EXHIBIT 2

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS FOR YEARS ENDED DECEMBER 31, 2004
AND 2003 WITH REPORT OF INDEPENDENT AUDITORS

CONSOLIDATED FINANCIAL STATEMENTS

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES

YEARS ENDED DECEMBER 31, 2004 AND 2003 WITH REPORT OF INDEPENDENT AUDITORS

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

CONTENTS

Report of Independent Auditors

To the Board of Directors of
The Union Central Life Insurance Company

We have audited the accompanying consolidated balance sheets of The Union Central Life Insurance Company and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of income, changes in equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Union Central Mortgage Funding, Inc, a wholly-owned subsidiary, which statements reflect 2.3% and 9.5% of total consolidated pre-tax income for the years ended 2004 and 2003, respectively. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Union Central Mortgage Funding, Inc., is based solely on the report of other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States. 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, 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, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The Union Central Life Insurance Company and subsidiaries at December 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

February 8, 2005

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands)

	December 31, 2004	December 31, 2003
ASSETS		
Investments:		
Fixed maturities available-for-sale at fair value (amortized cost: 2004 – $3,365,283 and 2003 – $3,365,149)	$3,448,772	$3,448,932
Other fixed maturities	13,236	24,260
Equity securities available-for-sale at fair value (cost: 2004 – $16,681 and 2003 – $59,810)	17,475	63,077
Other equity securities	4,135	13,803
Cash and short-term investments	15,840	5,958
Other invested assets	32,647	32,926
Mortgage loans held-for-investment	512,292	508,655
Mortgage loans held-for-sale	107,020	18,996
Amounts receivable under repurchase agreement	71,730	36,457
Real estate	10,056	11,272
Policy loans	142,611	144,037
Total investments	4,375,814	4,308,373
Accrued investment income	47,646	46,126
Deferred policy acquisition costs	370,223	358,632
Property, plant and equipment, at cost, less accumulated depreciation (2004 – $94,522 and 2003 – $86,040)	37,871	41,904
Federal income tax recoverable	4,972	—
Receivable for securities	105,709	7,904
Other assets	403,421	291,224
Separate account assets	2,095,848	1,809,545
Total assets	$7,441,504	$6,863,708
LIABILITIES AND EQUITY		
Policy liabilities:		
Future policy benefits	$4,028,737	$4,003,852
Deposit funds	114,896	119,116
Policy and contract claims	28,982	37,126
Policyholders' dividends	8,398	9,152
Total policy liabilities	4,181,013	4,169,246
Deferred revenue	50,990	60,902
Payable for securities	107,086	185
Warehouse line of credit	84,565	18,970
Other liabilities	133,241	99,768
Federal income tax payable	—	895
Deferred federal income tax liability	17,020	8,928
Surplus notes payable	49,810	49,801
Obligation under repurchase agreement	71,041	36,257
Separate account liabilities	2,095,848	1,809,545
Total liabilities	6,790,614	6,254,497
EQUITY		
Policyholders' equity	650,505	606,984
Accumulated other comprehensive income	385	2,227
Total equity	650,890	609,211
Total liabilities and equity	$7,441,504	$6,863,708

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

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(in thousands)

	December 31, 2004	December 31, 2003
REVENUE		
Insurance revenue:		
Traditional insurance premiums	$113,805	$117,285
Universal life policy charges	61,657	63,291
Annuities	32,336	31,854
Net investment income	242,634	252,776
Net realized gains on investments	7,910	29,151
Fee income	23,969	24,885
Other	8,384	9,208
Total revenue	490,695	528,450
BENEFITS AND EXPENSES		
Benefits	114,654	112,058
Increase in reserves for future policy benefits	993	4,942
Interest expense:		
Universal life	63,438	72,754
Investment products	71,603	77,885
Underwriting, acquisition and insurance expense	168,721	198,169
Policyholders' dividends	11,629	13,740
Total benefits and expenses	431,038	479,548
Income before federal income tax expense	59,657	48,902
Federal income tax expense	16,136	16,051
Net Income	$ 43,521	$ 32,851

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

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(in thousands)

	Accumulated Other Comprehensive Income	Policyholders' Equity	Total
Balance at January 1, 2003	$ 8,388	$574,133	$582,521
Net income		32,851	32,851
Unrealized losses on securities, net of tax and reclassification adjustment	(3,090)		(3,090)
Minimum pension liability adjustment	(3,071)		(3,071)
Comprehensive income			26,690
Balance at December 31, 2003	2,227	606,984	609,211
Net income		43,521	43,521
Unrealized gains on securities, net of tax and reclassification adjustment	789		789
Minimum pension liability adjustment	(2,631)		(2,631)
Comprehensive income			41,679
Balance at December 31, 2004	$ 385	$650,505	$650,890

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

THE UNION CENTRAL LIFE INSURANCE COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31	
	2004	**2003**
OPERATING ACTIVITIES		
Net income	$ 43,521	$ 32,851
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Interest credited to universal life policies	63,438	72,754
Interest credited to investment products	71,603	77,885
Accrual of discounts on investments, net	8,685	10,441
Net realized gains on investments	(7,910)	(29,151)
Depreciation	8,482	10,580
Amortization of deferred policy acquisition costs	56,351	69,019
Amortization of deferred revenue	(15,341)	(10,558)
Policy acquisition cost deferred	(63,959)	(59,823)
Revenue deferred	5,429	2,873
Deferred federal income tax expense	9,002	5,701
Cost of mortgage loans held for sale, net	(85,442)	(18,899)
Change in operating assets and liabilities:		
Accrued investment income	(1,520)	(863)
Receivable for securities	(97,805)	(964)
Other assets	(112,197)	(83,877)
Amounts receivable under repurchase agreement	(35,273)	(36,457)
Policy liabilities	72,269	6,070
Payable for securities	106,901	(140,748)
Obligation under repurchase agreement	34,784	36,257
Other items, net	4,396	(2,006)
Cash Provided by (Used in) Operating Activities	65,414	(58,915)
INVESTING ACTIVITIES		
Costs of investments acquired	(2,457,237)	(3,534,371)
Proceeds from sale, maturity or repayment of investments	2,510,121	3,500,802
(Increase) decrease in policy loans	1,426	(11)
Purchases of property and equipment, net	(4,449)	(4,355)
Cash Provided by (Used in) Investing Activities	49,861	(37,935)
FINANCING ACTIVITIES		
Receipts from universal life and investment contracts	560,266	654,871
Withdrawals from universal life and investment contracts	(755,809)	(702,495)
Net proceeds from the issuance of line of credit debt	65,595	18,970
Reverse repurchase agreements	24,555	—
Cash Used in Financing Activities	(105,393)	(28,654)
Increase (decrease) in cash and short term investments	9,882	(125,504)
Cash and short term investments at beginning of year	5,958	131,462
Cash and short term investments at end of year	$ 15,840	$ 5,958
Supplemental disclosure of cash flow information:		
Cash paid (refunded) during the year for federal income taxes	$ 11,342	$ (6,404)
Cash paid during the year for interest on surplus notes	$ 4,100	$ 4,100
Cash paid during the year for interest on line of credit	$ 1,387	$ 1,069

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

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation and Organization

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States (GAAP) and include the accounts of The Union Central Life Insurance Company (Union Central) and the following subsidiaries: Summit Investment Partners, Inc., wholly-owned, a registered investment advisor; Carillon Investments, Inc., wholly-owned, a registered broker-dealer that offers investment products and related services through its registered representatives; Payday of America, LLC, wholly-owned, a payroll company (as detailed below, Union Central sold the assets of Payday of America, LLC in 2004); PRBA, Inc., wholly-owned, the holding company of a pension administration company; Summit Investment Partners, LLC, wholly-owned, a registered investment advisor and Union Central Mortgage Funding, Inc, a mortgage banking business. Fee based revenues of the consolidated subsidiaries was included in "Fee Income" in the Consolidated Statements of Income. The Company also consolidated the following mutual funds due to its level of ownership in these funds: the Summit Apex High Yield Bond Fund; the Summit Apex TSI Fund; the Summit Pinnacle Lehman Aggregate Bond Index Portfolio and the Summit Apex EAFE International Index Fund. The consolidated company will be referred to as "the Company". The holdings of the consolidated Summit mutual funds are reported at fair value in "Other fixed maturities" and "Other equity securities" in the Balance Sheets. All significant intercompany accounts and transactions have been eliminated in the accompanying consolidated financial statements. In addition, Summit Mutual Funds, Inc., a registered investment company, is an investment affiliate of Union Central.

On January 1, 2004, the Company adopted Statement of Position 03-1 "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts". The impact of adoption was immaterial.

The Company will adopt FASB Interpretation No. 46, "Consolidation of Variable Interest Entities" ("FIN 46") on January 1, 2005. The impact of adoption is not anticipated to be material. In 1996, the Company created a collateralized bond obligation through the formation of a trust in which the Company is the primary beneficiary. The trust issued debt securities to lenders. As of December 31, 2004, $65,668,000 of debt securities were outstanding. Upon the adoption of FIN 46, the Company anticipates consolidation of the collateralized bond obligation will be required. The maximum exposure to loss to the Company as a result of the activities of the collateralized bond obligation was $13,348,000 as of December 31, 2004, which represented the Company's investment in the collateralized bond obligation.

During 2004, the Company sold Family Enterprise Institute, Inc., a wholly-owned subsidiary. A $1,600 after-tax gain was recorded as a result of the sale.

During 2004, the Company completed the sale of Payday of America, LLC's assets to Paycor, Inc., in exchange for common stock of Paycor, Inc. The net after-tax impact from recording the sale was a reduction in net income of $3,467,000. The operating activities of Payday of America, LLC had ceased as of December 31, 2004.

The Company provides a wide spectrum of financial products and related services for the benefit of individual, group and pension policyholders. Such products and services include insurance to provide for financial needs resulting from loss of life or income and management of funds accumulated for preretirement and retirement needs.

The Company is licensed to do business in all 50 states.

The preparation of financial statements requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information becomes known, which could impact the amounts reported and disclosed herein.

Investments

Fixed maturity and equity securities classified as available-for-sale are carried at fair value with net unrealized gains and losses reported as other comprehensive income or loss. Other fixed maturity and equity securities represent the underlying assets of consolidated mutual funds and are carried at fair value with changes in fair value recorded in net investment income.

Other investments are reported on the following bases:

- Mortgage loans on real estate are carried at their aggregate unpaid balance less unamortized discount or plus unamortized premium and less an allowance for possible losses. Mortgage loans held for sale are mortgages the Company intends to sell. Mortgage loans held for sale are stated at lower of aggregate cost or market. The amount, by which cost exceeds market value, if any, is accounted for as a valuation allowance. Changes in the valuation allowance are included in the determination of net income in the period of change.
- Real estate acquired through foreclosure is carried at the lower of cost or its net realizable value.
- Policy loans are reported at unpaid balances.
- Cash and short-term investments consist of cash-in-bank, cash-in-transit and commercial paper that has a maturity date of 90 days or less from the date acquired.
- Receivable for securities represents amounts due from brokers resulting from securities that were sold at the end of the year, but the proceeds have not been received at the balance sheet date.
- Payable for securities represents amounts due to brokers resulting from securities purchased at the end of the year for which payment has not been made at the balance sheet date.

The Company's carrying values of investments in limited partnerships are adjusted to reflect the GAAP earnings of the investments underlying the limited partnership portfolios.

The fair values of fixed maturity and equity securities represent quoted market values from published sources or calculated market values using the "yield method" if no quoted market values are obtainable.

Realized gains and losses on sales of investments are recognized on a specific identification basis. Realized losses due to the recognition of declines in the value of investments judged to be other-than-temporary are recognized on a specific identification basis.

Interest is not accrued on mortgage loans or bonds for which principal or interest payments are determined to be uncollectible.

The Company enters into repurchase agreements to economically hedge the interest rate risk associated with funded mortgage loans held for sale that have not yet been sold. Based on the terms of the repurchase agreements, the transactions are considered collateralized loans in accordance with Statement of Financial Accounting Standard No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities". The Company had $71,041,000 and $36,257,000 in outstanding repurchase agreements for the years ended December 31, 2004 and 2003, respectively. As the Company sold the collateral that was pledged to the Company, a liability has been recognized in "Obligation under repurchase agreement" in the Consolidated Balance Sheets to reflect the obligation to return the collateral. Also, the Company recognized a receivable representing the cash it lent under the terms of the repurchase agreement, which totaled $71,730,000 and $36,457,000 for the years ended December 31, 2004 and 2003, respectively, and was reflected in "Amounts receivable under repurchase agreement" in the Consolidated Balance Sheets.

The Company has entered into reverse repurchase agreements whereby the Company sells securities and simultaneously agrees to repurchase the same or substantially the same securities. Reverse repurchase agreements are accounted for as collateralized borrowed money with the amount received for the securities recorded in "Other liabilities" in the Consolidated Balance Sheets. At December 31, 2004, the Company had reverse repurchase agreements outstanding with a total carrying value of $24,555,000. There were no repurchase agreements outstanding as of December 31, 2003.

The Company purchases and sells call options to hedge insurance contracts whose credited interest is linked to returns in Standard & Poor's 500 Stock Index (Index) based on a formula which applies participation rates to the returns in the Index. Call options are contracts, which give the option purchaser the right, but not the obligation, to buy securities at a specified price during a specified period. The Company holds call options which expire monthly until December 1, 2005. The Company paid and received initial fees (the option premium) to enter the option contracts. The purchased Index call options give the Company the right to receive cash at settlement if the closing Index value is above the strike price, while the sold index call options require the Company to pay cash at settlement if the closing Index value is above the strike price. The Company sells call options to effectively offset the proceeds the Company would receive on its purchased call options that represent a return above the amount that would be credited to insurance contracts electing a capped return in the Index.

The Company is exposed to credit-related losses in the event of nonperformance by counter-parties to the call options. To minimize this risk, the Company only enters into private options contracts with counterparties having Standard & Poor's credit ratings of AA- or above or listed contracts guaranteed by the Chicago Board Options Exchange. The credit exposure is limited to the value of the call options of $6,083,000 at December 31, 2004.

The call options are carried at their fair value, and are reflected in "Other invested assets" in the Consolidated Balance Sheets. The liabilities for the hedged insurance contracts are adjusted based on the market value of the call options, and are reflected in "Deposit funds" in the Consolidated Balance Sheets. The liabilities for the hedged insurance contracts were adjusted based on the returns in Standard & Poor's 500 Stock Index, and were reflected in "Deposit funds" in the Consolidated Balance Sheets. The notional amount of the call options at December 31, 2004 and 2003 was $50,574,000 and $31,128,000, respectively.

In 2004 and 2003, the Company entered into interest rate swap agreements with a notional value of $35,000,000 and $125,000,000, respectively, with Morgan Stanley, Bank One and Deutsche Bank. The purpose of the interest rate swap agreements was to hedge interest rate risk associated with specifically identified bonds within the Company's investment portfolio. The interest rate swap agreements were categorized as and met the criteria of effective fair value hedges. Under the interest rate swap agreements, the Company paid a fixed rate and received a floating interest rate. The objective of the interest rate swaps was to offset any change in value of the bonds due to market interest rate fluctuations. The Company is exposed to credit-related losses in the event of nonperformance by the counter-parties to the interest rate swaps. To minimize this risk, the Company only enters into private contracts with counterparties having Standard & Poor's credit ratings of AA- or above or listed contracts guaranteed by the Chicago Board Options Exchange. The credit exposure is limited to the value of the interest rate swaps of $317,000 at December 31, 2003. The Company is required to make semi-annual interest payments based on the fixed rate inherent in the interest rate swaps. Settlement of gain or loss under the interest rate swaps occurs upon termination. The financing cost of the interest rate swaps excluded from the assessment of hedge effectiveness totaled $307,000 and $592,000 in 2004 and 2003, respectively, and was recorded in "Net investment income" in the Consolidated Statements of Income.

The change in value of the interest rate swaps was accounted for consistently with the hedged bonds. During 2004 and 2003, $75,000,000 and $85,000,000, respectively, of the notional value of the interest rate swap agreements was terminated, leaving no notional value as of December 31, 2004. In 2004 and 2003, respectively, a pre-tax gain of $262,000 and $603,000 was realized upon the terminations of the agreements and was recorded in "Net investment income" in the Consolidated Statements of Income.

In 2004 and 2003, the Company entered into one-month swap agreements with Deutsche Bank and Morgan Stanley to hedge the change in value of a portion of its investments in certain Summit Mutual Fund, Inc. mutual funds. (See Note 2 for further detail of the Company's investments in these funds.) The notional amount of the swap agreements is set based on the amount of the Company's investments in the mutual funds that it determines to hedge. Under the swap agreements, the Company pays or receives the total return of the associated indexes during the term of the swap agreements, and receives interest income on the notional amount of the swap agreements that approximates prevailing short-term rates. The Company records the change in value of its swap agreements and investments in the unconsolidated hedged Summit mutual funds in earnings. The swap agreements were designated and qualified as fair value hedges.

For the years ended December 31, 2004 and 2003, the swap agreements offset unrealized gains of $301,000 and $0, respectively, and pre-tax realized gains of $440,000 and $2,138,000, respectively, that the Company incurred in the hedged mutual funds. Swap agreements with a notional value of $4,200,000 and $0 were outstanding as of December 31, 2004 and 2003, respectively.

In 2004, the Company entered into interest rate swap agreements with a notional value of $75,000,000 at December 31, 2004, with Morgan Stanley and Bank One. The swap agreements are carried at their fair value and are reflected in "Other invested assets" in the Consolidated Balance Sheets. The purpose of the interest rate swap agreements was to hedge interest rate risk associated with a pool of commercial mortgage loans held for sale. Under the interest rate swap agreements, the Company paid a fixed rate and received a floating interest rate. The objective of the interest rate swaps is to offset any change in value due to market interest rate fluctuations of the pool of commercial mortgage loans prior to the sale. The loss in fair value of the swap agreements of $1,153,000 and financing costs of $737,000 was recorded in "Net investment income" in the Consolidated Statements of Income. The interest rate swap agreements were not designated as hedging instruments.

The Company enters into loan commitments in association with originating commercial mortgage loans that are held for sale. The loan commitments are accounted for as derivative instruments. The loan commitments are marked to fair value based on estimates of fluctuations in market interest rates for comparable mortgage loans from loan commitment dates. The loan commitments are typically hedged with repurchase agreements.

Deferred Policy Acquisition Costs

The costs of acquiring new business, principally commissions, certain expenses of the policy issue and underwriting department and certain variable agency expenses have been deferred. Deferred policy acquisition costs are amortized consistent with the methods described in "Policy Liabilities, Revenues, Benefits and Expenses". Amortization of deferred policy acquisition costs totaled $56,351,000 and $69,019,000 for the years ended December 31, 2004 and 2003, respectively, and were included in "Underwriting, acquisition and insurance expense" in the Consolidated Statements of Income. Deferred policy acquisition costs are adjusted to reflect the impact of unrealized gains and losses on available-for-sale securities. Adjustments decreasing deferred policy acquisition costs related to unrealized gains and losses totaled $36,783,000 and $40,765,000 at 2004 and 2003, respectively.

In 2004 and 2003, the Company revised its estimates of future gross profits, and as a result amortization of deferred policy acquisition costs included in "Underwriting, acquisition and insurance expense" in the Consolidated Statements of Income increased (decreased) ($5,969,000) and $2,563,000 for the years ended 2004 and 2003, respectively.

Property, Plant and Equipment

Property, plant and equipment is valued at historical cost less accumulated depreciation in the Consolidated Balance Sheets. It consists primarily of Union Central's home office, furniture and fixtures and electronic data processing equipment.

Depreciation is computed with the straight-line method over the estimated useful lives of the respective assets, not to exceed 10 years for office furniture and 3 years for electronic data processing equipment. Depreciation is computed for leasehold improvements with the straight-line method over the shorter of the remaining lease term or useful life of the improvements.

Capitalization of Software Costs

Software development costs of $3,891,000 and $3,352,000 were capitalized in 2004 and 2003, respectively. Amortization expense of $4,204,000 and $5,283,000, respectively, was recorded to "Underwriting, acquisition and insurance expense" in the Consolidated Statements of Income in 2004 and 2003. Depreciation is computed with the straight-line method over the estimated useful life of the software, not to exceed 5 years.

Deposit Funds

The liability for deposit funds is generally established at the policyholders' accumulated cash values plus amounts provided for guaranteed interest.

Policy Claim Reserves

Policy claim reserves represent the estimated ultimate net cost of all reported and unreported claims incurred. In addition, a claim adjustment expense reserve is held to account for the expenses associated with administering these claims. The reserves for unpaid claims are estimated using individual case basis valuations and statistical analyses. The claim adjustment expense reserve is estimated using statistical analyses. These estimates are subject to the effects of trends in claim severity and frequency. Although some variability is inherent in such estimates, management believes that the reserves for claims and claim related expenses are adequate. The estimates are reviewed and adjusted as experience develops or new information becomes known and such adjustments are included in current operations.

Dividends to Policyholders

The Company's dividend liability is the amount estimated to have accrued to policyholders' as of each year-end. Insurance in force receiving dividends accounted for 6.19% and 5.63% of total insurance in force at December 31, 2004 and 2003, respectively.

Separate Accounts

Separate account assets and liabilities reported in the accompanying financial statements (excluding seed money provided by the Company) represent funds that are separately administered for the individual annuity, group annuity and variable universal life lines of business, and for which the contract holders rather than the Company bear the investment risk. Separate account contract holders have no claim against the assets of the general account of the Company. Separate account investments are carried at market value. Investment income and gains and losses from these accounts accrue directly to contract holders and are not included in the accompanying financial statements. Union Central derives certain fees for maintaining and managing the separate accounts, but bears no investment risk on these assets, except to the extent that it participates in a particular separate account. On assets transferred to the separate accounts, the Company recognized interest income of $37,846,000 and $22,455,000 and investment gains of $172,762,000 and $327,660,000 for the years ending December 31, 2004 and 2003, respectively. The interest income and investment gains were offset by the increase in separate account liabilities within the same line item in the Consolidated Statements of Income.

The Company issues variable annuity contracts through the separate accounts where the Company contractually guarantees to the contract holder total deposits made to the contract less any partial withdrawals. This guarantee only includes benefits that are payable in the event of death. The total separate account assets and liabilities for policies with a minimum guaranteed death benefit were $365,042,000 and $335,182,000 as of December 31, 2004 and 2003, respectively, and were composed of mutual funds. Death claims incurred and paid as a result of the minimum guaranteed death benefit totaled $146,000 and $325,000 for the years ended December 31, 2004 and 2003, respectively. The Company had $15,649,000 of net amount at risk involving the minimum guaranteed death benefit on variable annuities as of December 31, 2004. The weighted average attained age for contract holders with a minimum guaranteed death benefit was 57 years old as of December 31, 2004.

Policy Liabilities, Revenues, Benefits and Expenses

Traditional Insurance Products

Traditional insurance products include those products with fixed and guaranteed premiums and benefits and consist primarily of whole life insurance policies, term insurance policies and disability income policies. Premiums for traditional products are recognized as revenue when due.

The liability for future policy benefits for participating traditional life is computed using a net level premium method and the guaranteed mortality and dividend fund interest. The mortality and interest assumptions are equivalent to statutory assumptions. The liabilities for future policy benefits and expenses for nonparticipating traditional life policies and disability income policies are generally computed using a net level premium method and assumptions for investment yields, morbidity, and withdrawals based principally on experience projected at the time of policy issue, with provision for possible adverse deviations. Interest assumptions for participating traditional life reserves for all policies ranged from 2.3% to 6.0% for the years ended 2004 and 2003.

The costs of acquiring new traditional business, principally commissions, certain policy issue and underwriting expenses (such as medical examination and inspection report fees) and certain agency expenses, all of which vary with and are primarily related to the production of new and renewal business, are deferred to the extent that such costs are deemed recoverable through future gross premiums. Such non-participating deferred acquisition costs are amortized over the anticipated premium paying period of the related policies, generally not to exceed the premium paying lifetime of the policies using assumptions consistent with those used to develop policy benefit reserves. For participating life insurance products, deferred policy acquisition costs are amortized in proportion to estimated gross margins of the related policies. Gross margins are determined for each issue year and are equal to premiums plus investment income less death claims, surrender benefits, administrative costs, policyholder dividends, and the increase in reserves for future policy benefits. The future investment yields are assumed to range from 5.7% to 8.2% and from 6.1% to 8.3% for the years ended 2004 and 2003, respectively. Changes in dividend payouts are assumed with changes in yields.

Universal Life and Other Interest Sensitive Products

Interest sensitive products include universal life, single premium whole life and annuity products. They are distinguished by the existence of a separately definable fund that is credited with interest and from which any policy charges are taken. Revenues for these products consist of policy charges for the cost of insurance, policy administration charges, and surrender charges that have been assessed against policyholder account balances during the period.

Benefit reserves for universal life and other interest sensitive products are computed in accordance with the retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits that are charged to expense include benefit claims incurred in the period in excess of related policy account balances and interest credited to account balances. Interest crediting rates ranged from 2.8% to 7.0% and from 4.5% to 6.5% for the years ended 2004 and 2003, respectively.

The cost of acquiring universal life and other interest sensitive products, principally commissions, certain policy issue and underwriting expenses (such as medical examination and inspection report fees) and certain agency expenses, all of which vary with and are primarily related to the production of new and renewal business, are deferred to the extent that such costs are deemed recoverable through future estimated gross profits. Acquisition costs for universal life and other interest sensitive products are amortized over the life of the policies in proportion to the present value of expected gross profits from surrender charges and investment, mortality and expense margins. The amortization is adjusted retrospectively when estimates of current or future gross profits (including the impact of investment gains and losses) to be realized from a group of products are revised.

Amounts assessed policyholders that represent revenue for services to be provided in future periods are reported as unearned revenue and recognized in income over the life of the policies, using the same assumptions and factors as are used to amortize deferred acquisition costs. These charges consist of policy fees and premium loads that are larger in the initial policy years than they are in the later policy years. Amortization of unearned revenue totaled $15,341,000 and $10,558,000 for the years ended December 31, 2004 and 2003, respectively, and was included in "Universal life policy charges" in the Consolidated Statements of Income.

In 2004 and 2003, the Company revised its estimates of future gross profits, and as a result amortization of unearned revenue included in "Universal life policy charges" in the Consolidated Statements of Income was increased by $3,396,000 and $3,161,000 for the years ended 2004 and 2003, respectively.

Group Products

Group products consist primarily of group life insurance, and group long and short term disability income products. Premiums for group insurance products are recognized as revenue when due.

The liabilities for future policy benefits and expenses for group life and disability income products are computed using statutory methods and assumptions, which approximate net level premium reserves using assumptions for investment yields, mortality, and withdrawals based principally on company experience projected at the time of policy issue, with provisions for possible adverse deviations. Interest assumptions are based on assumed investment yields that ranged from 6.6% to 8.3% and 7.5% to 8.3% for the years ended 2004 and 2003, respectively.

Pension Products

Pension products include deferred annuities and payout annuities. Revenues for the deferred annuity products consist of investment income on policy funds, mortality and expense charges, contract administration fees, and surrender charges that have been assessed against policyholder account balances. Expenses for deferred annuity products include the interest credited on policy funds and expenses incurred in the administration and maintenance of the contracts. For payout annuities, premiums are recognized as revenue when due while expenses exclude the interest credited on policy funds.

Benefit reserves for the deferred annuity contracts represent the policy account balances before applicable surrender charges. Interest assumptions on payout annuities are based on assumed investment yields that ranged from 2.0% to 8.0% for the years ended 2004 and 2003.

Commissions and other related costs of acquiring annuity contracts that vary with and are primarily related to the production of new and renewal business are deferred to the extent that such costs are deemed recoverable through future estimated gross profits. Acquisition costs are amortized over the life of the contracts in direct proportion to the present value of expected gross profits from surrender charges and investment and expense margins. The amortization is adjusted retrospectively when estimates of current or future gross profits (including the impact of investment gains or losses) to be realized on a group of contracts are revised.

Reinsurance

Reinsurance premiums and claims are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits are reported net of reinsured amounts.

Federal Income Taxes

The Company accounts for income taxes using the liability method for financial accounting and reporting of income taxes. Under this method, deferred income taxes are recognized for the tax consequences of "temporary differences" by applying the applicable tax rate to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities.

Reclassifications

Previously reported amounts for 2003 have in some instances been reclassified to conform to the 2004 presentation.

NOTE 2 – INVESTMENTS

Available-for-sale securities are summarized as follows:

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(in thousands)		
December 31, 2004:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 34,931	$ 171	$ (154)	$ 34,948
Corporate securities and other	2,386,810	86,339	(5,939)	2,467,210
Mortgage-backed securities, collateralized mortgage obligations and other structured securities	943,542	10,864	(7,792)	946,614
Subtotal	3,365,283	97,374	(13,885)	3,448,772
Equity securities	16,681	856	(62)	17,475
Total	$3,381,964	$ 98,230	$(13,947)	$3,466,247

	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
		(in thousands)		
December 31, 2003:				
U.S. treasury securities and obligations of U.S. government corporations and agencies	$ 40,314	$ 354	$ —	$ 40,668
Corporate securities and other	2,045,679	97,063	(11,937)	2,130,805
Mortgage-backed securities, collateralized mortgage obligations and other structured securities	1,279,156	16,882	(18,579)	1,277,459
Subtotal	3,365,149	114,299	(30,516)	3,448,932
Equity securities	59,810	3,616	(349)	63,077
Total	$3,424,959	$ 117,915	$(30,865)	$3,512,009

Fixed maturity available-for-sale securities, at December 31, 2004, are summarized by stated maturity as follows:

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 44,604	$ 45,380
Due after one year through five years	332,600	346,360
Due after five years through ten years	1,151,657	1,192,823
Due after ten years	727,189	745,260
Subtotal	2,256,050	2,329,823
Mortgage-backed securities	943,601	946,679
Other securities with multiple repayment dates	165,632	172,270
Total	$3,365,283	$3,448,772

Significant components of the unrealized gain on available-for-sale securities included in "Accumulated other comprehensive income" in the accompanying Consolidated Balance Sheets are as follows:

	Year Ended December 31, 2004	2003
	(in thousands)	
Gross unrealized gain on available-for-sale securities	$ 84,283	$ 87,050
Amortization of deferred policy acquisition costs	(36,783)	(40,765)
Deferred tax liability	(16,625)	(16,199)
Net unrealized gain on available-for-sale securities	$ 30,875	$ 30,086

A summary of available-for-sale securities with unrealized losses along with the related fair value, aggregated by the length of time that investments have been in a continuous loss position, is as follows (in thousands):

	December 31, 2004					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities	$932,256	$ (10,548)	$208,180	$ (3,337)	$1,140,436	$(13,885)
Equity securities	33	(15)	1,860	(47)	1,893	(62)
Total	$932,289	$ (10,563)	$210,040	$ (3,384)	$1,142,329	$(13,947)

	December 31, 2003					
	Less than Twelve Months		Twelve Months or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturity securities	$905,114	$ (22,451)	$107,960	$ (8,065)	$1,013,074	$(30,516)
Equity securities	74	(4)	347	(345)	421	(349)
Total	$905,188	$ (22,455)	$108,307	$ (8,410)	$1,013,495	$(30,865)

The unrealized losses in both 2004 and 2003 reported above were primarily caused by the effect of the interest rate environment on certain securities with stated interest rates currently below market rates, and as such, are temporary in nature. Certain securities also experienced declines in fair value that were due in part to credit-related considerations. Upon review of the economic circumstances underlying these securities, the Company determined that such declines were temporary in nature.

Therefore, the Company does not believe the unrealized losses on available-for-sale investments represent an other-than- temporary impairment as of December 31, 2004 and December 31, 2003.

See Note 9 for discussion of the methods and assumptions used by the Company in estimating the fair values of available-for-sale securities.

Investments in bonds on deposit with state insurance departments to satisfy regulatory requirements are carried at fair value and totaled $3,325,000 and $3,498,000, at December 31, 2004 and 2003, respectively.

Proceeds, gross realized gains, and gross realized losses from the sales and maturities of available-for-sale securities follows:

	Year Ended December 31, 2004	2003
	(in thousands)	
Proceeds	$2,415,601	$3,352,138
Gross realized gains	35,895	69,271
Gross realized losses	16,064	28,000

In 2004, the Company completed the sale of mortgage-backed securities with a book value of $285,000,000 to a third party in conjunction with a securitization transaction anticipated to occur in 2005.

A summary of the characteristics of the Company's mortgage portfolio follows:

	December 31, 2004 Carrying Amount	December 31, 2004 Percent of Carrying Amount	December 31, 2003 Carrying Amount	December 31, 2003 Percent of Carrying Amount
	(in thousands)			
Region				
New England and Mid-Atlantic	$ 42,272	6.8%	$ 31,354	5.9%
South Atlantic	134,944	21.8	97,623	18.5
North Central	114,090	18.4	102,113	19.4
South Central	56,338	9.2	46,756	8.9
Mountain	128,959	20.8	116,578	22.1
Pacific	142,709	23.0	133,227	25.2
Total	$619,312	100.0%	$527,651	100.0%
Property Type				
Apartment and residential	$ 35,772	5.8%	$ 35,805	6.8%
Warehouses and industrial	135,800	21.9	110,028	20.8
Retail and shopping center	209,921	33.9	178,264	33.8
Office	166,510	26.9	149,828	28.4
Other	71,309	11.5	53,726	10.2
Total	$619,312	100.0%	$527.651	100.0%

In 2002, the Company sold commercial mortgage loans with a book value of $186,686,000 to Morgan Stanley. Relative to the sale, the Company has agreed to repurchase mortgage loans which are secured by properties that do not have terrorism insurance in place, in the event the properties are subjected to a terrorist attack resulting in a loss. As of December 31, 2004, the maximum potential exposure to the Company is $3,400,000. It is management's opinion that the probability of loss related to this commitment is remote due to the nature and location of the properties.

At December 31, 2004 and 2003, respectively, an interest-only strip asset of $1,387,000 and $2,085,000 was recorded in "Other invested assets" in the Consolidated Balance Sheets. During 2004, the Company recognized a pre-tax realized loss of $305,000 recorded in "Net realized gains (losses) on investments" in the Consolidated Statements of Income and a reduction of the interest-only strip asset of $305,000 due to the prepayment of mortgage loans previously sold to third parties. The realized loss and reduction of the interest-only strip asset represented the present value of compensation related to mortgage loans previously sold to third parties that the Company would have received over the life of the mortgage loans. Amortization expense of $393,000 and $518,000 was recorded in "Net investment income" in the Consolidated Statements of Income for the years ended December 31, 2004 and 2003, respectively.

In 2004 the Company recorded a pre-tax realized loss of $335,000 representing the difference between net collateral value and book value on two mortgage loans held for investment with a book value of $1,637,000. The Company recognized and collected interest totaling $161,000 during 2004 on the two mortgage loans.

The Company has a $100 million warehouse finance facility from a bank. This facility bears interest at prime (5.25% at December 31, 2004 and 4.00% at December 31, 2003) or LIBOR (2.56% at December 31, 2004 and 1.12% at December 31, 2003) plus 1.00%. $84,565,000 and $18,970,000 was outstanding under this facility at December 31, 2004 and December 31, 2003, respectively, and was recorded in "Other liabilities" in the Consolidated Balance Sheets. Outstanding borrowings on the Company's warehouse finance facilities are collateralized by commercial mortgage loans held for sale. Upon the sale of these loans the borrowings under the facility are repaid.

Real estate consists of investment real estate under lease and foreclosed real estate. The investment real estate under lease is depreciated over 40 years. The cost of the property totaled $1,755,000 at December 31, 2004 and 2003 and accumulated depreciation totaled $1,408,000 at December 31, 2004 and 2003. The book value of foreclosed real estate was $9,709,000 and $10,926,000 at December 31, 2004 and 2003, respectively.

In 2000, the Company commenced the development of a 123-acre business park (the Park), which included the installation of infrastructure and a roadway. To fund the cost of the infrastructure and roadway, the municipality in which the Park is located issued $2,800,000 of municipal bonds. The municipal bonds will be paid off through tax increment financing (TIF). TIF is an economic development tool that allows a local government to use increases in real property tax revenues to finance public infrastructure improvements. Thus, the development of the Park will result in increased real property tax revenues, which will be directed to pay off the municipal bonds. If increases in real property tax revenues from the Park are not sufficient to service the municipal bonds, the Company must fund any shortage. The maximum estimated potential exposure to the Company is $2,800,000. Based upon current projections, the Company anticipates the increased property tax revenues will be sufficient to fully service the municipal bonds.

NOTE 3 – REINSURANCE

In the ordinary course of business, the Company assumes and cedes reinsurance with other insurers and reinsurers. These arrangements provide greater diversification of business and limit the maximum net loss potential on large or hazardous risks. Reinsurance ceded contracts do not relieve the Company from its obligations to policyholders. Reinsurance ceded is recorded in "Other assets" in the Consolidated Balance Sheets. The Company remains liable to its policyholders for the portion reinsured to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under the reinsurance agreements. Failure of reinsurers to honor their obligations could result in losses to the Company; consequently, allowances would be established for amounts deemed or estimated to be uncollectible. To minimize its exposure to significant losses from reinsurance insolvencies, the Company evaluates the financial condition of its reinsurers and monitors concentrations of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurers. No losses are anticipated, and, based on management's evaluation; there are no concentrations of credit risk at December 31, 2004 and 2003. The Company retains the risk for varying amounts of individual or group insurance written up to a maximum of $1,000,000 on any one life or $4,000 per month disability risk and reinsures the balance.

Reinsurance transactions with other insurance companies for the years ended December 31, 2004 and 2003 are summarized as follows:

	December 31, 2004			
	Direct	Assumed	(Ceded)	Net
	(in thousands)			
Life insurance in force	$34,864,605	$125,468	$(20,855,818)	$14,134,255
Premiums and other considerations:				
Traditional insurance premiums and universal life	$ 395,773	$ 5,365	$ (225,676)	$ 175,462
Annuity	32,336	—	—	32,336
Total	$ 428,109	$ 5,365	$ (225,676)	$ 207,798

	December 31, 2003			
	Direct	Assumed	(Ceded)	Net
	(in thousands)			
Life insurance in force	$31,353,542	$141,861	$(17,636,047)	$13,859,356
Premiums and other considerations:				
Traditional insurance premiums and universal life	$ 347,834	$ 5,888	$ (173,146)	$ 180,576
Annuity	31,854	—	—	31,854
Total	$ 379,688	$ 5,888	$ (173,146)	$ 212,430

Benefits paid or provided were reduced by $16,836,000 and $21,521,000 at December 31, 2004 and 2003, respectively, for estimated recoveries under reinsurance treaties.

The Company nor any of its related parties control, either directly or indirectly, any reinsurers in which the Company conducts business. No policies issued by the Company have been reinsured with a foreign company, which is controlled, either directly or indirectly, by a party not primarily engaged in the business of insurance. The Company has not entered into any reinsurance agreements in which the reinsurer may unilaterally cancel any reinsurance for reasons other than nonpayment of premiums or other similar credits.

NOTE 4 – FEDERAL INCOME TAX

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	
	2004	2003
	(in thousands)	
Deferred tax liabilities:		
Deferred policy acquisition costs	$142,452	$141,452
Unrealized gains – FAS 115	16,625	16,119
Capitalization of software	4,581	5,245
Other	662	311
Total deferred tax liabilities	164,320	163,127
Deferred tax assets:		
Policyholders' dividends	2,864	1,611
Future policy benefits	66,741	73,501
Basis differences on investments	17,823	20,405
Premium – based DAC adjustment	35,207	37,308
Retirement plan accruals	20,289	17,474
Investment income differences	358	787
Other	4,018	3,113
Total deferred tax assets	147,300	154,199
Net deferred tax liabilities	$ 17,020	$ 8,928

Significant components of the provision for income tax expense attributable to continuing operations are as follows:

	Year ended December 31,	
	2004	2003
	(in thousands)	
Current	$ 7,134	$10,350
Deferred	9,002	5,701
Total	$16,136	$16,051

Federal income tax expense is calculated based on applying the statutory corporate tax rate to taxable income, and adjusting this amount for permanent differences between deductions allowed for financial statement purposes versus federal income tax purposes. Significant differences are due to adjustments to prior years' tax liabilities and the release of tax contingency reserves.

NOTE 5 – COMMITMENTS AND CONTINGENT LIABILITIES

Leases

The Company leases office space for various field agency offices with lease terms that vary in duration from 1 to 15 years. Some of these leases include escalation clauses that vary with levels of operating expense. Rental expense under these operating leases totaled $3,808,000 and $3,835,000 in 2004 and 2003, respectively. The Company leased equipment through a series of arrangements in 2004 and 2003. Rental expense under these agreements totaled $158,000 and $121,000 in 2004 and 2003, respectively.

At December 31, 2004, the future minimum lease payments for all noncancelable operating leases are as follows:

Year	Amount (in thousands)
2005	$2,860
2006	2,212
2007	1,013
2008	764
2009	526
After 2009	1,808
Total	$9,183

Other Commitments

At December 31, 2004, the Company had outstanding agreements to fund mortgages totaling $38,065,000 in early 2005. In addition, the Company has committed to invest $11,241,000 in equity-type limited partnerships during the years 2005 to 2011. These transactions are in the normal course of business for the Company.

Litigation

In the normal course of business, the Company is party to various claims and litigation primarily arising from claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the policy and contract liabilities. The Company's management believes that the resolution of those actions will not have a material adverse effect on the Company's financial position or results of operations.

Guaranty Fund Assessments

The economy and other factors have caused an increase in the number of insurance companies that are under regulatory supervision. This circumstance is expected to result in an increase in assessments by state guaranty funds, or voluntary payments by solvent insurance companies, to fund policyholder losses or liabilities of insurance companies that become insolvent. These assessments may, in certain instances, be offset against future premium taxes. For 2004 and 2003, the charge to operations related to these assessments was not significant. The estimated liability of $796,000 and $860,000 at December 31, 2004 and 2003, respectively, was based on data provided by the National Organization of Life and Health Insurance Guaranty Associations and was included in "Other liabilities" in the Consolidated Balance Sheets.

NOTE 6 - STATUTORY SURPLUS AS REPORTED TO REGULATORY AUTHORITIES

Union Central files statutory-basis financial statements with regulatory authorities. Union Central's statutory-basis financial statements are prepared in conformity with accounting practices prescribed or permitted by the Department of Insurance of Ohio, Union Central's state of domicile. Effective January 1, 2001, the State of Ohio required that insurance companies domiciled in the State of Ohio prepare their statutory basis financial statements in accordance with the NAIC Accounting

Practices and Procedures Manual subject to any deviations prescribed or permitted by the State of Ohio insurance commissioner. Surplus as reflected in the statutory-basis financial statements was as follows:

	Year ended December 31, 2004	Year ended December 31, 2003
	(in thousands)	
Capital and surplus	$337,730	$311,308

NOTE 7 – EMPLOYEE BENEFITS

The Company has pension plans covering substantially all of its employees. Pension expense and funding was determined according to regulations as specified by the Employee Retirement Income Security Act of 1974 (ERISA) and subsequent amendments. Benefits are based on the average of the employee's compensation over their career.

In addition to pension benefits, the Company provides certain health care and life insurance benefits for its eligible retired employees ("Other Postretirement Benefits"). Substantially all of the Company's employees may become eligible for these benefits if they reach normal retirement age while working for the Company.

The measurement date for the Company's pension benefits was December 31. The measurement date for Other Postretirement Benefits was October 1. A summary of the assets, obligations and assumptions are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
	(in thousands)			
Accumulated benefit obligation	$140,852	$128,666	$ 25,596	$ 23,355
Projected benefit obligation	$143,023	$130,603	$ —	$ —
Plan assets at fair value	$109,540	$113,692	$ 10,278	$ 8,131
Funded status	$ (33,483)	$ (16,911)	$(15,318)	$ (15,224)
Accrued liabilities	$ 31,312	$ 14,975	$ 14,546	$ 15,343
Employer contributions	$ —	$ 4,855	$ 2,575	$ 2,400
Plan participants' contributions	$ —	$ —	$ 351	$ 242
Benefits and administrative expenses paid	$ 6,014	$ 6,354	$ 2,281	$ 1,927
Components of net periodic benefit cost:				
Service cost	$ 3,597	$ 3,711	$ 845	$ 731
Interest cost	8,181	7,962	1,464	1,336
Expected return on plan assets	(8,746)	(8,075)	(709)	(504)
Transition obligation/(asset) amortization	(41)	(41)	—	—
Amount of recognized (gains)/losses	3,529	4,734	—	—
Amount of prior service cost recognized	(1,050)	(1,070)	178	1,142
Total net periodic benefit cost	$ 5,470	$ 7,221	$ 1,778	$ 2,705

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Weighted average assumptions:				
Discount rate	6.00%	6.50%	6.00%	6.50%
Expected compensation increase	3.00%	3.00%	3.00%	3.00%
Expected return on plan assets	8.50%	8.50%	8.50%	8.50%

	Pension Benefits	Other Postretirement Benefits
	(in thousands)	
Expected Benefit Payments:		
2005	$ 7,567	$ 1,562
2006	7,898	1,610
2007	8,376	1,663
2008	8,984	1,716
2009	9,700	1,765
2010 – 2014	61,715	10,202

Also, $2,631,000 and $3,071,000 (net of tax) was charged directly to policyholders' equity in 2004 and 2003, respectively, as a result of recognizing an additional minimum pension liability adjustment under Statement of Financial Accounting Standard No. 87, "Employers' Accounting for Pensions", and was included in "Minimum pension liability adjustment" in the Consolidated Statements of Equity.

Plan assets of the pension and other postretirement benefit plans are composed of affiliated and unaffiliated mutual funds and a portfolio of actively managed equity securities. As of their respective measurement dates in 2004 and 2003, $89,955,000 and $93,060,000 was invested in affiliated mutual funds.

The expected long-term rate of return for the Company's benefit plans is currently 8.5%. In developing this assumption, the Company periodically monitors investment yields on the assets in the plans to determine if the current expected rate of return is reasonable given the current investment performance. Historical and projected returns are also reviewed for appropriateness of the selected assumption. The Company believes its assumption of future returns is reasonable.

The primary investment objectives of the Company's benefit plans is to provide sufficient assets and liquidity to meet the distribution requirements of the Plans through capital appreciation of the Plans' assets and levelized funding. To accomplish this objective, Pension Plan assets are invested in affiliated and unaffiliated mutual funds and assets of the Other Postretirement Benefit Plans are invested in a diversified pool of equity securities, affiliated mutual funds and cash. The Company's investment strategy for the Pension Plan is generally a target investment mix of 60% equities and 40% bonds. The Company's investment strategy for Other Postretirement Benefit Plans is a target investment allocation consisting primarily of equities with the remainder in bonds and cash. The actual allocation of plan assets by investment category for the year ending December 31, 2004 and 2003 are as follows:

	Pension Benefits		Other Postretirement Benefits	
	2004	2003	2004	2003
Equity securities:				
Domestic equities	52.3%	51.6%	82.6%	87.0%
Foreign equities	9.6	9.2	9.4	3.8
Bonds	38.1	39.2	5.8	—
Cash	—	—	2.2	9.2
Total	100.0%	100.0%	100.0%	100.0%

The Company's current funding strategy for its benefit plans is to fund an amount at least equal to the minimum required funding as determined under ERISA with consideration of factors such as the minimum pension liability requirement for Pension Benefits and the maximum tax deductible amounts for both Pension Benefits and Other Postretirement Benefits. The ultimate amount of the Company's funding may be adjusted based on changes in the fair value of plan assets and changes in related assumptions. For the year ending December 31, 2004, the Company does not expect any required contributions under ERISA for the Pension Plans and will fund Other Postretirement Benefits Plans to meet their liquidity needs.

The health care cost trend rate was 12.1% graded to 5.0% over 10 years for 2004. The health care cost trend rate assumption has an insignificant effect on the postretirement benefit obligation, the interest cost and estimated eligibility cost components of the net periodic postretirement benefit cost as of and for the year ended December 31, 2004.

The Company did not adjust its projection of the liability for Other Postretirement Benefits to consider the impact of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 as the impact was immaterial.

The Company has two contributory savings plans for home office employees and agents meeting certain service requirements, which qualify under Section 401(k) of the Internal Revenue Code. These plans allow eligible employees to contribute up to certain prescribed limits of their pre-tax compensation. The Company will match 50% of the first 6% of participants' contributions for the Employees Savings Plan and the Agents Savings Plan. The Company's matching contributions to these plans were $1,846,000 and $1,820,000 for 2004 and 2003, respectively. The value of the plans' assets were $95,318,000 and $83,287,000 at December 31, 2004 and 2003, respectively. The assets are held in the deposit fund or under the variable accounts of a group annuity policy. At December 31, 2004 and 2003, $31,960,000 and $28,994,000, respectively, was invested in affiliated mutual funds.

NOTE 8 – FAIR VALUES OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Cash and short-term investments: The carrying amounts reported in the Consolidated Balance Sheets for these instruments approximate their fair values.

Investment securities: Fair values for bonds are based on quoted market prices, where available. If quoted market prices are not available, fair values are estimated using values obtained from independent securities broker dealers or quoted market prices of comparable instruments. The fair values of common stock in Company sponsored mutual funds are based on quoted market prices and are recognized in "Equity securities available-for-sale at fair value", "Other fixed maturities" and "Other equity securities" in the Consolidated Balance Sheets. The fair values for limited partnerships are based on the quoted market prices of the investments underlying the limited partnership portfolios.

Mortgage loans: The fair values for commercial mortgages held for investment in good standing are estimated using discounted cash flow analysis using interest rates currently being offered for similar loans to borrowers with similar credit ratings in comparison with actual interest rates and maturity dates. Fair values for mortgages held for investment with potential loan losses are based on discounted cash flow analysis of the underlying properties.

The estimate of fair values for commercial mortgage loans held for sale is based on current pricing of whole loan transactions that a purchaser unrelated to the seller would demand for a similar loan.

Warehouse Finance Facility: The warehouse finance facility is offered with interest at market interest rates, and therefore, the carrying value of the warehouse finance facility is a reasonable estimation of fair value.

Policy loans: Management is unable to ascertain the estimated life of the policy loan portfolio. Due to the excessive costs that would be incurred to determine this information, management considers the estimation of its fair value to be impracticable. The nature of a policy loan insures that the outstanding loan balance will be fully recoverable because the balance owed to the Company is always equal to or lower than the cash value of the insurance policy owed to the policyholder. Policy loans are stated at their aggregate unpaid balance in the Consolidated Balance Sheets.

Investment contracts: Fair values for the Company's liabilities under investment-type insurance contracts are estimated using discounted cash flow calculations, based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

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

Repurchase Agreements: The fair value of repurchase agreements are based on quoted market prices.

Interest Rate Swap Agreements: The fair value of interest rate swaps is the estimated amount the Company would receive or pay to terminate the agreements based on current market interest rates.

The carrying amounts and fair values of the Company's mortgage loans are as follows:

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Mortgage loans	$619,312	$656,724	$527,651	$571,359

The carrying amounts and fair values of the Company's liabilities for investment-type insurance contracts are as follows:

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Direct access	$ 61,072	$ 61,072	$ 63,208	$ 63,208
Traditional annuities	35,157	38,324	34,896	38,838
Supplementary contracts	9,855	9,907	10,919	11,073
GPA not involving life	539	584	719	785
Dividend accumulations	5,830	5,830	5,846	5,846
Premium deposit funds	662	662	664	664
Total	$113,115	$116,379	$116,252	$120,414

The carrying amounts and fair values of the Company's liability for surplus notes is as follows:

	December 31, 2004		December 31, 2003	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Surplus notes	$ 49,810	$ 56,034	$ 49,801	$ 52,657

The Company's other insurance contracts are excluded from disclosure requirements. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, which minimizes exposure to changing interest rates through the matching of investment maturities with amounts due under insurance contracts. Additional data with respect to the carrying value and fair value of the Company's investments is disclosed in Note 2.

NOTE 9 – LIABILITY FOR UNPAID CLAIMS AND CLAIM ADJUSTMENT EXPENSES

Activity in the liability for unpaid claims and claim adjustment expense is summarized as follows:

	December 31,	
	2004	2003
	(in thousands)	
Balance as of January 1	$176,655	$161,037
Incurred related to:		
Current year	83,105	91,862
Prior years	11,451	6,927
Total incurred	94,556	98,789
Paid related to :		
Current year	45,940	52,342
Prior years	39,023	30,829
Total paid	84,963	83,171
Balance as of December 31	$186,248	$176,655

The balance in the liability for unpaid claims and claim adjustment expenses is included in "Future policy benefits" and "Policy and contract claims" in the Consolidated Balance Sheets.

As a result of changes in estimates of insured events in prior years, the provision of claims and claim adjustment expenses increased by $11,451,000 and $6,927,000 in 2004 and 2003, respectively. Amounts related to incurred claims related to prior years' resulted from prior year claims being settled for amounts greater than originally estimated. Included in the above balances are reinsurance recoverables of $2,615,000 and $4,037,000 at 2004 and 2003, respectively.

NOTE 10 – SURPLUS NOTES

On November 1, 1996, Union Central issued $50,000,000 of 8.20% Surplus Notes (Notes). The Notes mature on November 1, 2026 and may not be redeemed prior to maturity. The Notes are unsecured and subordinated to all present and future policy claims, prior claims and senior indebtedness. Subject to prior written approval of the Superintendent of the Ohio Insurance Department, these Notes pay interest semi-annually on May 1 and November 1. Interest expense of $4,100,000 was incurred in 2004 and 2003, and was recorded as a reduction of "Net investment income" in the Consolidated Statements of Income. In connection with issuing the Notes, Union Central incurred and capitalized $765,000 of issuance cost. This cost is recorded in "Other assets" in the Consolidated Balance Sheets, and totaled $562,000 and $587,000 as of December 31, 2004 and 2003, respectively. Issuance cost of $26,000 was amortized in 2004 and 2003, respectively, and recorded to "Underwriting, acquisition and insurance expense" in the Consolidated Statements of Income. Additionally, the Notes have an original issue discount of $260,000, which is deducted from the balance of the Notes. Issuance costs and original issue discount will be amortized under the straight-line method over the term of the Notes. Amortization relating to original issue discount of $9,000 was recorded in 2004 and 2003 in "Underwriting, acquisition and insurance expense" in the Consolidated Statements of Income. Unamortized original issue discount of $190,000 and $199,000 was deducted from the balance of the Notes as of December 31, 2004 and 2003, respectively.

NOTE 11 – COMPREHENSIVE INCOME

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FAS 130) establishes the requirement for the reporting and display of comprehensive income and its components in the financial statements. Comprehensive income is defined by the FASB as all changes in an enterprise's equity during a period other than those resulting from investments by owners and distributions to owners. Comprehensive income includes net income and other comprehensive income, which includes all other non-owner related changes to equity and includes unrealized gains and losses on available-for-sale debt and equity securities and minimum pension liability adjustments. FAS 130 also requires separate presentation of the accumulated balance of other comprehensive income within the equity section of a statement of financial position. The Company has presented the required displays of total comprehensive income and its components, along with the separate presentation of the accumulated balance of other comprehensive income within the Consolidated Statements of Equity.

Following are the FAS 130 disclosures of the related tax effects allocated to each component of other comprehensive income and the accumulated other comprehensive income balances required by FAS 130.

	Year Ended December 31, 2004		
	Before-Tax Amount	Tax Expense/(Benefit)	Net-of-Tax Amount
		(in thousands)	
Unrealized gains on securities:			
Unrealized gains arising during 2004	$ 22,694	$ 7,943	$ 14,751
Less: reclassification adjustments for gains realized in net income	(21,480)	(7,518)	(13,962)
Net unrealized gains	1,214	425	789
Minimum pension liability adjustment	(4,048)	(1,417)	(2,631)
Other comprehensive loss	$ (2,834)	$ (992)	$ (1,842)

	Year Ended December 31, 2003		
	Before-Tax Amount	Tax Expense/(Benefit)	Net-of-Tax Amount
		(in thousands)	
Unrealized losses on securities:			
Unrealized gains arising during 2003	$ 20,561	$ 7,196	$ 13,365
Less: reclassification adjustments for gains realized in net income	(25,316)	(8,861)	(16,455)
Net unrealized losses	(4,755)	(1,665)	(3,090)
Minimum pension liability adjustment	(4,725)	(1,654)	(3,071)
Other comprehensive loss	$ (9,480)	$(3,319)	$ (6,161)

NOTE 12 – SUBSEQUENT EVENT (UNAUDITED)

In January 2005, the Board of Directors of the Parent and the Ameritas Acacia Companies voted to combine at the mutual holding company level. The target date for the consolidation is the end of 2005. Members and policyholders of the companies must approve the transaction. In addition, a number of regulatory approvals must be met, including approval from the Department of Insurance in Nebraska and Ohio.