benefit related to items of other comprehensive income (loss)	**(241,138)**	298,391	13,155
Other comprehensive income (loss), net of tax	**$ 452,773**	$ (542,101)	$ (18,287)

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

in thousands	**2009**	2008
Gross unrealized gains	**$ 466,993**	$ 220,714
Gross unrealized losses	**(169,891)**	(789,990)
Gross unrealized losses - OTTI	**(127,536)**	–
Adjustment to deferred policy acquisition costs	**(36,931)**	141,340
Adjustment to reserves	**(59,203)**	(6,706)
Adjustment to unearned policy and contract fees	**(244)**	(28,978)
Adjustment to pension and other postretirement plans	**(125,621)**	(195,364)
	(52,433)	(658,984)
Deferred federal income taxes	**24,108**	234,669
Net accumulated other comprehensive income (loss)	**$ (28,325)**	$ (424,315)

NOTE 22
Stock Dividends, Capital Contributions and Plan of Recapitalization

Dividend payments received by SFG from Minnesota Life Insurance Company cannot exceed the greater of 10% of Minnesota Life Insurance Company's 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 2009 statutory results, the maximum amount available for the payment of dividends during 2010 by Minnesota Life Insurance Company to SFG without prior regulatory approval is $174,162,000 after January 1, 2010.

The Company declared and paid dividends to Securian Holding Company for the years ended December 31 as follows:

in thousands	**2009**	2008	2007
Equity securities	**$ –**	$ –	$ 5,400
Cash	**–**	750	4,000
Total	**$ –**	$ 750	$ 9,400

For the years ended December 31, Securian Holding Company contributed capital to the Company as follows:

in thousands	**2009**	2008	2007
Equity securities	**$ –**	$ 47,850	$ –
Private equity investments	**–**	15,482	–
Cash	**–**	2,259	–
Deferred tax asset	**–**	1,799	–
Total	**$ –**	$ 67,390	$ –

Effective June 30, 2007, the Company's board of directors adopted a Plan of Recapitalization (Plan) as approved by a unanimous written consent of shareholders. As part of the Plan, the Company issued one share of common stock, $.01 par value for each 1,000 shares issued and outstanding on its books and records. The Company then amended its Articles of Incorporation to reduce the number of shares of $.01 par value common stock authorized from 600,000,000 to 850,000 and to reduce the number of shares of $.01 par value preferred stock authorized from 100,000,000 to 150,000.

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, 2009 and 2008, these securities were reported at fair value of $41,056,000 and $30,906,000, respectively.

The Company has long-term commitments to fund alternative investments and real estate investments totaling $212,472,000 as of December 31, 2009. The Company estimates that $85,000,000 of these commitments will be invested in 2010, with the remaining $127,472,000 invested over the next four years.

As of December 31, 2009, the Company had committed to purchase mortgage loans totaling $10,400,000 but had not completed the purchase transactions.

As of December 31, 2009, the Company had committed to purchase corporate fixed maturity securities totaling $6,000,000 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: 2010, $11,267,000; 2011, $11,267,000; 2012, $11,267,000; 2013, $11,267,000; 2014, $11,267,000. The Company sub-leases space in downtown St. Paul. Commitments to the Company from these agreements are as follows: 2010, $618,000; 2011, $430,000; 2012, $404,000; 2013, $397,000; 2014, $355,000. Lease expense, net of sub-lease income, for the years ended December 31, 2009, 2008 and 2007 was $8,613,000, $8,502,000, and $8,670,000, 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: 2010, $3,639,000; 2011, $2,961,000; 2012, $1,882,000; 2013, $1,439,000; 2014, $1,381,000.

At December 31, 2009, the Company had guaranteed the payment of $68,200,000 of policyholder dividends and discretionary amounts payable in 2010. The Company has pledged fixed maturity securities, valued at $91,250,000 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, 2009 and 2008, the assets held in trust were $587,656,000 and $642,731,000, 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. Management does not consider an accrual necessary relating to these guarantees.

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 have either been 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 2010. 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, 2009 and 2008 was approximately $2,780,000, and $3,041,000, 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, 2009 and 2008 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 $2,111,000 and $1,794,000 as of December 31, 2009 and 2008, 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 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 risk-based capital (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, 2009, 2008 and 2007.

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 $65,798,000 in 2009, $(232,881,000) in 2008 and $189,645,000 in 2007. Statutory surplus of these operations was $1,822,201,000 and $1,510,343,000 as of December 31, 2009 and 2008, respectively.

NOTE 25

Subsequent Events

Through March 8, 2010, 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, 2009 and 2008, 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, 2009. 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes 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, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2009, 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 8, 2010

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Fort Myers, Florida

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Committee:
Investment

* All of the above directors serve on the board of Minnesota Mutual Companies, Inc., the parent company of Securian Financial Group, Inc. Those indicated with an asterisk comprise the board of Securian Financial Group, Inc.

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San Mateo
SGC Financial

Colorado
Colorado Springs
Strategic Financial Partners
Denver
GCG Financial, Inc.

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Pioneer Financial Group
Orange
MTM Financial Group

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Newark
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Ibis Financial Group
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Ibis Financial Group
Palm Beach Gardens
Ibis Financial Group

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White Horse Advisors, Inc.

Hawaii
Honolulu
Tax and Financial Group

Illinois
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Advantus Capital Management
St. Paul, MN

Insurance Advisory Sales
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