FBL FINANCIAL GROUP INC
Form 10-Q
November 06, 2008

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D. C. 20549**
**FORM 10-Q**

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended September 30, 2008**

**or**

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from __________ to __________**

**Commission File Number: 1-11917**

**FBL Financial Group, Inc.**

(Exact name of registrant as specified in its charter)

| Iowa | 42-1411715 |
|---|---|
| (State of incorporation) | (I.R.S. Employer Identification No.) |
| 5400 University Avenue, West Des Moines, Iowa | 50266-5997 |
| (Address of principal executive offices) | (Zip Code) |

(515) 225-5400

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer þ Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date:

| Title of each class | Outstanding at October 31, 2008 |
|---|---|
| Class A Common Stock, without par value | 28,975,889 |
| Class B Common Stock, without par value | 1,192,990 |

**FBL FINANCIAL GROUP, INC.**
**FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2008**
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**Cautionary Statement Regarding Forward Looking Information**

This Form 10-Q includes statements relating to anticipated financial performance, business prospects, new products, and similar matters. These statements and others, which include words such as expect , anticipate , believe , intend , a other similar expressions, constitute forward-looking statements under the Private Securities Litigation Reform Act of 1995. A variety of factors, including the risk factors summarized in Item 1A of our 2007 Annual Report on Form 10-K and those highlighted below, could cause our actual results and experiences to differ materially from the anticipated results or other expectations expressed in our forward-looking statements.

**Risk Factors**

We are subjected to a variety of risk factors that are identified in Item 1A of our 2007 Annual Report on Form 10-K. You should review these risks as they could materially affect our business, results of operations or financial condition, cause the trading price of our Common Stock to decline materially or cause our actual results to differ materially from those expected or those expressed in any forward looking statements made by or on behalf of the Company. In addition, certain risk factors that are specifically pertinent to the current-period financial statements are listed below.

**Current difficult conditions in the financial markets and the economy may materially adversely affect our business and results of operations.**

Our results of operations are materially affected by conditions in the financial markets and the economy generally. The stress experienced by financial markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. The volatility and disruption in the financial markets have reached unprecedented levels. The availability and cost of credit has been materially affected. These factors, combined with volatile oil prices, depressed home prices and increasing foreclosures, falling equity market values, declining business and consumer confidence and the risks of increased inflation and unemployment, have precipitated an economic slowdown and fears of a severe recession.

The fixed-income markets are experiencing a period of both extreme volatility and limited market liquidity conditions, which has affected a broad range of asset classes and sectors. In addition, there have been credit downgrade events and an increased probability of default for many fixed income instruments. Equity markets have also been experiencing heightened volatility. These events and the continuing market upheavals have had and may continue to have an adverse effect on us. Our revenues may decline in such circumstances, the cost of meeting our obligations to our customers may increase, and our profit margins could erode. In addition, in the event of a prolonged economic downturn, we could incur significant losses in our investment portfolio.

The demand for our products could be adversely affected in an economic downturn characterized by higher unemployment, lower family income, lower consumer spending, lower corporate earnings and lower business investment. We also may experience a higher incidence of claims and lapses or surrenders of policies. Our policyholders may choose to defer or stop paying insurance premiums. We cannot predict whether or when such actions may occur, or what impact, if any, such actions could have on our business, results of operations, cash flows and financial condition.

**Continuing adverse financial market conditions may significantly affect our liquidity, access to capital and cost of capital.**

As described in the Liquidity and Capital Resources section in Item 2 of this Form 10-Q, our life insurance subsidiaries have historically generated positive cash flow as measured by the degree to which cash inflows are adequate to meet benefit obligations to policyholders and normal operating expenses as they are incurred. While we expect our life insurance subsidiaries to generate positive cash flow in the future, a significant increase in policyholder benefits, including withdrawals and surrenders of life insurance and annuity contracts, could require us to sell fixed maturity securities that are currently in an unrealized loss position. Such sales would result in a charge to income and a reduction in capital. See the Financial Condition section in Item 2 of this Form 10-Q for details regarding the unrealized loss position on our fixed maturity securities.

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Adverse capital market conditions have affected and may continue to affect the availability and cost of borrowed funds and could impact our ability to refinance existing borrowings, thereby ultimately impacting our profitability and ability to support or grow our businesses. Without sufficient capital, we could be forced to curtail certain of our operations, and our business could suffer. Actions we might take to access financing may in turn cause rating agencies to reevaluate our ratings.

We manage the amount of our capital to be consistent with an A ratings objective from Standard & Poor s and A.M. Best. As of September 30, 2008, we estimate that the total adjusted capital of our life insurance subsidiaries were at the capital levels required to meet this rating objective. In addition, during the fourth quarter of 2008, we issued notes to affiliates for an additional $100.0 million to provide financial flexibility. However, this capital may not be sufficient if significant future losses are incurred and, given the current market conditions, access to additional capital could be limited.

**Our valuation of fixed maturity securities may include methodologies, estimations and assumptions that are subject to differing interpretations and could result in changes to investment valuations that may materially adversely affect our results of operations or financial condition.**

During periods of market disruption, such as the unprecedented current market conditions, it may be difficult to value certain of our securities if trading becomes less frequent and/or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that become illiquid due to the current financial environment or market conditions. As a result, valuations may include inputs and assumptions that are less observable or require greater estimation and judgment as well as valuation methods which are more complex. These values may not be ultimately realizable in a market transaction, and such values may change very rapidly as market conditions change and valuation assumptions are modified. Decreases in value may have a material adverse effect on our results of operations or financial condition.

The decision on whether to record an other-than-temporary impairment is determined in part by our assessment of the financial condition and prospects of a particular issuer, projections of future cash flows and recoverability of the particular security as well as an evaluation of our ability and intent to hold the securities to recovery. Our conclusions regarding the recoverability of a particular security s market price may ultimately prove to be incorrect as facts and circumstances change.

**We may be required to accelerate the amortization of deferred policy acquisition costs or deferred sales inducements, which could adversely affect our results of operations or financial condition.**

Deferred policy acquisition costs and deferred sales inducements (collectively, DAC), represent the costs that vary with and are related primarily to the acquisition of new and renewal insurance and annuity contracts, and we amortize these costs over the expected lives of the contracts. We test the DAC recorded on our consolidated balance sheet to determine if these amounts are recoverable under current assumptions. In addition, we regularly review the estimates and assumptions underlying DAC for those products for which we amortize DAC in proportion to gross profits. Given changes in facts and circumstances, these tests and reviews could lead to reductions in DAC that could have an adverse effect on the results of our operations and our financial condition. Increases in actual or expected future withdrawals or surrenders, which are more likely in a severe economic recession, will result in an acceleration of DAC amortization. In addition, significant or sustained equity market declines as well as investment losses could result in an acceleration of DAC amortization related to variable annuity and variable universal life contracts.

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**ITEM 1. FINANCIAL STATEMENTS**

**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED BALANCE SHEETS (Unaudited)**
**(Dollars in thousands)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Assets** | | |
| Investments: | | |
| Fixed maturities available for sale, at market (amortized cost: 2008 - $10,606,564; 2007 - $9,662,986) | $ 9,637,147 | $ 9,522,592 |
| Equity securities available for sale, at market (cost: 2008 - $11,288; 2007 - $22,410) | 11,263 | 23,633 |
| Mortgage loans on real estate | 1,316,905 | 1,221,573 |
| Derivative instruments | 17,342 | 43,918 |
| Investment real estate, less allowances for depreciation of $0 in 2008 and 2007 | 2,559 | 2,559 |
| Policy loans | 181,187 | 179,490 |
| Other long-term investments | 1,300 | 1,300 |
| Short-term investments | 90,094 | 72,005 |
| Total investments | 11,257,797 | 11,067,070 |
| Cash and cash equivalents | 87,248 | 84,015 |
| Securities and indebtedness of related parties | 19,117 | 19,957 |
| Accrued investment income | 145,114 | 118,827 |
| Amounts receivable from affiliates | 10,241 | 10,831 |
| Reinsurance recoverable | 105,613 | 123,659 |
| Deferred policy acquisition costs | 1,268,432 | 991,155 |
| Deferred sales inducements | 399,180 | 321,263 |
| Value of insurance in force acquired | 55,319 | 41,215 |
| Property and equipment, less allowances for depreciation of $81,881 in 2008 and $75,365 in 2007 | 46,635 | 49,164 |
| Current income taxes recoverable | 22,360 | 7,412 |
| Deferred income tax benefit | 146,954 | |
| Goodwill | 11,170 | 11,170 |
| Collateral held for securities lending and other transactions | 69,227 | 186,925 |
| Other assets | 25,526 | 32,458 |
| Assets held in separate accounts | 718,501 | 862,738 |
| Total assets | $ 14,388,434 | $ 13,927,859 |

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**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED BALANCE SHEETS (Continued)**
**(Dollars in thousands)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| **Liabilities and stockholders equity** | | |
| Liabilities: | | |
| Policy liabilities and accruals: | | |
| Future policy benefits: | | |
| Interest sensitive and index products | $ 10,520,516 | $ 9,557,073 |
| Traditional life insurance and accident and health products | 1,317,897 | 1,284,068 |
| Unearned revenue reserve | 32,366 | 28,448 |
| Other policy claims and benefits | 42,472 | 31,069 |
| | 11,913,251 | 10,900,658 |
| Other policyholders funds: | | |
| Supplementary contracts without life contingencies | 497,580 | 439,441 |
| Advance premiums and other deposits | 171,496 | 158,245 |
| Accrued dividends | 9,922 | 11,208 |
| | 678,998 | 608,894 |
| Amounts payable to affiliates | 110 | 35 |
| Short-term note payable to affiliate | 20,000 | |
| Long-term debt | 330,986 | 316,930 |
| Deferred income taxes | | 28,188 |
| Collateral payable for securities lending and other transactions | 70,311 | 202,594 |
| Other liabilities | 100,275 | 104,840 |
| Liabilities related to separate accounts | 718,501 | 862,738 |
| Total liabilities | 13,832,432 | 13,024,877 |
| Minority interest in subsidiaries | 122 | 91 |
| Stockholders equity: | | |
| Preferred stock, without par value, at liquidation value - authorized 10,000,000 shares, issued and outstanding 5,000,000 Series B shares | 3,000 | 3,000 |
| Class A common stock, without par value authorized 88,500,000 shares, issued and outstanding 28,980,603 shares in 2008 and 28,826,738 shares in 2007 | 106,006 | 101,221 |
| Class B common stock, without par value authorized 1,500,000 shares, issued and outstanding 1,192,990 shares | 7,519 | 7,525 |
| Accumulated other comprehensive loss | (377,151) | (36,345) |
| Retained earnings | 816,506 | 827,490 |
| Total stockholders equity | 555,880 | 902,891 |

| | | |
|---|---|---|
| Total liabilities and stockholders equity | $ 14,388,434 | $ 13,927,859 |

See accompanying notes.

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**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**
**(Dollars in thousands, except per share data)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| Revenues: | | | | |
| Interest sensitive and index product charges | $ 32,931 | $ 29,129 | $ 93,837 | $ 84,045 |
| Traditional life insurance premiums | 36,282 | 34,751 | 111,184 | 108,263 |
| Net investment income | 181,888 | 157,016 | 522,555 | 461,560 |
| Derivative income (loss) | (40,951) | 6,327 | (171,532) | 47,276 |
| Realized/unrealized gains (losses) on investments | (27,156) | 3,932 | (130,524) | 6,544 |
| Other income | 6,545 | 6,513 | 19,365 | 20,055 |
| Total revenues | 189,539 | 237,668 | 444,885 | 727,743 |
| Benefits and expenses: | | | | |
| Interest sensitive and index product benefits | 111,074 | 121,999 | 320,312 | 337,400 |
| Change in value of index product embedded derivatives | (37,529) | 10,195 | (171,020) | 6,427 |
| Traditional life insurance benefits | 23,353 | 21,595 | 73,207 | 69,676 |
| Increase in traditional life future policy benefits | 11,084 | 8,840 | 33,511 | 28,069 |
| Distributions to participating policyholders | 4,813 | 4,866 | 15,106 | 16,114 |
| Underwriting, acquisition and insurance expenses | 50,676 | 36,198 | 144,359 | 129,842 |
| Interest expense | 4,464 | 4,437 | 13,363 | 12,236 |
| Other expenses | 5,585 | 5,675 | 17,677 | 17,371 |
| Total benefits and expenses | 173,520 | 213,805 | 446,515 | 617,135 |
| | 16,019 | 23,863 | (1,630) | 110,608 |
| Income taxes | (4,904) | (7,904) | 2,634 | (37,251) |
| Minority interest in loss (earnings) of subsidiaries | 15 | 2 | 31 | (3) |
| Equity income, net of related income taxes | 86 | 538 | 44 | 1,102 |
| Net income | 11,216 | 16,499 | 1,079 | 74,456 |
| Dividends on Series B preferred stock | (37) | (37) | (112) | (112) |
| Net income applicable to common stock | $ 11,179 | $ 16,462 | $ 967 | $ 74,344 |
| Earnings per common share | $ 0.37 | $ 0.55 | $ 0.03 | $ 2.50 |
| | $ 0.37 | $ 0.54 | $ 0.03 | $ 2.46 |

| | | | | |
|---|---|---|---|---|
| Earnings per common share assuming dilution | | | | |
| Cash dividends per common share | $ 0.125 | $ 0.120 | $ 0.375 | $ 0.360 |

See accompanying notes.

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**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (Unaudited)**
**(Dollars in thousands)**

| | Series B Preferred Stock | Class A Common Stock | Class B Common Stock | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stockholders Equity |
|---|---|---|---|---|---|---|
| Balance at January 1, 2007 | $ 3,000 | $ 86,462 | $ 7,519 | $ 28,195 | $ 755,544 | $ 880,720 |
| Comprehensive income: | | | | | | |
| Net income for nine months ended September 30, 2007 | | | | | 74,456 | 74,456 |
| Change in net unrealized investment gains/losses | | | | (58,863) | | (58,863) |
| Change in underfunded status of other postretirement benefit plans | | | | 10 | | 10 |
| Total comprehensive income | | | | | | 15,603 |
| Adjustment resulting from capital transactions of equity investee | | 36 | 4 | | | 40 |
| Stock based compensation, including the issuance of 324,505 common shares under compensation plans | | 11,739 | | | | 11,739 |
| Dividends on preferred stock | | | | | (112) | (112) |
| Dividends on common stock | | | | | (10,672) | (10,672) |
| Balance at September 30, 2007 | $ 3,000 | $ 98,237 | $ 7,523 | $ (30,658) | $ 819,216 | $ 897,318 |
| Balance at January 1, 2008 | $ 3,000 | $ 101,221 | $ 7,525 | $ (36,345) | $ 827,490 | $ 902,891 |
| Comprehensive loss: | | | | | | |
| Net income for nine months ended September 30, 2008 | | | | | 1,079 | 1,079 |
| Change in net unrealized investment gains/losses | | | | (340,820) | | (340,820) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Change in underfunded status of other postretirement benefit plans | | | | 14 | | 14 |
| Total comprehensive loss | | | | | | (339,727) |
| Change in measurement date of benefit plans | | | | | (770) | (770) |
| Adjustment resulting from capital transactions of equity investee | | (81) | (6) | | | (87) |
| Stock based compensation, including the issuance of 153,865 common shares under compensation plans | | 4,866 | | | | 4,866 |
| Dividends on preferred stock | | | | | (112) | (112) |
| Dividends on common stock | | | | | (11,181) | (11,181) |
| Balance at September, 2008 | $ 3,000 | $ 106,006 | $ 7,519 | $ (377,151) | $ 816,506 | $ 555,880 |

Comprehensive income (loss) totaled ($179.2) million in the third quarter of 2008 and $26.7 million in the third quarter of 2007.

See accompanying notes.

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**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**
**(Dollars in thousands)**

| | Nine months ended September 30, | |
|---|---|---|
| | **2008** | **2007** |
| **Operating activities** | | |
| Net income | $ 1,079 | $ 74,456 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Adjustments related to interest sensitive and index products: | | |
| Interest credited/index credits to account balances, excluding deferred sales inducements | 244,467 | 292,294 |
| Change in fair value of embedded derivatives | (171,020) | 6,427 |
| Charges for mortality and administration | (88,408) | (76,910) |
| Deferral of unearned revenues | 1,177 | 1,060 |
| Amortization of unearned revenue reserve | (1,165) | (1,724) |
| Provision for depreciation and amortization of property and equipment | 11,676 | 10,222 |
| Provision for accretion and amortization of investments | (4,004) | (8,013) |
| Realized/unrealized losses (gains) on investments | 130,524 | (6,544) |
| Change in fair value of derivatives | 137,973 | (32,615) |
| Increase in traditional life and accident and health benefit accruals | 33,829 | 28,415 |
| Policy acquisition costs deferred | (127,680) | (124,991) |
| Amortization of deferred policy acquisition costs | 74,741 | 61,037 |
| Amortization of deferred sales inducements | 39,445 | 15,682 |
| Amortization of value of insurance in force | 1,979 | 3,008 |
| Net sale of fixed maturities trading | | 15,000 |
| Change in accrued investment income | (26,277) | (17,301) |
| Change in amounts receivable from/payable to affiliates | 666 | 5,840 |
| Change in reinsurance recoverable | 18,046 | 8,048 |
| Change in current income taxes | (14,948) | (2,092) |
| Provision for deferred income taxes | 8,765 | 2,004 |
| Other | (3,351) | 27,769 |
| Net cash provided by operating activities | 267,514 | 281,072 |
| **Investing activities** | | |
| Sale, maturity or repayment of investments: | | |
| Fixed maturities available for sale | 495,576 | 414,328 |
| Equity securities available for sale | 15,474 | 17,864 |
| Mortgage loans on real estate | 45,729 | 45,223 |
| Derivative instruments | 31,633 | 94,536 |
| Investment real estate | | 9,741 |
| Policy loans | 28,688 | 30,084 |
| | 617,100 | 611,776 |
| Acquisition of investments: | | |

| | | |
|---|---|---|
| Fixed maturities available for sale | (1,566,994) | (1,274,429) |
| Equity securities available for sale | (223) | (143) |
| Mortgage loans on real estate | (141,041) | (229,011) |
| Derivative instruments | (144,283) | (71,624) |
| Investment real estate | | (536) |
| Policy loans | (30,385) | (29,785) |
| Short-term investments net | (18,089) | (19,670) |
| | (1,901,015) | (1,625,198) |

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**FBL FINANCIAL GROUP, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**(Dollars in thousands)**

| | Nine months ended September 30, | |
|---|---|---|
| | **2008** | **2007** |
| **Investing activities continued** | | |
| Proceeds from disposal, repayments of advances and other distributions of capital from equity investees | $ 529 | $ 58 |
| Investments in and advances to equity investees | | (850) |
| Purchases of property and equipment | (11,793) | (14,904) |
| Disposal of property and equipment | 1,816 | 2,904 |
| Net cash used in investing activities | (1,293,363) | (1,026,214) |
| **Financing activities** | | |
| Receipts from interest sensitive and index products credited to policyholder account balances | 1,810,387 | 1,397,704 |
| Return of policyholder account balances on interest sensitive and index products | (807,328) | (688,691) |
| Proceeds from short-term note payable to affiliate | 20,000 | |
| Proceeds from long-term debt | 14,000 | 98,460 |
| Distributions related to minority interests net | 61 | 2 |
| Excess tax deductions on stock-based compensation | 129 | 1,254 |
| Issuance of common stock | 3,126 | 5,022 |
| Dividends paid | (11,293) | (10,784) |
| Net cash provided by financing activities | 1,029,082 | 802,967 |
| Increase in cash and cash equivalents | 3,233 | 57,825 |
| Cash and cash equivalents at beginning of period | 84,015 | 112,292 |
| Cash and cash equivalents at end of period | $ 87,248 | $ 170,117 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid during the period for: | | |
| Interest | $ 13,465 | $ 12,159 |
| Income taxes | 3,443 | 36,680 |
| Non-cash operating activity: | | |
| Deferral of sales inducements | 46,632 | 64,151 |

See accompanying notes.

**FBL FINANCIAL GROUP, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)**

**September 30, 2008**

## 1. Significant Accounting Policies

### Basis of Presentation

The accompanying unaudited consolidated financial statements of FBL Financial Group, Inc. (we or the Company) have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by GAAP for complete financial statements. Our financial statements include all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of our financial position and results of operations. Operating results for the three and nine-month periods ended September 30, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008. We encourage you to refer to our consolidated financial statements and notes for the year ended December 31, 2007 included in our annual report on Form 10-K for a complete description of our material accounting policies. Also included in the Form 10-K is a description of areas of judgments and estimates and other information necessary to understand our financial position and results of operations.

### Accounting Changes

Effective January 1, 2008, we adopted Statement of Financial Accounting Standards (Statement) No. 157, Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. See Note 2, Fair Value, for detailed information regarding our fair value measurements. The impact of adoption as of January 1, 2008, was to decrease the carrying value of certain investments and certain policy liabilities and accruals in our consolidated financial statements, resulting in an increase to net income of $5.6 million ($0.19 per basic and diluted common share). The primary impact of this change was a decrease to the embedded derivatives in the index annuity reserves of $26.7 million. The impact of this change on net income was mitigated by offsets for the amortization of deferred policy acquisition costs and deferred sales inducements and income taxes.

Effective January 1, 2008, we adopted the measurement date portion of Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R). This portion of Statement No. 158 requires measurement of a plan s assets and benefit obligations as of the end of the employer s fiscal year. We adopted the measurement date portion of this Statement, using the single measurement date method, which resulted in a decrease to retained earnings totaling $0.8 million.

Effective January 1, 2008, we adopted Financial Accounting Standards Board (FASB) Staff Position FIN 39-1 (FSP FIN 39-1), which amends certain aspects of FASB Interpretation No. 39, Offsetting of Amounts Related to Certain Contracts an interpretation of APB Opinion No. 10 and FASB Statement No. 105. This FSP allows a reporting entity to offset fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) against fair value amounts recognized for derivative instruments executed with the same counterparty under the same master netting arrangement. The guidance in this FSP is effective for fiscal years beginning after November 15, 2007, with early application permitted. We elected to implement this statement and have adopted a policy to offset the collateral against the derivatives. At September 30, 2008, we had master netting agreements with counterparties covering cash collateral payable totaling $8.3 million and cash collateral receivable totaling $5.9 million. These amounts are netted against the fair value of the call options included in derivative instruments and interest rate swaps included in other liabilities in our consolidated balance sheets. At December 31, 2007, we had master netting agreements with counterparties covering cash collateral payable totaling $70.9 million and cash collateral receivable totaling $7.5 million. Any excess collateral that remains after the netting is included in the collateral held or payable for securities lending and other transactions on our consolidated balance sheets. We held excess collateral totaling $0.4 million at September 30, 2008 and $0.1 million at December 31, 2007. These amounts have been restated in the prior year balance sheet. This FSP has no impact on our consolidated statements of income.

In October 2008, the FASB issued FASB Staff Position (FSP) No. FAS 157-3, Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active. This FSP clarifies the application of SFAS No. 157 in a market that is not active and applies to financial assets within the scope of accounting pronouncements that require or permit fair value measurements in accordance with SFAS No. 157. The FSP was effective upon issuance, including prior periods for which financial statements have not been issued. We adopted this guidance effective September 30, 2008. The impact of this adoption did not have a material effect on our consolidated financial statements.

In December 2007, the FASB issued Statement No. 160, Accounting and Reporting of Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51. This Statement establishes accounting and reporting standards for the noncontrolling (minority) interest in a subsidiary, which requires that the minority interest be reported in equity, and the related net income and comprehensive income be included in the respective lines of the consolidated financial statements. This Statement is effective for the first annual reporting period beginning on or after December 15, 2008 and early adoption is prohibited. The impact of this adoption on our consolidated financial statements is expected to be immaterial and will primarily result in a reclassification of minority interest as noted above.

**2. Fair Value**

As discussed in Note 1 above, Statement No. 157, Fair Value Measurements, defines fair value, establishes a framework for measuring fair value and expands the required disclosures about fair value measurements. Per Statement No. 157, fair value is based on an exit price, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Statement No. 157 also establishes a hierarchal disclosure framework which prioritizes and ranks the level of market price observability used in measuring financial instruments at fair value. Market price observability is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Financial instruments with readily available active quoted prices or for which fair value can be measured from actively quoted prices generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value.

Fair values for fixed maturity securities are obtained primarily from a variety of independent pricing sources, whose results undergo evaluation by our internal investment professionals. Market values of fixed maturity securities are based on quoted market prices, where available in active markets. Market values of fixed maturity securities that are not actively traded are estimated using valuation models that vary by asset class. The models use discounted cash flow analysis to estimate market value. The key inputs into the models are expected cash flows and an assumed discount rate for each security. Cash flows are estimated based on the terms of the underlying security including call and prepayment provisions, risk of default and interest rate scenarios. The discount rate is determined by adding a spread to a benchmark interest rate curve such as the Treasury curve or interest rate swap curve. The appropriate spread to use in the pricing process is determined through reference to various market sources including reported trades of similar securities, broker/dealer quotes, issuer spreads, bids, offers and benchmarking of like securities. In addition, for each type of security, information regarding relevant credit information, perceived market movements and sector news is integrated into the pricing process.

Investments for which market prices are not observable are generally private investments, securities valued using non-binding broker quotes or securities with very little trading activity where reasonable prices from independent sources cannot be obtained. We have valued our investments, in the absence of observable market prices, using the valuation methodologies described below applied on a consistent basis. For some investments little market activity may exist and management s determination of fair value is then based on the best information available in the circumstances, and may incorporate management s own assumptions of what a market participant would consider for the fair value, which involves a significant degree of judgment.

Financial instruments measured and reported at fair value are classified and disclosed in one of the following categories.

Level 1 Quoted prices are available in active markets for identical financial instruments as of the reporting date. The types of financial instruments included in Level 1 are listed equities, mutual funds, money market funds and non-interest bearing cash. As required by Statement No. 157, we do not adjust the quoted price for these financial instruments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2 Pricing inputs are other than quoted prices in active markets which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methods. Financial instruments which are generally included in this category include publicly traded issues priced by independent sources, short-term securities, less liquid and restricted equity securities and over-the-counter derivatives.

Level 3 Pricing inputs are unobservable for the financial instrument and include situations where there is little, if any, market activity for the financial instrument. The inputs into the determination of fair value require significant management judgment or estimation. Financial instruments that are included in this category generally include private corporate securities, non-binding broker and internally priced mortgage or other assets backed securities and other publicly traded issues and index annuity embedded derivatives.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, a financial instrument s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the financial instrument.

**Valuation of our Financial Instruments by Fair Value Hierarchy Levels**

| | September 30, 2008 | | | |
|---|---|---|---|---|
| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | (Dollars in thousands) | | | |
| **Assets** | | | | |
| Fixed maturities available for sale | $ | $ 8,753,001 | $ 884,146 | $ 9,637,147 |
| Equity securities available for sale | 2,643 | 8,620 | | 11,263 |
| Derivative instruments | | 17,342 | | 17,342 |
| Other long-term investments | | | 1,300 | 1,300 |
| Cash and short-term investments | 97,491 | 79,851 | | 177,342 |
| Reinsurance recoverable | | 6,008 | | 6,008 |
| Collateral held for securities lending and other transactions | | 69,227 | | 69,227 |
| Assets held in separate accounts | 718,501 | | | 718,501 |
| **Liabilities** | | | | |
| Future policy benefits index annuity embedded derivatives | $ | $ | $ 568,322 | $ 568,322 |
| Collateral payable for securities lending and other transactions | | 70,311 | | 70,311 |

Approximately 9.2% of the total fixed maturities are included in the Level 3 group.

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We have elected to report the preceding financial instruments at fair value in our consolidated balance sheets and used the following methods and assumptions to determine the fair value.

*Fixed maturity securities:* Fair values for fixed maturity securities are obtained primarily from a variety of independent pricing sources, whose results undergo evaluation by our internal investment professionals.

*Equity securities:* The fair values for equity securities are based on quoted market prices, where available. For equity securities that are not actively traded, estimated fair values are based on values of comparable issues.

*Derivative instruments:* Fair values for call options and interest rate swaps are based on counterparty market prices adjusted for a credit component of the counterparty, net of collateral paid. Prices are verified using analytical tools by our internal investment professionals.

*Cash, short-term investments and other long-term investments:* Amounts are reported at historical cost, adjusted for amortization of premiums and accrual of discounts, as applicable, which approximates the fair values due to the nature of these assets.

*Collateral held and payable for securities lending and other transactions:* Fair values are obtained from an independent pricing source, whose results undergo evaluation by our internal investment professionals.

*Reinsurance recoverable:* Reinsurance recoverable relating to our portion of the call options used to fund index credits on the index annuities assumed from a reinsurer is reported at fair value. Fair value is determined using quoted market prices for the call options, less an adjustment for credit risk. Reinsurance recoverable also includes the embedded derivatives in our modified coinsurance contracts under which we cede or assume business. Market values for these embedded derivatives are based on the difference between the fair value and the cost basis of the underlying fixed maturity securities. We are not required to estimate fair value for the remainder of the reinsurance recoverable balance.

*Assets held in separate accounts:* Separate account assets are reported at estimated fair value in our consolidated balance sheets based on quoted net asset values of the underlying mutual funds.

*Future policy benefits index annuity embedded derivatives:* Fair values of index annuity embedded derivatives are calculated using discounted cash flow valuation techniques based on current interest rates adjusted to reflect our credit risk and an additional provision for adverse deviation.

Fair values of all Level 2 fixed maturity securities are obtained from independent pricing services. Fair values of private investments are determined by reference to public market, private transactions or valuations for comparable companies or assets in the relevant asset class when such amounts are available. For securities where these are not available, an enhanced matrix calculation, as described below, is used to determine a fair value.

We generally obtain one price per security, which is compared to relevant credit information, perceived market movements and sector news. Market indices of similar rated asset class spreads are consulted for valuations and broker indications of similar securities are compared. If the issuer has had trades in similar debt outstanding but not necessarily the same rank in the capital structure, spread information is used to support fair value. If discrepancies are identified additional quotes are obtained and the quote that best reflects a fair value exit price at the reporting date is selected.

If an exit price based on relevant observable inputs is not obtained from an independent pricing service, the fair value is determined by our investment professionals using an enhanced matrix calculation and reported in Level 3. The matrix pricing performed by pricing services and our internal investment professionals includes a discounted cash flow analysis using a spread, including the specific creditors credit default swap spread (if available), over U.S. Treasury bond yields, adjusted for the maturity/average life differences. Spread adjustments are intended to reflect an illiquidity premium and take into account a variety of factors including but not limited to: senior unsecured versus secured status, par amount outstanding, number of holders, maturity, average life, composition of lending group and debt rating. These valuation methodologies involve a significant degree of judgment.

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Valuation sources for Level 3 securities are summarized below.

**Level 3 Fixed Maturity Investments by Valuation Source**

| | September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Private corporation | Publicly traded issues | Mortgage or other asset - backed securities | Total | Percent of Total |
| | (Dollars in thousands) | | | | |
| **Source of valuation** | | | | | |
| Third-party vendors | $ 402,077 | $ 317,978 | $ 90,653 | $ 810,708 | 91.7% |
| Priced internally | 1,313 | 59,676 | 12,449 | 73,438 | 8.3 |
| Total | $ 403,390 | $ 377,654 | $ 103,102 | $ 884,146 | 100.0% |

**Level 3 Financial Instruments Changes in Fair Value**

| | Fixed maturities available for sale | Other long-term investments |
|---|---|---|
| | (Dollars in thousands) | |
| **Assets** | | |
| Balance, December 31, 2007 | $ 1,072,697 | $ 1,300 |
| Purchases (disposals), net | 160,445 | |
| Realized and unrealized gains (losses), net | (167,719) | |
| Transfers in and/or (out) of Level 3 (A) | (181,117) | |
| Included in earnings (amortization) | (160) | |
| Balance, September 30, 2008 | $ 884,146 | $ 1,300 |
| Change in unrealized gains/losses on investments held at September 30, 2008 | $ (129,491) | $ |

(A) Included in the transfers in and/or out line above is $227.2 million of securities that were priced using a broker only quote at December 31, 2007 and were

transferred to a pricing service that uses observable market data in the prices and $46.1 million that were transferred into Level 3 that did not have enough observable data to include in Level 2 at September 30, 2008, primarily due to a reduction in market activity.

| **Future policy benefits index product embedded derivatives** | |
|---|---|
| Balance, December 31, 2007 | $ 747,511 |
| Premiums less benefits, net | 24,673 |
| Impact of unrealized gains (losses), net | (203,862) |
| Balance, September 30, 2008 | $ 568,322 |
| Change in unrealized gains/losses on embedded derivatives held at September 30, 2008 (1) | $ (203,862) |

(1) Excludes host accretion and the timing of posting index credits, which are included with the change in value of index product embedded derivatives in the consolidated statements of income.

**3. Credit Agreements and Subsequent Event**

In the third quarter of 2008, we increased the borrowings on our outstanding line of credit $14.0 million. We also issued a variable rate $20.0 million note payable to our affiliate, Farm Bureau Mutual Insurance Company (Farm Bureau Mutual), which is due on December 29, 2008. Interest on this note, which is prepayable, accrues at a variable rate (5.88% at September 30, 2008).

In November 2008 we issued 9.25% notes payable to affiliates totaling $100.0 million that mature in November 2011. One note for $75.0 million was issued to Farm Bureau Mutual and a $25.0 million note was issued to an

investment affiliate of Iowa Farm Bureau Federation, our majority shareholder. A portion of the proceeds from these notes, which are prepayable at par, will be used to repay the $20.0 million short-term debt that was borrowed from Farm Bureau Mutual during the third quarter. This note offering would have caused us to violate the covenants of our revolving line of credit agreement with Bank of America National Association. Therefore, in November 2008 the line of credit agreement was amended to allow for the note offering without violating the financial covenants.

**4. Defined Benefit Plans**

We participate with several affiliates and an unaffiliated organization in various multiemployer defined benefit plans. Our share of net periodic pension cost for the plans recorded in our consolidated statements of income for the third quarter totaled $1.1 million for 2008 and $1.5 million for 2007, and for the nine months ended September 30 totaled $3.4 million for 2008 and $4.4 million for 2007. As described in Note 1 above, we also recorded a portion of the net periodic pension costs as a charge to retained earnings totaling $0.8 million as a result of adopting the measurement date portion of Statement No. 158.

**Components of Net Periodic Pension Cost for all Employers in the Multiemployer Plans**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Service cost | $ 1,659 | $ 2,341 | $ 4,977 | $ 7,023 |
| Interest cost | 3,709 | 3,476 | 11,127 | 10,427 |
| Expected return on assets | (3,495) | (3,087) | (10,485) | (9,261) |
| Amortization of prior service cost | 196 | 194 | 588 | 581 |
| Amortization of actuarial loss | 945 | 1,120 | 2,835 | 3,359 |
| Net periodic pension cost all employers | $ 3,014 | $ 4,044 | $ 9,042 | $ 12,129 |

**5. Commitments and Contingencies**

In the normal course of business, we may be involved in litigation where amounts are alleged that are substantially in excess of contractual policy benefits or certain other agreements. At September 30, 2008, management is not aware of any claims for which a material loss is reasonably possible.

We seek to limit our exposure to loss on any single insured or event and to recover a portion of benefits paid by ceding a portion of our exposure to other insurance enterprises or reinsurers. Reinsurance contracts do not relieve us of our obligations to policyholders. To the extent that reinsuring companies are later unable to meet obligations under reinsurance agreements, our insurance subsidiaries would be liable for these obligations, and payment of these obligations could result in losses. To limit the possibility of such losses, we evaluate the financial condition of our reinsurers and monitor concentrations of credit risk. No allowance for uncollectible amounts has been established against our asset for reinsurance recoverable since none of our receivables are deemed to be uncollectible.

We participate in a reinsurance pool with various unaffiliated life insurance companies to mitigate the impact of a catastrophic event on our financial position and results of operations. Members of the pool share in the eligible catastrophic losses based on their size and contribution to the pool. Under the pool arrangement, we will be able to cede approximately 65% of catastrophic losses after other reinsurance and a deductible of $0.9 million. Pool losses are capped at $17.8 million per event and the maximum loss we could incur as a result of losses assumed from other pool members is $6.4 million per event.

We self-insure our employee health and dental claims. However, claims in excess of self-insurance levels are fully insured. We fund insurance claims through a self-insurance trust. Deposits to the trust are made at an amount equal to our best estimate of claims incurred during the period. Accordingly, no accruals are recorded on our financial

statements for unpaid claims and claims incurred but not reported. Adjustments, if any, resulting in changes in the estimate of claims incurred will be reflected in operations in the periods in which such adjustments are known.

On June 25, 2008, the Securities Exchange Commission (SEC) published for public comment proposed Rule 151A which would require index annuities to be regulated by the SEC. Under this proposed rule, index annuities would be considered a type of security and all agents selling the product would have to be registered representatives affiliated with a licensed broker dealer. While there is uncertainty regarding the outcome of this proposed rule, it is possible that we will have a more regulated environment for index annuities in the future. If the proposed rule is adopted in its current form, we believe it would likely result in increased costs and decreased production with possible product design and compensation limitations. Index annuities are important to our business; however we also offer a wide variety of life insurance and annuity products and have experience with registered investment products. The proposed rule indicates there would be 12 months between publication and the effectiveness of any final rule. We are confident that we can transition to an SEC regulated environment for our indexed business within this time period.

During the third quarter of 2008, the jury from a trial in Federal District Court in Utah involving an agency matter awarded our insurance subsidiary, Farm Bureau Life Insurance Company (Farm Bureau Life) and an affiliate, Farm Bureau Mutual, actual damages totaling $3.6 million and punitive damages totaling $62.7 million. Approximately 25% of the award is allocable to Farm Bureau Life with the remaining 75% allocable to Farm Bureau Mutual. The time for appealing the verdict and award will not begin until post trial motions have been filed and ruled on by the court. Regardless of the outcome of any rulings, we anticipate an appeal by the defendants unless a settlement has been reached. Recoveries from third parties are required to be accounted for as gain contingencies and not recorded in our financial statements until the lawsuit is resolved.

In 2006, we incurred a pre-tax charge of $4.9 million relating to the settlement of a lawsuit with a husband and wife who had applied for life insurance policies. The settlement ended litigation regarding the process we followed in denying insurance coverage for medical reasons. Insurance claims have been filed under our professional liability and general liability insurance policies for reimbursement of the settlement amount, but coverage has been denied, and we have made a claim against an insurance broker for breach of contractual duties. We have filed lawsuits against the insurer and the insurance broker to recover those damages. While we have received an adverse ruling in the case against the insurer at the district court level, the adverse ruling has been appealed and we continue to believe both claims are valid. As noted above, any recoveries will be recorded in net income in the period the recovery is received.

**6. Earnings Per Share**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands, except per share data) | | | |
| Numerator: | | | | |
| Net income | $ 11,216 | $ 16,499 | $ 1,079 | $ 74,456 |
| Dividends on Series B preferred stock | (37) | (37) | (112) | (112) |
| Numerator for earnings per common share income available to common stockholders | $ 11,179 | $ 16,462 | $ 967 | $ 74,344 |
| Denominator: | | | | |
| Weighted average shares | 29,819,642 | 29,669,542 | 29,808,067 | 29,620,962 |
| Deferred common stock units relating to deferred compensation plans | 80,507 | 61,987 | 75,727 | 59,622 |
| Denominator for earnings per common share weighted-average shares | 29,900,149 | 29,731,529 | 29,883,794 | 29,680,584 |
| Effect of dilutive securities - stock-based compensation | 150,901 | 550,763 | 236,488 | 601,190 |
| Denominator for diluted earnings per common share adjusted weighted-average shares | 30,051,050 | 30,282,292 | 30,120,282 | 30,281,774 |
| Earnings per common share | $ 0.37 | $ 0.55 | $ 0.03 | $ 2.50 |
| Earnings per common share assuming dilution | $ 0.37 | $ 0.54 | $ 0.03 | $ 2.46 |

**7. Segment Information**

We analyze operations by reviewing financial information regarding products that are aggregated into four product segments. The product segments are: (1) Traditional Annuity Exclusive Distribution ( Exclusive Annuity ), (2) Traditional Annuity Independent Distribution ( Independent Annuity ), (3) Traditional and Universal Life Insurance and (4) Variable. We also have various support operations and corporate capital that are aggregated into a Corporate and Other segment.

We analyze our segment results based on pre-tax operating income (loss). Accordingly, income taxes are not allocated to the segments. In addition, operating results are generally reported net of any transactions between the segments. Operating income (loss) for the periods ended September 30, 2008 and 2007 represents net income excluding, as applicable, the impact of:

realized and unrealized gains and losses on investments;

changes in net unrealized gains and losses on derivatives; and

the cumulative effect of changes in accounting principles.

We use operating income (loss), in addition to net income, to measure our performance since realized and unrealized gains and losses on investments and the change in net unrealized gains and losses on derivatives can fluctuate greatly from quarter to quarter. Also, the cumulative effect of changes in accounting principles is a nonrecurring item. These fluctuations make it difficult to analyze core operating trends. In addition, for derivatives not designated as hedges, there is a mismatch between the valuation of the asset and liability when deriving net income. Specifically, call options relating to our index business are one or two-year assets while the embedded derivative in the index contracts represents the rights of the contract holder to receive index credits over the entire period the



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index annuities are expected to be in force. For our other embedded derivatives in the product segments and interest rate swaps backing our annuity liabilities, the derivatives are marked to market, but the associated insurance liabilities are not marked to market. A view of our operating performance without the impact of these mismatches and nonrecurring item enhances the analysis of our results. We use operating income (loss) for goal setting, determining company-wide bonuses and evaluating performance on a basis comparable to that used by many in the investment community.

**Financial Information Concerning our Operating Segments**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Operating revenues: | | | | |
| Traditional Annuity Exclusive Distribution | $ 35,766 | $ 36,996 | $ 106,465 | $ 112,385 |
| Traditional Annuity Independent Distribution | 88,498 | 110,671 | 247,834 | 276,220 |
| Traditional and Universal Life Insurance | 84,552 | 82,373 | 254,132 | 251,468 |
| Variable | 15,786 | 15,327 | 48,282 | 47,450 |
| Corporate and Other | 8,411 | 10,299 | 25,708 | 27,789 |
| | 233,013 | 255,666 | 682,421 | 715,312 |
| Realized/unrealized gains (losses) on investments (A) | (27,133) | 3,932 | (130,694) | 6,544 |
| Change in net unrealized gains/losses on derivatives (A) | (16,341) | (21,930) | (106,842) | 5,887 |
| Consolidated revenues | $ 189,539 | $ 237,668 | $ 444,885 | $ 727,743 |
| Pre-tax operating income (loss): | | | | |
| Traditional Annuity Exclusive Distribution | $ 5,865 | $ 6,665 | $ 20,721 | $ 24,240 |
| Traditional Annuity Independent Distribution | 10,539 | 10,779 | 27,229 | 30,413 |
| Traditional and Universal Life Insurance | 13,640 | 15,114 | 37,468 | 42,725 |
| Variable | (510) | 4,381 | 2,338 | 10,412 |
| Corporate and Other | (1,898) | (51) | (6,536) | (1,660) |
| | 27,636 | 36,888 | 81,220 | 106,130 |
| Income taxes on operating income | (8,964) | (12,462) | (26,352) | (35,406) |
| Realized/unrealized gains (losses) on investments, net (A) | (12,726) | 2,392 | (67,533) | 4,710 |
| Change in net unrealized gains/losses on derivatives (A) | 5,270 | (10,319) | 13,744 | (695) |
| Cumulative effect of change in accounting principle | | | | (283) |
| Consolidated net income | $ 11,216 | $ 16,499 | $ 1,079 | $ 74,456 |

(A) Amounts are net of adjustments, as applicable, to amortization of unearned revenue reserves, deferred policy acquisition costs, deferred sales inducements, value of insurance in force acquired and income taxes attributable to these items.

Our investment in equity method investees, the related equity income and interest expense are attributable to the Corporate and Other segment. Expenditures for long-lived assets were not significant during the periods presented above. Goodwill at September 30, 2008 and December 31, 2007 is allocated among the segments as follows: Exclusive Annuity ($3.9 million), Traditional and Universal Life Insurance ($6.1 million) and Corporate ($1.2 million).

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**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This section includes a summary of FBL Financial Group, Inc. s consolidated results of operations, financial condition and where appropriate, factors that management believes may affect future performance. Unless noted otherwise, all references to FBL Financial Group, Inc. (we or the Company) include all of its direct and indirect subsidiaries, including its primary life insurance subsidiaries, Farm Bureau Life Insurance Company (Farm Bureau Life) and EquiTrust Life Insurance Company (EquiTrust Life) (collectively, the Life Companies). Please read this discussion in conjunction with the accompanying consolidated financial statements and related notes. In addition, we encourage you to refer to our 2007 Form 10-K for a complete description of our significant accounting policies and estimates. Familiarity with this information is important in understanding our financial position and results of operations.*

**Results of Operations for the Three and Nine Months Ended September 30, 2008 Compared to Three and Nine Months Ended September 30, 2007**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands, except per share data) | | | |
| Revenues | $ 189,539 | $ 237,668 | $ 444,885 | $ 727,743 |
| Benefits and expenses | 173,520 | 213,805 | 446,515 | 617,135 |
| | 16,019 | 23,863 | (1,630) | 110,608 |
| Income taxes | (4,904) | (7,904) | 2,634 | (37,251) |
| Minority interest and equity income | 101 | 540 | 75 | 1,099 |
| Net income | 11,216 | 16,499 | 1,079 | 74,456 |
| Less dividends on Series B preferred stock | (37) | (37) | (112) | (112) |
| Net income applicable to common stock | $ 11,179 | $ 16,462 | $ 967 | $ 74,344 |
| Earnings per common share | $ 0.37 | $ 0.55 | $ 0.03 | $ 2.50 |
| Earnings per common share assuming dilution | $ 0.37 | $ 0.54 | $ 0.03 | $ 2.46 |
| *Other data* | | | | |
| Direct premiums collected, net of reinsurance ceded: | | | | |
| Traditional Annuity Exclusive Distribution | $ 73,667 | $ 27,848 | $ 183,440 | $ 99,927 |
| Traditional Annuity Independent Distribution | 496,115 | 489,120 | 1,361,008 | 1,064,532 |
| Traditional and Universal Life Insurance | 47,087 | 45,015 | 143,427 | 138,942 |
| Variable Annuity and Variable Universal Life (1) | 30,943 | 41,109 | 111,737 | 133,599 |
| Reinsurance assumed and other | 3,116 | 3,598 | 10,508 | 11,641 |
| Total | $ 650,928 | $ 606,690 | $ 1,810,120 | $ 1,448,641 |

| | | |
|---|---|---|
| Direct life insurance in force, end of quarter (in millions) | $ 42,750 | $ 40,307 |
| Life insurance lapse rates | 6.3% | 6.0% |
| Withdrawal rates individual traditional annuity: | | |
| Exclusive Distribution | 3.2% | 5.6% |
| Independent Distribution | 6.7% | 5.2% |

(1) Amounts are net of portion ceded to and include amounts assumed from alliance partners.

Premiums collected is not a measure used in financial statements prepared according to U.S. generally accepted accounting principles (GAAP). There is no comparable GAAP financial measure. We use premiums collected to measure the productivity of our exclusive and independent agents. Direct premiums collected in the Traditional Annuity exclusive distribution and Traditional Annuity independent distribution segments increased for the 2008 periods due to lower short-term market interest rates making certificates of deposits and other short-term investments less attractive in relation to our traditional annuity products. In addition, the number of individual licensed independent agents our EquiTrust Life independent distribution channel increased to 23,651 at September 30, 2008, from 18,902 at September 30, 2007. In an attempt to preserve capital, it is our intention to reduce the direct premiums collected through the Traditional Annuity independent distribution channel to approximately $200.0 million per quarter through rate and other actions taken in the second half of 2008.

Our results of operations are materially affected by conditions in the financial markets and the economy generally. The stress experienced by financial markets that began in the second half of 2007 continued and substantially increased during the third quarter of 2008. The volatility and disruption in the financial markets have reached unprecedented levels. The availability and cost of credit has been materially affected. These factors, combined with volatile oil prices, depressed home prices and increasing foreclosures, falling equity market values, declining business and consumer confidence and the risks of increased inflation and unemployment, have precipitated an economic slowdown and fears of a severe recession. This unprecedented market volatility and general decline in the equity markets has directly and materially affected our results of operations and our investment portfolio. Details regarding the impacts of the capital markets and economy are summarized in the sections that follow. The most significant impacts during the third quarter include an increase in realized losses on investments, decreases in derivative income, a decrease in profitability on variable products and an increase in unrealized losses on fixed maturity securities and derivatives.

**Net income applicable to common stock** for the third quarter of 2008 was $11.2 million compared to $16.5 million for the third quarter of 2007 and was $1.0 million for the nine months ended September 30, 2008 compared to $74.3 million for the 2007 period. These decreases are primarily due to realized losses on investments and an increase in death benefits. These decreases were partially offset by the change in unrealized gains and losses on derivative instruments and the impact of an increase in the volume of business in force. The increase in volume of business in force is quantified in the detailed discussion that follows by summarizing the face amount of insurance in force for life products or account values of contracts in force for interest sensitive products. The face amount of life insurance in force represents the gross death benefit payable to policyholders and account value represents the value of the contract to the contract holder before application of surrender charges or reduction for any policy loans outstanding.

**Spreads Earned on our Universal Life and Individual Traditional Annuity Products**

| | Nine months ended September 30, | |
|---|---|---|
| | **2008** | **2007** |
| Weighted average yield on cash and invested assets | 5.95% | 6.06% |
| Weighted average interest crediting rate/index cost | 3.87 | 3.70 |
| Spread | 2.08% | 2.36% |

The weighted average yield on cash and invested assets represents the yield on cash and investments backing the universal life and traditional annuity products net of investment expenses. The yield also includes gains or losses relating to our interest rate swap program for certain individual traditional annuities. The impact of the swap program was previously reported in the weighted average crediting rate/index costs and the 2007 results above have been restated to conform to the 2008 presentation. With respect to our index annuities, index costs represent the expenses we incur to fund the annual index credits through the purchase of options and minimum guaranteed interest credited

on the index business. The weighted average crediting rate/index cost and spread are computed excluding the impact of the amortization of deferred sales inducements. The spread noted above decreased in 2008 primarily due to a shift in the mix of direct business to products with a lower spread target and a decrease in spread earned on assumed business. See the Segment Information section that follows for a discussion of our spreads.

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As noted in the Segment Information section that follows, we use both net income and operating income to measure our operating results. Operating income for the periods covered by this report equals net income, excluding the impact of: (1) realized gains and losses on investments, (2) the change in net unrealized gains and losses on derivatives and (3) the cumulative effect of change in accounting principles. The rationale for excluding these items from operating income is also explained in the Segment Information section that follows.

**Impact of Operating Adjustments on Net Income**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Realized/unrealized gains (losses) on investments | $ (27,156) | $ 3,932 | $ (130,524) | $ 6,544 |
| Change in net unrealized gains/losses on derivatives | 21,188 | (32,125) | 64,178 | (528) |
| Change in amortization of: | | | | |
| Deferred policy acquisition costs | (852) | 9,572 | (2,796) | 191 |
| Deferred sales inducements | (4,620) | 6,429 | (13,944) | (26) |
| Value of insurance in force acquired | (54) | (3) | 503 | 5 |
| Unearned revenue reserve | 23 | | (170) | (10) |
| Cumulative effect of change in accounting principle | | | | (283) |
| Income tax offset | 4,015 | 4,268 | 28,964 | (2,161) |
| Net impact of operating income adjustments | $ (7,456) | $ (7,927) | $ (53,789) | $ 3,732 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands, except per share data) | | | |
| Summary of adjustments noted above after offsets and income taxes: | | | | |
| Realized/unrealized gains (losses) on investments | $ (12,726) | $ 2,392 | $ (67,533) | $ 4,713 |
| Change in net unrealized gains/losses on derivatives | 5,270 | (10,319) | 13,744 | (698) |
| Cumulative effect of change in accounting principle | | | | (283) |
| Net impact of operating income adjustments | $ (7,456) | $ (7,927) | $ (53,789) | $ 3,732 |
| Net impact per common share basic | $ (0.25) | $ (0.27) | $ (1.80) | $ 0.13 |
| Net impact per common share assuming dilution | $ (0.25) | $ (0.26) | $ (1.80) | $ 0.12 |

We periodically revise the key assumptions used in the calculation of the amortization of deferred policy acquisition costs, deferred sales inducements, value of insurance in force acquired and unearned revenues for participating life insurance, variable and interest sensitive and index products, as applicable, through an unlocking process. Revisions

are made based on historical results and our best estimate of future experience. The impact of unlocking is recorded in the current period as an increase or decrease to amortization of the respective balances. While the unlocking process can take place at any time, as needs dictate, the process typically takes place annually with different blocks of business unlocked each quarter. The impact of unlocking in 2008 was primarily due to updating the amortization model for assumptions relating to withdrawal rates, mortality and the current volume of business in force. The impact in 2007 was primarily due to decreasing lapse assumptions in the models for our direct index annuity business.

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**Impact of Unlocking on Pre-tax Income**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | (Dollars in thousands) | | | |
| Amortization of deferred sales inducements | $ 3 | $ 8 | $ (1,905) | $ 1,129 |
| Amortization of deferred policy acquisition costs | 1,432 | (1,855) | 2,079 | (315) |
| Amortization of unearned revenues | (246) | 546 | (281) | 544 |
| Increase (decrease) to pre-tax income | $ 1,189 | $ (1,301) | $ (107) | $ 1,358 |
| Impact per common share (basic and diluted), net of tax | $ 0.03 | $ (0.03) | $ | $ 0.03 |

**Premiums and Product Charges**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | (Dollars in thousands) | | | |
| Premiums and product charges: | | | | |
| Interest sensitive and index product charges | $ 32,931 | $ 29,129 | $ 93,837 | $ 84,045 |
| Traditional life insurance premiums | 36,282 | 34,751 | 111,184 | 108,263 |
| Total | $ 69,213 | $ 63,880 | $ 205,021 | $ 192,308 |

Premiums and product charges increased 8.3% in the third quarter of 2008 to $69.2 million and 6.6% in the nine months ended September 30, 2008 to $205.0 million. The increases in interest sensitive and index product charges are principally driven by surrender charges on annuity and universal life products and cost of insurance charges on variable universal life and universal life products.

Surrender charges totaled $23.9 million in the nine-month period ended September 30, 2008 compared to $16.3 million in the 2007 period. Surrender charges increased primarily due to an increase in surrenders relating to growth in the volume and aging of business in force. The average aggregate account value for annuity and universal life insurance in force, which increased due to premiums collected as summarized in the Other data table above, totaled $9,699.3 million for the nine-month period in 2008 and $8,205.7 million for the 2007 period. We believe aging of the business in force is driving a portion of the increase in surrender charges relating to our annuity business as the surrender charge rate decreases with the passage of time (at a rate generally equal to 1.0% per year). This makes a surrender later in the contract period more economical for the contract holder, which results in higher lapse rates as the business ages. We started assuming business under a coinsurance agreement in 2001 and started selling annuities directly through EquiTrust Life independent agents in the fourth quarter of 2003. Surrender charges on this coinsurance and direct business totaled $21.7 million for the nine months ended September 30, 2008 and $14.1 million for the 2007 period.

Cost of insurance charges totaled $50.7 million in the nine months ended September 30, 2008 and $48.8 million in the 2007 period. Cost of insurance charges increased primarily due to aging of the business in force as the cost of insurance charge rate per each $1,000 in force increases with the age of the insured. The average age of our universal life and variable universal life policyholders was 45.9 years at September 30, 2008 and 45.4 years at September 30,

2007.

Traditional premiums increased 2.7% to $111.2 million for the nine months ended September 30, 2008 due to an increase in the volume of business in force. The increase in the business in force is primarily attributable to sales of traditional life products by our Farm Bureau Life agency force exceeding the loss of in force amounts through deaths, lapses and surrenders. Our average aggregate traditional life insurance in force, net of reinsurance ceded, totaled $21,776.2 million for the nine-month period in 2008 and $19,773.3 million for the nine-month period in 2007. The change in life insurance in force is not proportional to the change in premium income due to a shift in the composition of our traditional life block of business from whole life policies to term policies. The premium for a term policy per $1,000 face amount is less than that for a whole life policy.

**Net investment income,** which excludes investment income on separate account assets relating to variable products, increased 15.8% in the third quarter of 2008 to $181.9 million and 13.2% in the nine months ended September 30, 2008 to $522.6 million, primarily due to an increase in average invested assets. Average invested assets in the nine-month period of 2008 increased 14.3% to $11,688.8 million (based on securities at amortized cost) from $10,229.2 million in the 2007 period, principally due to net premium inflows from the Life Companies and proceeds from issuance of Senior Notes in March 2007. The annualized yield earned on average invested assets decreased to 6.00% in the nine months ended September 30, 2008 from 6.06% in the respective 2007 period. Income from bond calls, tender offers and mortgage loan prepayments totaled $1.7 million in the nine months ended September 30, 2008 compared to $7.6 million in the respective 2007 period. Net investment income also includes ($0.3) million for the nine-month period in 2008 and ($1.3) million in 2007, representing the change in net discount accretion on mortgage and asset-backed securities resulting from changing prepayment speed assumptions as of the end of each respective period. See the Financial Condition Investments section that follows for a description of how changes in prepayment speeds impact net investment income.

**Derivative Income (Loss)**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Derivative income (loss): | | | | |
| Components of derivative income (loss) from call options: | | | | |
| Gains received at expiration | $ 8,865 | $ 55,010 | $ 35,507 | $ 117,043 |
| Change in the difference between fair value and remaining option cost at beginning and end of period | (15,458) | (18,092) | (107,289) | 7,007 |
| Cost of money for call options | (32,533) | (28,156) | (97,781) | 77,602 |
| | (39,126) | 8,762 | (169,563) | 46,448 |
| Other | (1,825) | (2,435) | (1,969) | 828 |
| Total | $ (40,951) | $ 6,327 | $ (171,532) | $ 47,276 |

Gains received at expiration decreased in 2008 as a result of declines in the market indices on which our options are based, partially offset by growth in the volume of index annuities in force. The average aggregate account value of index annuities in force, which has increased due to new sales, totaled $4,687.4 million for the nine months ended September 30, 2008 compared to $4,003.8 million for the respective 2007 period. The changes in the difference between the fair value of the call options and the remaining option costs are caused primarily by the change in the S&P 500 Index® (upon which the majority of our options are based).

**Range of Index Appreciation for S&P 500 Index Options Expiring During the Periods**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| Annual point-to-point strategy | | 5.9%-22.7% | 0.0%-2.6% | 5.9%-22.7% |
| Monthly point-to-point strategy | | 5.6%-15.9% | | 4.4%-15.9% |
| | | 7.5%-12.9% | 0.0%-6.3% | 1.2%-12.9% |

| | | | | | |
|---|---|---|---|---|---|
| Monthly average strategy options | one-year | | | | |
| Monthly average strategy options | two-year | 6.1%-12.9% | 8.1%-12.9% | 6.1%-14.1% | 8.1%-12.9% |
| Daily average strategy | | | 6.8%-11.1% | 0.0%-5.2% | 2.1%-11.1% |

The change in fair value is also reduced by participation rates and caps, as applicable, on the underlying options. Furthermore, the change in fair value is impacted by options based on other underlying indices and the timing of option settlements. The cost of money for call options increased primarily due to growth in the volume of index annuities in force and increased option costs, which is driven largely by increased volatility in the equity markets. Other derivative income (loss) is comprised of changes in the value of the conversion feature embedded in convertible fixed maturity securities and the embedded derivative included in our modified coinsurance contracts. In addition, beginning in the second quarter of 2007, other derivative income (loss) includes cash flows and the

change in fair value of the interest rate swaps relating to our flexible premium deferred annuity contracts due to the adoption of Statement 133 Implementation Issue No. G26, Cash Flow Hedges: Hedging Interest Cash Flows on Variable Rate Assets and Liabilities That Are Not Based on a Benchmark Interest Rate. Derivative income (loss) will fluctuate based on market conditions.

**Realized/Unrealized Gains (Losses) on Investments**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Realized/unrealized gains (losses) on investments: | | | | |
| Realized gains on sales | $ 2,211 | $ 4,343 | $ 6,339 | $ 9,358 |
| Realized losses on sales | (3,124) | (5) | (3,246) | (45) |
| Realized losses due to impairments | (26,243) | (406) | (133,617) | (2,842) |
| Unrealized gains on trading securities | | | | 73 |
| Total | $ (27,156) | $ 3,932 | $ (130,524) | $ 6,544 |

The level of realized/unrealized gains (losses) is subject to fluctuation from period to period depending on the prevailing interest rate and economic environment and the timing of the sale of investments. Realized losses on sales during the third quarter include a $2.3 million loss on a bank that experienced significant losses during the third quarter of 2008. See Financial Condition Investments for details regarding our unrealized gains and losses on available-for-sale securities at September 30, 2008 and December 31, 2007.

We monitor the financial condition and operations of the issuers of securities rated below investment grade and of the issuers of certain investment grade securities on which we have concerns regarding credit quality. In determining whether or not an unrealized loss is other than temporary, we review factors such as:

- historical operating trends;
- business prospects;
- status of the industry in which the company operates;
- analyst ratings on the issuer and sector;
- quality of management;
- size of the unrealized loss;
- level of current market interest rates compared to market interest rates when the security was purchased
- length of time the security has been in an unrealized loss position; and
- our intent and ability to hold the security.

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If we determine that an unrealized loss is other than temporary, the security is written down to its fair value with the difference between amortized cost and fair value recognized as a realized loss.

**Investment Impairments Individually Exceeding $0.5 Million**

| General Description | Impairment Loss (Dollars in thousands) | Circumstance |
|---|---|---|
| **Nine months ended September 30, 2008:** | | |
| Other asset-backed securities | $ 67,349 | During the second quarter, losses on 13 securities increased due to increasing delinquencies by homeowners. In addition, underlying insurance that was expected to absorb losses was deemed to be less valuable due to the monoline insurer being downgraded during the quarter. Collateral is second lien home equity loans with minimal recoveries expected. (A) |
| Depository Institution | $ 10,945 | During the third quarter, issuer filed for bankruptcy after unsuccessful attempts to obtain financial assistance. This reduced estimates on potential recovery. (A) |
| Collateralized debt obligation | $ 9,800 | During the first and second quarters, the value of collateral supporting this issue declined, which triggered an event whereby we did not receive interest on our investment. Rating declines on the security also occurred during 2008. (A) |
| Commercial mortgage-backed security | $ 9,639 | During the second quarter, ratings declined and the probability of future losses increased due to declining economic conditions and a reduction in the debt available to absorb losses prior to our ownership class. (A) |
| Other asset-backed security | $ 9,114 | During the first and second quarters, ratings declined and losses from the underlying home equity loans to Alt-A borrowers increased. (A) |
| Reinsurance carrier | $ 7,299 | During the first, second and third quarters, rating declines occurred and the fair value decreased significantly due to subprime and Alt-A exposure and the parent s potential reorganization, which reduced estimates on potential recovery. (A) |
| Securities & commodities broker | $ 5,980 | During the third quarter, issuer filed for bankruptcy after unsuccessful attempts to obtain financial assistance. This reduced estimates on potential recovery. (A) |

| | | |
|---|---|---|
| Foreign depository institution | $ 5,718 | During the third quarter, the probability of future losses increased due to declining economic conditions. In addition, the board of directors resigned and subsequent to the third quarter, a foreign government seized control of the entire banking system due to financial turmoil, further reducing estimates on potential recovery. (A) |

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| General Description | Impairment Loss (Dollars in thousands) | Circumstance |
| --- | --- | --- |
| Major printing & publishing company | $ 2,761 | During the first quarter, issuer filed for bankruptcy after unsuccessful attempts to obtain financial assistance. This reduced estimates on potential recovery. (A) |
| Major printing & publishing company | $ 2,283 | During the first and third quarters, rating declines and other adverse details regarding the financial status of the company became available. (A) |
| Structured investment vehicle | $ 1,469 | During the third quarter, rating declines occurred and the issuer was served a notice of default. This reduced estimates on potential recovery. Subsequent to the third quarter the company also went into receivership. This issue is held as collateral for securities lending. (A) |
| Major retail company | $ 861 | During the third quarter, the company reported negative earnings results and the probability of future losses increased due to declining economic conditions, which increased the probability of a future restructuring or bankruptcy filing. (A) |
| **Nine months ended September 30, 2007:** | | |
| Major printing and publishing company | $ 1,624 | During the second quarter, the company announced that it would take the company private in a series of transactions tendering outstanding shares. In addition, rating declines and other adverse details regarding the financial status of the company became available. (A) |
| United States military base housing revenue bond | $ 812 | During the second quarter, the United States closed one military base leading to a restructuring and tender offer for the bonds. (A) |

(A) Negative trends in this segment of the industry were considered in our analysis, which is done on an issue-by-issue basis. No additional

writedowns
were deemed
necessary as of
September 30,
2008 for other
material
investments in
this industry.

**Other income** and **other expenses** include revenues and expenses, respectively, relating primarily to our non-insurance operations. Our non-insurance operations include management, advisory, marketing and distribution services and leasing activities. Other income in the first quarter of 2007 included $1.0 million of non-recurring contingent administrative fee income. Fluctuations in these financial statement line items are generally attributable to fluctuations in the level of these services provided during the periods.

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**Interest Sensitive and Index Product Benefits and Change in Value of Index Product Embedded Derivatives**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | (Dollars in thousands) | | | |
| Interest sensitive and index product benefits: | | | | |
| Interest credited | $ 76,007 | $ 60,737 | $ 211,255 | $ 177,139 |
| Index credits | 8,154 | 53,482 | 33,536 | 114,826 |
| Amortization of deferred sales inducements | 13,705 | (667) | 39,362 | 15,533 |
| Interest sensitive death benefits | 13,208 | 8,447 | 36,159 | 29,902 |
| | 111,074 | 121,999 | 320,312 | 337,400 |
| Change in value of index product embedded derivatives | (37,529) | 10,195 | (171,020) | 6,427 |
| Total | $ 73,545 | $ 132,194 | $ 149,292 | $ 343,827 |

Interest sensitive and index product benefits and change in value of index product embedded derivatives decreased 44.4% in the third quarter of 2008 to $73.5 million and 56.6% in the nine months ended September 30, 2008 to $149.3 million. These decreases are primarily due to the impact of market depreciation on the indices backing the index annuities and fewer index credits. These items are partially offset by an increase in death benefits and an increase in interest credited due to an increase in the volume of annuity business in force. Interest sensitive and index product benefits tend to fluctuate from period to period primarily as a result of changes in mortality experience and the impact of changes in the equity markets on index credits, amortization of deferred sales inducements and the value of the embedded derivatives in our index annuities.

The average aggregate account value of annuity contracts in force, which increased due to additional premiums collected as summarized in the Other data table above, totaled $8,806.0 million for the nine-month period in 2008 and $7,314.6 million for the 2007 period. These account values include values relating to index contracts totaling $4,687.4 million for 2008 and $4,003.8 million for 2007.

The weighted average interest crediting rate/index cost for universal life and individual traditional annuity products, excluding the impact of the amortization of deferred sales inducements, was 3.87% for the nine-month period of 2008 and 3.70% for the 2007 period. See the Segment Information section that follows for additional details on our spreads.

The change in the amount of index credits is impacted by growth in the volume of index annuities in force and the amount of appreciation/depreciation in the underlying equity market indices on which our options are based as discussed above under Derivative income (loss). The change in the value of the embedded derivatives is impacted by the change in expected index credits on the next policy anniversary dates, which is related to the change in the fair value of the options acquired to fund these index credits as discussed above under Derivative income (loss). The value of the embedded derivatives is also impacted by the timing of the posting of index credits and changes in reserve discount rates and assumptions used in estimating future call option costs.

The increases in amortization of deferred sales inducements are primarily due to the impact of changes in unrealized gains and losses on derivatives and additional capitalization of costs incurred with new sales. Deferred sales inducements on interest sensitive and index products totaled $396.6 million at September 30, 2008 and $293.6 million at September 30, 2007. The impact of the change in unrealized gains and losses on derivatives is detailed in the Net income applicable to common stock section above.

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**Traditional Life Insurance Benefits**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Traditional life insurance policy benefits: | | | | |
| Traditional life insurance benefits | $ 23,353 | $ 21,595 | $ 73,207 | $ 69,676 |
| Increase in traditional life future policy benefits | 11,084 | 8,840 | 33,511 | 28,069 |
| Distributions to participating policyholders | 4,813 | 4,866 | 15,106 | 16,114 |
| Total | $ 39,250 | $ 35,301 | $ 121,824 | $ 113,859 |

Traditional life insurance policy benefits increased 11.2% in the third quarter of 2008 to $39.3 million and 7.0% in the nine months ended September 30, 2008 to $121.8 million. In the third quarter of 2008, traditional death benefits increased 14.5% to $14.7 million and surrenders decreased 2.1% to $7.8 million. For the nine-month period of 2008, death benefits increased 18.6% to $45.7 million and surrenders decreased 10.6% to $24.8 million. The change in traditional life future policy benefits may not be proportional to the change in traditional premiums and benefits as reserves on term policies are generally less than reserves on whole life policies. In addition, in the first quarter of 2008, traditional life future policy benefits increased $0.8 million relating to a change in reserve estimate. Distributions to participating policyholders decreased due to reductions in our dividend crediting rates during the second quarter of 2008. Traditional life insurance benefits can fluctuate from period to period primarily as a result of changes in mortality experience.

**Underwriting, Acquisition and Insurance Expenses**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Underwriting, acquisition and insurance expenses: | | | | |
| Commission expense, net of deferrals | $ 3,280 | $ 3,455 | $ 9,849 | $ 10,507 |
| Amortization of deferred policy acquisition costs | 27,556 | 12,456 | 74,741 | 61,037 |
| Amortization of value of insurance in force acquired | 912 | 1,008 | 1,979 | 3,008 |
| Other underwriting, acquisition and insurance expenses, net of deferrals | 18,928 | 19,279 | 57,790 | 55,290 |
| Total | $ 50,676 | $ 36,198 | $ 144,359 | $ 129,842 |

Underwriting, acquisition and insurance expenses increased 40.0% for the third quarter of 2008 to $50.7 million and 11.2% for the nine months ended September 30, 2008 to $144.4 million. Amortization of deferred policy acquisition costs increased in the third quarter primarily due the impact of an increase in the volume of business in force resulting primarily from direct sales from our EquiTrust Life distribution channel and the impact of unrealized gains/losses on derivatives, partially offset by the impact of realized/unrealized gains and losses on investments. Amortization of deferred policy acquisition costs relating to our EquiTrust Life distribution channel, excluding the impact of gains and losses on investments and derivatives totaled $10.7 million in the third quarter of 2008 and $30.5 million for the nine-month period, compared to $6.2 million in the third quarter of 2007 and $17.1 million for that nine-month period.

Amortization of value of insurance in force acquired decreased $1.0 million for the nine-month periods ended September 30, 2008 primarily due to the impact of realized/unrealized gains and losses on investments as discussed in the Net income applicable to common stock section above and the impact of updating the amortization model in 2008 for the volume of business in force. The 4.5% increase in other underwriting, acquisition and insurance expenses for the nine-month period is primarily due to a $2.3 million increase in salaries and benefits and $1.3 million increase in software amortization. These items were partially offset by a loss on the sale of a fixed asset in 2007.

**Interest expense** increased 9.2% to $13.4 million for the nine months ended September 30, 2008. The increase is due to an increase in our long-term debt. The average debt outstanding increased to $317.4 million for the nine months ended September 30, 2008, compared to $289.7 million for the 2007 period due to the issuance of Senior Notes in March 2007. Interest expense for the remainder of 2008 will be impacted by $34.0 million in additional debt that was issued in September 2008 and the issuance of $100.0 million in notes as discussed in the subsequent event section that follows.

**Income taxes** expense was $4.9 million in the third quarter of 2008 and provided a benefit of $2.6 million for the nine months ended September 30, 2008. The effective tax rate was 30.6% for the third quarter of 2008 and 33.1% for the 2007 period. The effective tax rate was 161.6% for the nine months ended September 30, 2008, and 33.68% for the 2007 period. The effective tax rates differ from the federal statutory rate of 35% primarily due to the impact of tax-exempt interest and tax-exempt dividend income. The permanent differences between book and tax income increase the effective rate when there is a net loss and decrease the effective rate when there is a net gain. Permanent differences have a greater impact on the effective rates in 2008 due to realized losses on investments reducing the size of the income or loss for the period relative to the size of the permanent differences.

**Equity income net of related income taxes** totaled less than $0.1 million for the third quarter of 2008 and for the nine months ended September 30, 2008, compared to $0.5 million for the third quarter of 2007 and $1.1 million for the nine months ended September 30, 2007. Equity income includes our proportionate share of gains and losses attributable to our ownership interest in partnerships, joint ventures and certain companies where we exhibit some control but have a minority ownership interest. Given the timing of availability of financial information from our equity investees, we will consistently use information that is as much as three months in arrears for certain of these entities. Several of these entities are investment companies whose operating results are derived primarily from unrealized and realized gains and losses generated by their investment portfolios. As is normal with these types of entities, the level of these gains and losses is subject to fluctuation from period to period depending on the prevailing economic environment, changes in prices of equity securities held by the investment partnerships, timing and success of initial public offerings and other exit strategies, and the timing of the sale of investments held by the partnerships and joint ventures.

**Segment Information**

We analyze operations by reviewing financial information regarding products that are aggregated into four product segments. The product segments are: (1) Traditional Annuity Exclusive Distribution ( Exclusive Annuity ), (2) Traditional Annuity Independent Distribution ( Independent Annuity ), (3) Traditional and Universal Life Insurance and (4) Variable. We also have various support operations and corporate capital that are aggregated into a Corporate and Other segment.

We analyze our segment results based on pre-tax operating income (loss). Accordingly, income taxes are not allocated to the segments. In addition, operating results are generally reported net of any transactions between the segments. Operating income (loss) for the periods ended September 30, 2008 and 2007 represents net income excluding, as applicable, the impact of:

- realized and unrealized gains and losses on investments,
- changes in net unrealized gains and losses on derivatives, and
- the cumulative effect of changes in accounting principles.

The impact of realized and unrealized gains and losses on investments and unrealized gains and losses on derivatives also includes adjustments for taxes and that portion of amortization of deferred policy acquisition costs, deferred sales inducements, unearned revenue reserve and value of insurance in force acquired attributable to such gains or losses. Our rationale for using operating income, in addition to net income, to measure our performance is summarized in Note 6, Segment Information, to the consolidated financial statements.

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**Reconciliation of Net Income to Pre-tax Operating Income**

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| Net income | $ 11,216 | $ 16,499 | $ 1,079 | $ 74,456 |
| Net impact of operating income adjustments* | 7,456 | 7,927 | 53,789 | (3,732) |
| Income taxes on operating income | 8,964 | 12,462 | 26,352 | 35,406 |
| Pre-tax operating income | $ 27,636 | $ 36,888 | $ 81,220 | $ 106,130 |
| Pre-tax operating income (loss) by segment: | | | | |
| Traditional Annuity Exclusive Distribution | $ 5,865 | $ 6,665 | $ 20,721 | $ 24,240 |
| Traditional Annuity Independent Distribution | 10,539 | 10,779 | 27,229 | 30,413 |
| Traditional and Universal Life Insurance | 13,640 | 15,114 | 37,468 | 42,725 |
| Variable | (510) | 4,381 | 2,338 | 10,412 |
| Corporate and Other | (1,898) | (51) | (6,536) | (1,660) |
| | $ 27,636 | $ 36,888 | $ 81,220 | $ 106,130 |

* See the Net income applicable to common stock section above for additional details on operating income adjustments.

A discussion of our operating results, by segment, follows:

*Traditional Annuity Exclusive Distribution Segment*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| *Pre-tax operating income* | | | | |
| Operating revenues: | | | | |
| Interest sensitive and index product charges and other | $ 213 | $ 276 | $ 819 | $ 852 |
| Net investment income | 36,634 | 35,664 | 107,842 | 109,406 |
| Derivative income (loss) | (1,081) | 1,056 | (2,196) | 2,127 |

| | | | | |
|---|---|---|---|---|
| | 35,766 | 36,996 | 106,465 | 112,385 |
| Benefits and expenses | 29,901 | 30,331 | 85,744 | 88,145 |
| Pre-tax operating income | $ 5,865 | $ 6,665 | $ 20,721 | $ 24,240 |
| *Other data* | | | | |
| Annuity premiums collected, direct | $ 73,667 | $ 27,848 | $ 183,440 | $ 99,927 |
| Policy liabilities and accruals, end of period | | | 2,330,364 | 2,219,365 |
| Individual deferred annuity spread: | | | | |
| Weighted average yield on cash and invested assets | | | 5.97% | 6.47% |
| Weighted average interest crediting rate/index costs | | | 4.09% | 4.37% |
| Spread | | | 1.88% | 2.10% |
| Individual traditional annuity withdrawal rate | | | 3.2% | 5.6% |

Pre-tax operating income for the Exclusive Annuity segment decreased 12.0% in the third quarter of 2008 to $5.9 million and 14.5% in the nine months ended September 30, 2008 to $20.7 million primarily due to less income on our interest rate swaps, partially offset by reducing crediting rates during 2007 and 2008. In addition, net investment income for the nine-month period includes $0.5 million in 2008 compared to $3.0 million in 2007 in fee income from bond calls, tender offers and mortgage loan prepayments and the change in net discount accretion on mortgage and asset-backed securities. The weighted average yield on cash and invested assets was negatively impacted for the nine-month period by reinvestment rates being lower than the yield on investments maturing or being paid down.

The weighted average yield also includes the impact of our interest rate swap program. Income from these swaps was netted against interest credited through March 31, 2007, but included in derivative income (loss) starting in the second quarter of 2007. Operating income (loss) from these swaps for the nine-months ended September 30, 2008 totaled ($2.0) million in 2008 compared to $3.1 million in the 2007 period. Also contributing to the decrease in spreads is a shift of business to a new money product that has a short guaranteed interest period and lower spread target. Effective March 1, 2008, we decreased the interest crediting rate on a significant portion of our annuity portfolio 30 basis points in reaction to the decline in portfolio yield. However, certain other products have reached the minimum guarantee crediting rates, which also contributes to the decrease in spreads.

Premiums collected increased 83.6% in the nine months ended September 30, 2008 period to $183.4 million. The amount of traditional annuity premiums collected is highly dependent upon the relationship between the current crediting rates on our products and the crediting rates available on competing products, including bank-offered certificates of deposit. We believe the increase in annuity premiums in 2008 is due to lower short-term market interest rates making certificates of deposit and other short-term investments less attractive in relation to these traditional annuities. We also believe this favorable competitive environment resulted in fewer surrenders, therefore decreasing the withdrawal rate.

*Traditional Annuity Independent Distribution Segment*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| *Pre-tax operating income* | | | | |
| Operating revenues: | | | | |
| Interest sensitive and index product charges | $ 8,754 | $ 5,133 | $ 21,684 | $ 14,067 |
| Net investment income | 103,273 | 78,337 | 288,644 | 222,901 |
| Derivative income (loss) | (23,529) | 27,201 | (62,494) | 39,252 |
| | 88,498 | 110,671 | 247,834 | 276,220 |
| Benefits and expenses | 77,959 | 99,892 | 220,605 | 245,807 |
| Pre-tax operating income | $ 10,539 | $ 10,779 | $ 27,229 | $ 30,413 |
| *Other data* | | | | |
| Annuity premiums collected, independent channel | | | | |
| Fixed rate annuities | $ 348,886 | $ 275,866 | $ 848,023 | $ 407,083 |
| Index annuities | 147,229 | 213,254 | 512,985 | 657,449 |
| Annuity premiums collected, assumed | 397 | 663 | 2,171 | 2,729 |
| Policy liabilities and accruals, end of period. | | | 7,729,036 | 6,380,691 |
| Individual deferred annuity spread: | | | | |
| Weighted average yield on cash and invested assets | | | 5.88 % | 5.81% |
| Weighted average interest crediting rate/index cost | | | 3.77 % | 3.44% |

| | | |
|---|---|---|
| Spread | 2.11 | % 2.37% |
| Individual traditional annuity withdrawal rate. | 6.7 | % 5.2% |

Pre-tax operating income for the Independent Annuity segment decreased 2.2% in the third quarter of 2008 to $10.5 million and 10.5% to $27.2 million in the nine months ended September 30, 2008. The decreases are primarily attributable to a reduction in spread on assumed business, partially offset by increased volume of business in force. In addition, the nine month period was impacted by unlocking and income (loss) from bond calls, tender offers, mortgage loan prepayments and the change of net discount accretion on mortgage and asset-backed securities totaling ($0.8) million for the nine-month period in 2008 and $0.4 million in the 2007 period. The volume of business in force increased primarily due to the growth of our EquiTrust Life distribution channel and lower short-term market interest rates making certificates of deposits and other short-term investments less attractive in relation to our traditional annuity products. The number of individual licensed independent agents increased to 23,651 at

September 30, 2008, from 18,902 at September 30, 2007. The average aggregate account value for annuity contracts in force in the Independent Annuity segment for the nine-month period totaled $7,173.3 million for 2008 and $5,745.9 million for 2007.

The increases in interest sensitive and index product charges in the 2008 periods are due to an increase in surrender charges. Surrender charges increased due to increases in surrenders relating to growth in the volume and aging of business in force. The increases in net investment income are attributable to growth in invested assets, primarily due to net premium inflows and an increase in average yield earned, partially offset by the reduction in income from fee income as noted above. The change in derivative income (loss) is due to a reduction in proceeds from call option settlements and an increase in the cost of money for options as discussed under Derivative income (loss) above. Call option settlements in 2008 decreased $46.4 million for the third quarter and $81.6 million for the nine-month period due to depreciation in the underlying indices. The cost of money for call options increased $4.4 million in the third quarter of 2008 and $20.2 million for the nine-month period, primarily due to an increase in the business in force and an increase in the cost of options purchased.

Benefits and expenses for the 2008 periods decreased due a reduction in index credits, partially offset by the impact of growth in the volume of business in force. Index credits decreased $45.3 million in the third quarter of 2008 and $81.1 million in the nine months ended September 30, 2008 primarily due to the decline in the underlying indices. The impact of unlocking adjustments increased amortization of deferred policy acquisition costs and deferred sales inducements $0.8 million for the nine-month period of 2008, compared to a decrease of $1.9 million for the 2007 period.

The weighted average yield on cash and invested assets increased primarily due to the impact of an increase in market investment rates, partially offset by the reduction in fee income described above. The weighted average crediting rate increased for the 2008 period due to the sale of products with higher crediting rates and increases in option costs. The decrease in spread is primarily due to a shift in business to our multi-year guaranteed annuity which has a lower spread target than other products in our portfolio. The increase in the withdrawal rate is believed to be attributable to the aging of the business in force.

*Traditional and Universal Life Insurance Segment*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| *Pre-tax operating income* | | | | |
| Operating revenues: | | | | |
| Interest sensitive product charges | $ 12,229 | $ 12,296 | $ 35,431 | $ 34,723 |
| Traditional life insurance premiums and other income | 36,263 | 34,751 | 111,172 | 108,263 |
| Net investment income | 36,060 | 35,326 | 107,529 | 108,482 |
| | 84,552 | 82,373 | 254,132 | 251,468 |
| Benefits and expenses | 70,912 | 67,259 | 216,664 | 208,743 |
| Pre-tax operating income | $ 13,640 | $ 15,114 | $ 37,468 | $ 42,725 |
| *Other data* | | | | |
| Life premiums collected, net of reinsurance | $ 49,779 | $ 47,926 | $ 151,644 | $ 147,732 |
| Policy liabilities and accruals, end of period | | | 2,213,136 | 2,152,642 |

| | | |
|---|---|---|
| Direct life insurance in force, end of period (in millions) | 34,994 | 32,528 |
| Interest sensitive life insurance spread: | | |
| Weighted average yield on cash and invested assets | 6.49% | 6.68% |
| Weighted average interest crediting rate | 4.44% | 4.37% |
| Spread | 2.05% | 2.31% |

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Pre-tax operating income for the Traditional and Universal Life Insurance segment decreased 9.8% in the third quarter of 2008 to $13.6 million and 12.3% in the nine-month period of 2008 to $37.5 million. The decreases for the 2008 periods are primarily attributable to higher death benefits and a reduction in prepayment fee income, partially offset by higher traditional life insurance premiums and a decrease amortization of deferred policy acquisition costs.

Net investment income was negatively impacted by reinvestment rates being lower than the yield on investments maturing or being paid down. In addition, net investment income includes fee income from bond calls, tender offers and mortgage loan prepayments and the change in net discount accretion on mortgage and asset-backed securities totaling $1.6 million for the nine months ended September 30, 2008 and $2.5 million for the 2007 period.

Death benefits in excess of reserves released for the nine-months of 2008 increased 16.0% to $69.0 million, due to a record number of death claims reported in the first quarter and higher average face amounts on paid claims.

Amortization of deferred policy acquisition costs decreased $1.7 million for the three months in 2008 and $1.5 million for the nine-month period primarily due to lower profits in the 2008 periods and the impact of unlocking.

Premiums collected increased 3.9% to $49.8 million for the third quarter and 2.6% to $151.6 million for the nine months ended September 30, 2008 primarily due to increased sales of universal life and term life business by our exclusive Farm Bureau agency force.

The changes in the weighted average yield on cash and invested assets are attributable to the items affecting net investment income noted above. The increase in weighted average interest crediting rate is primarily due to an increase in credited rates on assumed business.

*Variable Segment*

| | **Three months ended September 30,** | | **Nine months ended September 30,** | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **(Dollars in thousands)** | | | |
| *Pre-tax operating income (loss)* | | | | |
| Operating revenues: | | | | |
| Interest sensitive product charges | $ 11,735 | $ 11,424 | $ 36,236 | $ 34,413 |
| Net investment income | 3,565 | 3,330 | 10,544 | 10,306 |
| Other income | 486 | 573 | 1,502 | 2,731 |
| | 15,786 | 15,327 | 48,282 | 47,450 |
| Benefits and expenses | 16,296 | 10,946 | 45,944 | 37,038 |
| Pre-tax operating income (loss) | $ (510) | $ 4,381 | $ 2,338 | $ 10,412 |
| *Other data* | | | | |
| Variable premiums collected, net of reinsurance | $ 30,943 | $ 41,109 | $ 111,737 | $ 133,599 |
| Policy liabilities and accruals, end of period. | | | 249,338 | 228,520 |
| Separate account assets, end of period | | | 718,501 | 865,557 |
| Direct life insurance in force, end of period (in millions) | | | 7,756 | 7,779 |

Pre-tax operating income (loss) for the Variable segment decreased 111.6% to ($0.5) million for the third quarter and 77.5% to $2.3 million for the nine-month period primarily due to an increase in death benefits and amortization of deferred policy acquisition costs, partially offset by an increase in interest sensitive product charges. In addition, for the nine-month period, other income decreased $1.2 million primarily due to the recognition of non-recurring contingent administrative fee income from alliance partners in 2007.

Cost of insurance charges, which is included in interest sensitive product charges, increased 5.4% to $22.1 million in the nine months in 2008 primarily due to the impact of the aging of business in force. Death benefits increased 55.8% to $12.5 million in the nine-months ended September 30, 2008 primarily due to an increase in the number and average size of claims reported. Amortization of deferred policy acquisition costs increased $3.6 million for the nine-months ended September 30, 2008 due to the impact of negative separate account performance in 2008 and updating the amortization model for the current volume of business in force, which decreased amortization in the

2007 period. These increases in amortization were partially offset by the impact of unlocking and lower profits in 2008.

*Corporate and Other Segment*

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (Dollars in thousands) | | | |
| *Pre-tax operating loss:* | | | | |
| Operating revenues: | | | | |
| Net investment income | $ 2,356 | $ 4,359 | $ 7,996 | $ 10,465 |
| Other income | 6,055 | 5,940 | 17,712 | 17,324 |
| | 8,411 | 10,299 | 25,708 | 27,789 |
| Interest expense | 4,464 | 4,437 | 13,363 | 12,236 |
| Benefits and other expenses | 5,992 | 6,743 | 18,979 | 18,906 |
| | (2,045) | (881) | (6,634) | (3,353) |
| Minority interest | 15 | 2 | 31 | (3) |
| Equity income, before tax | 132 | 828 | 67 | 1,696 |
| Pre-tax operating loss | $ (1,898) | $ (51) | $ (6,536) | $ (1,660) |

Pre-tax operating loss increased $1.8 million for the third quarter of 2008 and $4.9 million for the nine-month period. Net investment income decreased 46.0% for the third quarter to $2.4 million and 23.6% for the nine-month period to $8.0 million due to a decrease in invested assets that were transferred to meet the capital needs of other operating segments and a decrease in short-term interest rates. In addition, for the nine-month period, interest expense increased 9.2% to $13.4 million due to an increase in our average debt outstanding resulting from the Senior Notes offering in the second quarter of 2007. The changes in other income and expense are primarily due to operating results of our non-insurance subsidiaries. The changes in equity income are discussed in the Equity income section above.

**Subsequent Event-Issuance of Debt**

As discussed under Liabilities and in Note 3 to consolidated financial statements, we increased the borrowings on our outstanding line of credit $14.0 million in the third quarter of 2008. We also issued a $20.0 million note payable to our affiliate, Farm Bureau Mutual. In November 2008 we issued 9.25% notes payable to affiliates totaling $100.0 million that mature in November 2011. One note for $75.0 million was issued to Farm Bureau Mutual and a $25.0 million note was issued to a nominee of the Iowa Farm Bureau Federation, our majority shareholder. A portion of the proceeds from these notes has been used to repay the $20.0 million note payable that was borrowed from Farm Bureau Mutual.

**Financial Condition**

*Investments*

Our total investment portfolio increased 1.7% to $11,257.8 million at September 30, 2008 compared to $11,067.1 million at December 31, 2007. This increase is primarily the result of net cash received from interest sensitive and index products, partially offset by the impact of an increase in net unrealized depreciation on fixed maturity securities classified as available for sale and a decrease in the value of our derivatives. Net unrealized depreciation of fixed maturity securities increased $829.0 million during the nine months of 2008 to a net unrealized loss of $969.4 million at September 30, 2008, principally due to the impact of a general widening of credit spreads (difference between bond yields and risk-free interest rates), partially offset by a decrease in risk-free interest rates and

write downs for other-than-temporary impairments recorded during the first nine months of 2008. We believe credit spreads widened primarily due to the continued deterioration of the U.S. housing market, tightened lending conditions and the decreased liquidity in the market. In addition, there is an increased likelihood of a U.S. recession which has caused significant market strain. Early steps taken by the government to stabilize the financial system have proven ineffective and pressures on the financial system continued to build throughout the third quarter. Details regarding the investment impairments are discussed in the Realized/unrealized gain (losses) on

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investments section under Results of Operations. Additional details regarding securities in an unrealized loss position at September 30, 2008 are included in the discussion that follows.

Internal investment professionals manage our investment portfolio. The investment strategy is designed to achieve superior risk-adjusted returns consistent with the investment philosophy of maintaining a largely investment grade portfolio and providing adequate liquidity for obligations to policyholders and other requirements.

**Investment Portfolio Summary**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Carrying Value | Percent | Carrying Value | Percent |
| | (Dollars in thousands) | | | |
| Fixed maturities available for sale: | | | | |
| Public | $ 7,945,634 | 70.6% | $ 7,866,990 | 71.1% |
| 144A private placement | 1,288,123 | 11.4 | 1,318,181 | 11.9 |
| Private placement | 403,390 | 3.6 | 337,421 | 3.0 |
| Total fixed maturities available for sale | 9,637,147 | 85.6 | 9,522,592 | 86.0 |
| Equity securities | 11,263 | 0.1 | 23,633 | 0.2 |
| Mortgage loans on real estate | 1,316,905 | 11.7 | 1,221,573 | 11.0 |
| Derivative instruments | 17,342 | 0.2 | 43,918 | 0.4 |
| Investment real estate | 2,559 | | 2,559 | |
| Policy loans | 181,187 | 1.6 | 179,490 | 1.6 |
| Other long-term investments | 1,300 | | 1,300 | |
| Short-term investments | 90,094 | 0.8 | 72,005 | 0.8 |
| Total investments | $ 11,257,797 | 100.0% | $ 11,067,070 | 100.0% |

As of September 30, 2008, 96.3% (based on carrying value) of the available-for-sale fixed maturity securities were investment grade debt securities, defined as being in the highest two National Association of Insurance Commissioners (NAIC) designations. Non-investment grade debt securities generally provide higher yields and involve greater risks than investment grade debt securities because their issuers typically are more highly leveraged and more vulnerable to adverse economic conditions than investment grade issuers. In addition, the trading market for these securities is usually more limited than for investment grade debt securities. We regularly review the percentage of our portfolio that is invested in non-investment grade debt securities (NAIC designations 3 through 6). As of September 30, 2008, the investment in non-investment grade debt was 3.7% of available-for-sale fixed maturity securities. At that time, no single non-investment grade holding exceeded 0.2% of total investments.

**Credit Quality, by NAIC Designation and Standard & Poor s (S&P) Rating Equivalents**

| NAIC | | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|---|
| Designation | Equivalent S&P Ratings (1) | Carrying Value | Percent | Carrying Value | Percent |
| | | (Dollars in thousands) | | | |
| 1 | AAA, AA, A | $ 5,942,917 | 61.7% | $ 6,056,231 | 63.6% |
| 2 | BBB | 3,335,108 | 34.6 | 3,100,795 | 32.6 |
| | Total investment grade | 9,278,025 | 96.3 | 9,157,026 | 96.2 |

| | | | | | |
|---|---|---|---|---|---|
| 3 | BB | 248,645 | 2.6 | 264,070 | 2.7 |
| 4 | B | 56,246 | 0.6 | 64,700 | 0.7 |
| 5 | CCC, CC, C | 52,543 | 0.5 | 36,314 | 0.4 |
| 6 | In or near default | 1,688 | | 482 | |
| | Total below investment grade | 359,122 | 3.7 | 365,566 | 3.8 |
| | Total fixed maturities available for sale | $ 9,637,147 | 100.0% | $ 9,522,592 | 100.0% |

(1) The Securities Valuation Office of the NAIC generally rates private placement securities. Comparisons between NAIC designations and S&P ratings are published by the NAIC. S&P has not rated some of the fixed maturity securities in our portfolio.

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FBL Financial Group, Inc. September 30, 2008

**Gross Unrealized Gains and Gross Unrealized Losses by Internal Industry Classification**

| | September 30, 2008 | | | | |
|---|---|---|---|---|---|
| | Total Carrying Value | Carrying Value of Securities with Gross Unrealized Gains | Gross Unrealized Gains | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| | (Dollars in thousands) | | | | |
| Corporate securities: | | | | | |
| Financial services | $ 1,611,865 | $ 179,405 | $ 8,263 | $ 1,432,460 | $ (327,862) |
| Manufacturing | 1,262,560 | 242,656 | 6,143 | 1,019,904 | (110,344) |
| Mining | 507,904 | 67,368 | 2,643 | 440,536 | (38,482) |
| Retail trade | 113,262 | 31,108 | 1,323 | 82,154 | (8,883) |
| Services | 195,863 | 27,302 | 617 | 168,561 | (13,992) |
| Transportation | 169,160 | 55,911 | 3,862 | 113,249 | (17,534) |
| Utilities | 1,311,165 | 258,931 | 11,666 | 1,052,234 | (98,294) |
| Other | 120,982 | 20,087 | 246 | 100,895 | (8,172) |
| Total corporate securities | 5,292,761 | 882,768 | 34,763 | 4,409,993 | (623,563) |
| Mortgage and asset-backed securities | 2,689,531 | 654,872 | 13,072 | 2,034,659 | (334,711) |
| United States Government and agencies. | 301,279 | 162,808 | 5,799 | 138,471 | (4,094) |
| State, municipal and other governments | 1,353,576 | 416,133 | 9,864 | 937,443 | (70,547) |
| Total | $ 9,637,147 | $ 2,116,581 | $ 63,498 | $ 7,520,566 | $ (1,032,915) |

| | December 31, 2007 | | | | |
|---|---|---|---|---|---|
| | Total Carrying Value | Carrying Value of Securities with Gross Unrealized Gains | Gross Unrealized Gains | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| | (Dollars in thousands) | | | | |
| Corporate securities: | | | | | |
| Financial services | $ 1,826,956 | $ 720,244 | $ 25,480 | $ 1,106,712 | $ (91,717) |
| Manufacturing | 1,089,836 | 582,073 | 23,726 | 507,763 | (31,703) |
| Mining | 434,459 | 265,921 | 10,149 | 168,538 | (7,738) |
| Retail trade | 115,178 | 71,302 | 4,391 | 43,876 | (3,336) |

| | | | | | |
|---|---|---|---|---|---|
| Services | 171,913 | 108,239 | 4,818 | 63,674 | (3,550) |
| Transportation | 187,513 | 93,600 | 6,266 | 93,913 | (5,460) |
| Utilities | 1,115,319 | 640,827 | 26,962 | 474,492 | (19,599) |
| Other | 88,206 | 50,289 | 1,265 | 37,917 | (1,711) |
| Total corporate securities | 5,029,380 | 2,532,495 | 103,057 | 2,496,885 | (164,814) |
| Mortgage and asset-backed securities | 2,685,973 | 955,176 | 16,052 | 1,730,797 | (102,631) |
| United States Government and agencies. | 554,340 | 405,936 | 8,454 | 148,404 | (4,524) |
| State, municipal and other governments | 1,252,899 | 723,326 | 19,118 | 529,573 | (15,106) |
| Total | $ 9,522,592 | $ 4,616,933 | $ 146,681 | $ 4,905,659 | $ (287,075) |

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FBL Financial Group, Inc. September 30, 2008

**Credit Quality of the Available-For-Sale Fixed Maturity Securities with Unrealized Losses**

| | | September 30, 2008 | | | |
|---|---|---|---|---|---|
| NAIC Designation | Equivalent S&P Ratings | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total | Gross Unrealized Losses | Percent of Total |
| | | (Dollars in thousands) | | | |
| 1 | AAA, AA, A | $ 4,439,395 | 59.0% | $ (631,569) | 61.2% |
| 2 | BBB | 2,801,610 | 37.3 | (327,788) | 31.7 |
| | Total investment grade | 7,241,005 | 96.3 | (959,357) | 92.9 |
| 3 | BB | 196,779 | 2.6 | (33,821) | 3.2 |
| 4 | B | 49,335 | 0.7 | (18,208) | 1.8 |
| 5 | CCC, CC, C | 33,447 | 0.4 | (21,529) | 2.1 |
| 6 | In or near default | | | | |
| | Total below investment grade | 279,561 | 3.7 | (73,558) | 7.1 |
| | Total | $ 7,520,566 | 100.0% | $ (1,032,915) | 100.0% |

| | | December 31, 2007 | | | |
|---|---|---|---|---|---|
| NAIC Designation | Equivalent S&P Ratings | Carrying Value of Securities with Gross Unrealized Losses | Percent of Total | Gross Unrealized Losses | Percent of Total |
| | | (Dollars in thousands) | | | |
| 1 | AAA, AA, A | $ 3,113,384 | 63.5% | $ (172,016) | 59.9% |
| 2 | BBB | 1,605,652 | 32.7 | (89,572) | 31.2 |
| | Total investment grade | 4,719,036 | 96.2 | (261,588) | 91.1 |
| 3 | BB | 130,043 | 2.7 | (13,533) | 4.7 |
| 4 | B | 26,633 | 0.5 | (5,335) | 1.9 |
| 5 | CCC, CC, C | 29,947 | 0.6 | (6,619) | 2.3 |
| 6 | In or near default | | | | |
| | Total below investment grade | 186,623 | 3.8 | (25,487) | 8.9 |

| Total | $ 4,905,659 | 100.0% | $ (287,075) | 100.0% |
|---|---|---|---|---|

**Available-For-Sale Fixed Maturity Securities with Unrealized Losses by Length of Time**

| | September 30, 2008 | | | |
|---|---|---|---|---|
| | Number of Issuers | Amortized Cost | Gross Unrealized Losses | Carrying Value |
| | (Dollars in thousands) | | | |
| Three months or less | 236 | $ 1,374,331 | $ (54,096) | $ 1,320,235 |
| Greater than three months to six months | 294 | 1,726,644 | (89,350) | 1,637,294 |
| Greater than six months to nine months | 153 | 1,116,596 | (124,422) | 992,174 |
| Greater than nine months to twelve months | 52 | 430,103 | (76,274) | 353,829 |
| Greater than twelve months | 438 | 3,905,807 | (688,773) | 3,217,034 |
| Total | | $ 8,553,481 | $ (1,032,915) | $ 7,520,566 |

| | December 31, 2007 | | | |
|---|---|---|---|---|
| | Number of Issuers | Amortized Cost | Gross Unrealized Losses | Carrying Value |
| | (Dollars in thousands) | | | |
| Three months or less | 82 | $ 571,263 | $ (14,014) | $ 557,249 |
| Greater than three months to six months | 33 | 207,506 | (12,992) | 194,514 |
| Greater than six months to nine months | 143 | 1,012,268 | (62,549) | 949,719 |
| Greater than nine months to twelve months | 58 | 300,857 | (14,218) | 286,639 |
| Greater than twelve months | 375 | 3,100,840 | (183,302) | 2,917,538 |
| Total | | $ 5,192,734 | $ (287,075) | $ 4,905,659 |

FBL Financial Group, Inc. September 30, 2008

**Available-For-Sale Fixed Maturity Securities with Unrealized Losses by Maturity Date**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses | Carrying Value of Securities with Gross Unrealized Losses | Gross Unrealized Losses |
| | (Dollars in thousands) | | | |
| Due in one year or less | $ 43,773 | $ (1,133) | $ 4,697 | $ (2) |
| Due after one year through five years | 632,657 | (61,189) | 206,405 | (10,436) |
| Due after five years through ten years | 2,379,883 | (276,338) | 1,205,663 | (66,342) |
| Due after ten years | 2,401,450 | (355,688) | 1,747,686 | (106,075) |
| | 5,457,763 | (694,348) | 3,164,451 | (182,855) |
| Mortgage and asset-backed securities | 2,034,659 | (334,711) | 1,730,797 | (102,631) |
| Redeemable preferred stock | 28,144 | (3,856) | 10,411 | (1,589) |
| Total | $ 7,520,566 | $ (1,032,915) | $ 4,905,659 | $ (287,075) |

Included in the above table are 1,451 securities from 901 issuers at September 30, 2008 and 863 securities from 538 issuers at December 31, 2007. The following summarizes the details describing the more significant unrealized losses by investment category as of September 30, 2008.

*Corporate securities:* The unrealized losses on corporate securities totaled $623.6 million, or 60.4% of our total unrealized losses. The largest losses were in the financial services sector ($1,432.5 million carrying value and $327.9 million unrealized loss). The largest unrealized losses in the financial services sector were in the depository institutions sector ($380.9 million carrying value and $125.8 million unrealized loss) and the holding and other investment offices sector ($540.6 million carrying value and $117.1 million unrealized loss). The unrealized losses in the depository institutions sector are primarily due to a decrease in market liquidity and concerns regarding the underlying credit quality of subprime and other assets held by domestic and foreign banks. The majority of unrealized losses in the holding and other investment offices sector are commercial real estate investment trust bonds and synthetic collateralized debt obligations. The unrealized losses in the real estate investment trust bonds are primarily due to an increase in credit spreads due to the sector s exposure to commercial real estate and market concerns about the ability to access the capital markets. The unrealized losses in the synthetic collateralized debt obligations are due to actual defaults in the collateral, general spread widening and market concerns of increased defaults in the future. The collateralized debt obligations could withstand more defaults without incurring any principal defaults on our issues.

The manufacturing sector ($1,019.9 million carrying value and $110.3 million unrealized loss) had a concentration of losses in the paper and allied products sector ($87.9 million carrying value and $26.7 million unrealized loss), the transportation equipment sector ($88.0 million carrying value and $12.8 million unrealized loss) and the food and related products sector ($148.0 million carrying value and $10.9 million unrealized loss). The unrealized losses in these three sectors are due to spread widening that is the result of weaker operating results. The unrealized losses in the remaining corporate sectors, including utilities, are also primarily attributable to spread widening due to a decrease in market liquidity, an increase in market volatility and concerns about the general health of the economy. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not

consider these investments to be other-than-temporarily impaired at September 30, 2008.
*Mortgage and asset-backed securities:* The unrealized losses on mortgage and asset-backed securities totaled $334.7 million, or 32.4% of our total unrealized losses, and were caused primarily by concerns regarding mortgage defaults on subprime and other risky mortgages. There were also concerns regarding potential downgrades or defaults of monoline bond insurers providing credit protection for underlying securities. These concerns resulted in spread widening in the sector as liquidity decreased in the market. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on mortgages and other assets backing the securities. Details regarding the composition of our mortgage and asset-backed securities, including our limited exposure to subprime loans, are provided later in this section. Because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2008.


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*United States Government and agencies:* The unrealized losses on U.S. Governments and agencies totaled $4.1 million, or 0.4% of our total unrealized losses, and were caused by spread widening. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on direct guarantees from the U.S. Government and by agencies of the U.S. Government. Because the decline in market value is attributable to increases in general market spreads and market interest rates and not credit quality, and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2008.

*State municipal and other governments:* The unrealized losses on state, municipal and other governments totaled $70.5 million, or 6.8% of our total unrealized losses, and were primarily caused by general spread widening and concerns regarding the stability of the credit quality of the monoline bond insurers. We purchased most of these investments at a discount to their face amount and the contractual cash flows of these investments are based on the taxing authority of a municipality or the revenues of a municipal project. Additional details regarding the composition of our municipal bond portfolio are provided later in this section. Because the decline in market value is primarily attributable to increased spreads and concerns regarding the stability of the monoline bond insurers, and because we have the ability and intent to hold these investments until a recovery of fair value, which may be maturity, we do not consider these investments to be other-than-temporarily impaired at September 30, 2008.

Excluding mortgage and asset-backed securities, no securities from the same issuer had an aggregate unrealized loss in excess of $15.7 million at September 30, 2008. The $15.7 million unrealized loss is from one AAA rated security, which is a synthetic collateralized debt obligation backed by investment grade credit default swaps. This security has been impacted by the loss of market liquidity and spread widening. We have the ability and intent to hold this security until a recovery of fair value, which may be maturity and therefore, do not consider it to be other-than-temporarily impaired at September 30, 2008. With respect to mortgage and asset-backed securities not backed by the United States Government, no securities from the same issuer had an aggregate unrealized loss in excess of $62.4 million at September 30, 2008. The $62.4 million unrealized loss from one issuer relates to 21 different securities that are backed by different pools of residential mortgage loans. All 21 securities are rated investment grade and the largest unrealized loss on any one security totaled $5.6 million at September 30, 2008.

Excluding mortgage and asset-backed securities and one collateralized debt obligation that was impaired during 2008 (see discussion that follows), our largest exposure to securities from any one issuer had an aggregate unrealized loss of $4.5 million at December 31, 2007. With respect to mortgage and asset-backed securities not backed by the United States Government, no securities from the same issuer had an aggregate unrealized loss in excess of $17.9 million at December 31, 2007. The $17.9 million unrealized loss from one issuer relates to 14 different securities that are backed by different pools of residential mortgage loans. All 14 securities are rated investment grade and the largest unrealized loss on any one security totaled $5.9 million at December 31, 2007.

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**Available-For-Sale Fixed Maturity Securities by Contractual Maturity**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| | (Dollars in thousands) | | | |
| Due in one year or less | $ 101,856 | $ 101,581 | $ 63,476 | $ 63,980 |
| Due after one year through five years | 1,107,528 | 1,057,979 | 881,754 | 895,729 |
| Due after five years through ten years | 2,992,361 | 2,728,701 | 2,441,018 | 2,411,240 |
| Due after ten years | 3,348,000 | 3,013,401 | 3,470,968 | 3,432,672 |
| | 7,549,745 | 6,901,662 | 6,857,216 | 6,803,621 |
| Mortgage and asset-backed securities | 3,011,170 | 2,689,531 | 2,772,552 | 2,685,973 |
| Redeemable preferred stocks | 45,649 | 45,954 | 33,218 | 32,998 |
| Total | $ 10,606,564 | $ 9,637,147 | $ 9,662,986 | $ 9,522,592 |

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.

**Mortgage and other asset-backed securities** comprised 27.9% at September 30, 2008 and 28.2% at December 31, 2007 of our total available-for-sale fixed maturity securities. These securities are purchased when we believe these types of investments provide superior risk-adjusted returns compared to returns of more conventional investments such as corporate bonds and mortgage loans. These securities are diversified as to collateral types, cash flow characteristics and maturity.

The repayment pattern on mortgage and other asset-backed securities is more variable than that of more traditional fixed maturity securities because the repayment terms are tied to underlying debt obligations that are subject to prepayments. The prepayment speeds (e.g., the rate of individuals refinancing their home mortgages) can vary based on a number of economic factors that cannot be predicted with certainty. These factors include the prevailing interest rate environment and general status of the economy.

At each balance sheet date, we review and update our expectation of future prepayment speeds and the book value of the mortgage and other asset-backed securities purchased at a premium or discount is reset, if needed, to result in a constant effective yield over the life of the security. This effective yield is computed using historical principal payments and expected future principal payment patterns. Any adjustments to book value to derive the constant effective yield, which may include the reversal of premium or discount amounts previously amortized or accrued, are recorded in the current period as a component of net investment income. Accordingly, deviations in actual prepayment speeds from that originally expected or changes in expected prepayment speeds can cause a change in the yield earned on mortgage and asset-backed securities purchased at a premium or discount and may result in adjustments that have a material positive or negative impact on quarterly reported results. Increases in prepayment speeds, which typically occur in a decreasing interest rate environment, generally increase the rate at which discount is accrued and premium is amortized into income. Decreases in prepayment speeds, which typically occur in an increasing interest rate environment, generally slow down the rate these amounts are recorded into income.

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**Mortgage and Asset-Backed Securities by Type at September 30, 2008**

| | Amortized Cost | Par Value | Carrying Value | Percent of Fixed Maturities |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Residential mortgage-backed securities: | | | | |
| Sequential | $ 1,242,280 | $ 1,270,557 | $ 1,083,584 | 11.3% |
| Pass-through | 224,281 | 224,690 | 224,291 | 2.3 |
| Planned and targeted amortization class | 501,033 | 506,618 | 461,133 | 4.8 |
| Other | 40,198 | 40,296 | 33,058 | 0.3 |
| Total residential mortgage-backed securities | 2,007,792 | 2,042,161 | 1,802,066 | 18.7 |
| Commercial mortgage-backed securities | 802,795 | 820,835 | 729,226 | 7.6 |
| Other asset-backed securities | 200,583 | 267,132 | 158,239 | 1.6 |
| Total mortgage and asset-backed securities | $ 3,011,170 | $ 3,130,128 | $ 2,689,531 | 27.9% |

**Mortgage and Asset-Backed Securities by Type at December 31, 2007**

| | Amortized Cost | Par Value | Carrying Value | Percent of Fixed Maturities |
|---|---|---|---|---|
| | | (Dollars in thousands) | | |
| Residential mortgage-backed securities: | | | | |
| Sequential | $ 1,186,016 | $ 1,211,070 | $ 1,153,555 | 12.1% |
| Pass-through | 199,854 | 200,024 | 200,900 | 2.1 |
| Planned and targeted amortization class. | 479,194 | 484,620 | 473,094 | 5.0 |
| Other | 40,704 | 40,798 | 36,521 | 0.4 |
| Total residential mortgage-backed securities | 1,905,768 | 1,936,512 | 1,864,070 | 19.6 |
| Commercial mortgage-backed securities | 578,510 | 578,416 | 570,057 | 6.0 |
| Other asset-backed securities | 288,274 | 289,173 | 251,846 | 2.6 |
| Total mortgage and asset-backed securities | $ 2,772,552 | $ 2,804,101 | $ 2,685,973 | 28.2% |

The residential mortgage-backed portfolio includes pass-through and collateralized mortgage obligation (CMO) securities. With a pass-through security, we receive a pro rata share of principal payments as payments are made on the underlying mortgage loans. CMOs consist of pools of mortgages divided into sections or tranches which provide sequential retirement of the bonds. We invest in sequential tranches which provide cash flow stability in that principal payments do not occur until the previous tranches are paid off. In addition, to provide call protection and more stable average lives, we invest in CMOs such as planned amortization class (PAC) and targeted amortization class (TAC) securities. CMOs of these types provide more predictable cash flows within a range of prepayment speeds by shifting the prepayment risks to support tranches. We generally do not purchase certain types of CMOs that we believe would subject the investment portfolio to greater than average risk. These include, but are not limited to,

principal only, floater, inverse floater, PAC II and support tranches.
The commercial and other asset-backed securities are primarily sequential securities. Commercial mortgage-backed securities typically have cash flows that are less sensitive to interest rate changes than residential securities of similar types due principally to prepayment restrictions on many of the underlying commercial mortgage loans. The other asset-backed securities, whose collateral is primarily second lien, fixed rate home-equity loans, are also less sensitive to interest rate changes due to the borrowers typically having less ability to refinance as compared to homeowners with a first lien mortgage only.
The mortgage and asset-backed portfolios include securities with exposure to the Alt-A and subprime home equity loan sectors. Securities with Alt-A and subprime exposure are backed by loans to borrowers with credit scores below those of prime grade borrowers. Prior to 2008, we based our definition of Prime, Alt-A and subprime securities primarily on credit scores, whereby Alt-A securities included borrowers with credit scores ranging from 725 to 641 and subprime securities included borrowers with credit scores of 640 or less. During 2008, we refined our definitions to be more aligned with others in the industry and we now consider owner occupancy, the level of documentation, and quality of collateral, in addition to credit scores, for determining the appropriate classification of the securities in the portfolio. We believe the revised classifications are more appropriate as a security s performance is highly dependent on the quality of the borrower. This refinement resulted in the reclassification

from Alt-A to prime of securities from the 2003 origination year that had a market value of $167.4 million at December 31, 2007.

Our direct exposure to the Alt-A home equity and subprime first-lien loan sectors is limited to investments in structured securities collateralized by senior tranches of residential mortgage loans with this exposure. We do not own any direct investments in subprime lenders or adjustable rate mortgages.

**Mortgage and Asset-Backed Securities by Collateral Type**

| | September 30, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Percent of Fixed Maturities | Amortized Cost | Carrying Value | Percent of Fixed Maturities |
| | (Dollars in thousands) | | | (Dollars in thousands) | | |
| Government agency | $ 552,043 | $ 553,018 | 5.7% | $ 423,831 | $ 427,097 | 4.5% |
| Prime | 1,076,606 | 954,424 | 9.9 | 1,098,484 | 1,068,460 | 11.2 |
| Alt-A | 526,068 | 408,240 | 4.2 | 611,399 | 561,443 | 5.9 |
| Subprime | 30,136 | 22,650 | 0.2 | 30,146 | 29,259 | 0.3 |
| Commercial mortgage | 802,795 | 729,226 | 7.6 | 578,510 | 570,057 | 6.0 |
| Non-mortgage | 23,522 | 21,973 | 0.3 | 30,182 | 29,657 | 0.3 |
| Total | $ 3,011,170 | $ 2,689,531 | 27.9% | $ 2,772,552 | $ 2,685,973 | 28.2% |

The mortgage and asset-backed securities can be summarized into three broad categories: residential, commercial and other asset-backed securities.

**Residential Mortgage-Backed Securities by Collateral Type and Origination Year at September 30, 2008**

| | Government & Prime | | Alt-A | | Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost | Carrying Value |
| | | | (Dollars in thousands) | | | |
| 2008 | $ 58,330 | $ 58,838 | $ | $ | $ 58,330 | $ 58,838 |
| 2007 | 120,434 | 116,809 | 60,258 | 38,912 | 180,692 | 155,721 |
| 2006 | 118,667 | 108,664 | 22,435 | 11,723 | 141,102 | 120,387 |
| 2005 | 27,581 | 26,471 | | | 27,581 | 26,471 |
| 2004 and prior | 1,280,458 | 1,180,447 | 319,629 | 260,202 | 1,600,087 | 1,440,649 |
| Total | $ 1,605,470 | $ 1,491,229 | $ 402,322 | $ 310,837 | $ 2,007,792 | $ 1,802,066 |

**Residential Mortgage-Backed Securities by Collateral Type and Origination Year at December 31, 2007**

| | Government & Prime | | Alt-A | | Total | |
|---|---|---|---|---|---|---|
| | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost | Carrying Value |
| | (Dollars in thousands) | | | | | |
| 2007 | $ 100,400 | $ 101,344 | $ 60,235 | $ 58,313 | $ 160,635 | $ 159,657 |
| 2006 | 94,081 | 94,749 | 22,438 | 19,361 | 116,519 | 114,110 |
| 2005 | 29,200 | 29,446 | | | 29,200 | 29,446 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2004 and prior | 1,275,024 | 1,247,272 | 324,390 | 313,585 | 1,599,414 | 1,560,857 |
| Total | $ 1,498,705 | $ 1,472,811 | $ 407,063 | $ 391,259 | $ 1,905,768 | $ 1,864,070 |

(1) Insurance on 2006 Alt-A issues is provided by MBIA Insurance Corporation (78% in 2008 and 2007). Insurance on 2007 Alt-A issues is provided by Assured Guaranty Ltd. (32% in 2008 and 2007) and MBIA Insurance Corporation (25% in 2008 and 2007). There is no insurance coverage on Government & Prime investments or Alt-A investments with collateral originating prior to 2006.

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**Residential Mortgage-Backed Securities by Rating**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Carrying Value | Percent of Total | Carrying Value | Percent of Total |
| | (Dollars in thousands) | | | |
| AAA | $ 1,764,998 | 97.9% | $ 1,864,039 | 100.0% |
| AA | 17,850 | 1.0 | 31 | |
| A | 19,218 | 1.1 | | |
| Total | $ 1,802,066 | 100.0% | $ 1,864,070 | 100.0% |

**Commercial Mortgage-Backed Securities by Origination Year**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| | (Dollars in thousands) | | | |
| 2008 | $ 197,638 | $ 196,622 | $ | $ |
| 2007 | 194,206 | 158,847 | 186,701 | 187,027 |
| 2006 | 170,500 | 148,843 | 146,924 | 143,523 |
| 2005 | 57,565 | 49,286 | 52,273 | 45,022 |
| 2004 and prior | 182,886 | 175,628 | 192,612 | 194,485 |
| Total | $ 802,795 | $ 729,226 | $ 578,510 | $ 570,057 |

**Commercial Mortgage-Backed Securities by Rating**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Carrying Value | Percent of Total | Carrying Value | Percent of Total |
| | (Dollars in thousands) | | | |
| GNMA | $ 368,851 | 50.6% | $ 196,042 | 34.4% |
| FNMA | 15,199 | 2.1 | 16,407 | 2.9 |
| AAA | 309,048 | 42.4 | 316,423 | 55.5 |
| AA | 17,095 | 2.3 | 19,636 | 3.4 |
| A | 17,233 | 2.4 | 21,549 | 3.8 |
| B | 1,800 | 0.2 | | |
| Total | $ 729,226 | 100.0% | $ 570,057 | 100.0% |

Government National Mortgage Association (GNMA), or Ginnie Mae, guarantees principal and interest on mortgage backed securities. The guarantee is backed by the full faith and credit of the United States Government. Fannie Mae

(FNMA), or Fannie Mae and Freddie Mac (FHLMC), are government-sponsored enterprises (GSE s) that were chartered by Congress to reduce borrowing costs for certain homeowners. GSE s have carried an implicit backing of the U.S. government but have not had explicit guarantees like GNMA. The Housing and Economic Recovery act of 2008 was signed by President Bush July 30th, and part of the bill allows the government to expand its line of credit to Fannie Mae and Freddie Mac and give the U.S. Treasury the power to purchase an equity stake in the firms through the end of 2009.

**Other Asset-Backed Securities by Collateral Type and Origination Year at September 30, 2008**

| | Government & Prime | | Alt-A | | Subprime | | Non-Mortgage | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| | (Dollars in thousands) | | | | | | | | | |
| 2007 | $ 9,990 | $ 5,890 | $ 17,444 | $ 9,703 | $ | $ | $ 6,882 | $ 5,677 | $ 34,316 | $ 21,270 |
| 2006 | 9,729 | 6,779 | 67,970 | 52,707 | | | | | 77,699 | 59,486 |
| 2005 | | | 26,655 | 24,803 | 30,136 | 22,650 | | | 56,791 | 47,453 |
| 2004 and prior | 3,460 | 3,544 | 11,677 | 10,190 | | | 16,640 | 16,296 | 31,777 | 30,030 |
| Total | $23,179 | $16,213 | $123,746 | $97,403 | $30,136 | $22,650 | $23,522 | $21,973 | $200,583 | $158,239 |

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**Other Asset-Backed Securities by Collateral Type and Origination Year at December 31, 2007**

| | Government & Prime | | Alt-A | | Subprime | | Non-Mortgage | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost (1) | Carrying Value | Amortized Cost | Carrying Value | Amortized Cost | Carrying Value |
| | (Dollars in thousands) | | | | | | | | | |
| 2007 | $ 9,995 | $ 9,172 | $ 30,979 | $ 27,501 | $ | $ | $ 6,861 | $ 6,908 | $ 47,835 | $ 43,581 |
| 2006 | 9,746 | 9,659 | 135,575 | 106,534 | | | | | 145,321 | 116,193 |
| 2005 | | | 26,937 | 25,719 | 30,146 | 29,259 | | | 57,083 | 54,978 |
| 2004 and prior | 3,869 | 3,915 | 10,845 | 10,430 | | | 23,321 | 22,749 | 38,035 | 37,094 |
| Total | $23,610 | $22,746 | $204,336 | $170,184 | $30,146 | $29,259 | $30,182 | $29,657 | $288,274 | $251,846 |

(1) Insurance on 2006 Alt-A issues is provided by Financial Guaranty Insurance Co. (38% in 2008 and 63% in 2007) and AMBAC Assurance Corporation (32% in 2008 and 17% in 2007). Insurance on 2007 Alt-A issues is provided by AMBAC Assurance Corporation (57% in 2008 and 32% in 2007), MBIA Insurance Corporation (28% in 2008 and 16% in

2007) and Financial Guaranty Insurance Co. (14% in 2008 and 48% in 2007). The 2006 and 2007 Government & Prime issues are 100% insured by AMBAC Assurance Corporation (2006 issues) and MBIA Insurance Corporation (2007 issues). There is no insurance coverage on investments with collateral originating prior to 2006.

**Other Asset-Backed Securities by Rating**

| | September 30, 2008 | | December 31, 2007 | |
|---|---|---|---|---|
| | Carrying Value | Percent of Total | Carrying Value | Percent of Total |
| | (Dollars in thousands) | | | |
| AAA | $ 76,025 | 48.0% | $ 226,282 | 89.9% |
| AA | 30,380 | 19.2 | 13,621 | 5.4 |
| A | 17,735 | 11.2 | 3,085 | 1.2 |
| BBB | 27,313 | 17.3 | 8,858 | 3.5 |
| BB | | | | |
| B | 6,786 | 4.3 | | |
| Total | $ 158,239 | 100.0% | $ 251,846 | 100.0% |

The mortgage and asset-backed portfolios also include securities wrapped by monoline bond insurers to provide additional credit enhancement for the investment. We believe these securities were underwritten at investment grade levels excluding any credit enhancing protection. At September 30, 2008, the market value of our insured mortgage and asset-backed holdings totaled $99.2 million, or 3.7% of our mortgage and asset-backed portfolios and 1.0% of our total fixed income portfolio. The amortized cost of these insured holdings decreased 33.0% from December 31, 2007 primarily due to taking write downs for other-than-temporary impairments on a portion of other asset-backed securities wrapped by Financial Guarantee Insurance Co. (FGIC). During the second quarter of 2008, FGIC was downgraded by two rating agencies, homeowner delinquencies increased and collateral backing these issues declined,

increasing the probability that these securities may experience a cash flow shortfall.
We do not consider the investments wrapped by other monoline bond insurers to be other-than-temporarily impaired at September 30, 2008 because we do not have reason to believe that those guarantees, if needed, will not be honored. In addition, we have the intent and ability to hold these investments until a recovery of fair value, which may be maturity. We do not directly own any fixed income or equity investments in monoline bond insurers.

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**Residential Mortgage Backed Securities and Other Asset Backed Securities by Insurance**

| | | September 30, 2008 | | | December 31, 2007 | | |
|---|---|---|---|---|---|---|---|
| | Insurers' S&P Rating(A) | Residential Mortgage-Backed | Other Asset-Backed | Total Carrying Value | Residential Mortgage-Backed | Other Asset-Backed | Total Carrying Value |
| | | (Dollars in thousands) | | | | | |
| Insured: | | | | | | | |
| AMBAC Assurance Corporation | AA | $ | $ 22,686 | $ 22,686 | $ | $ 39,510 | $ 39,510 |
| Assured Guaranty Ltd. | AAA | 13,590 | | 13,590 | 18,773 | | 18,773 |
| Financial Guaranty Insurance Co. | BB | | 31,494 | 31,494 | | 81,574 | 81,574 |
| MBIA Insurance Corporation | AA | 16,157 | 15,297 | 31,454 | 29,222 | 24,112 | 53,334 |
| Total with insurance | | 29,747 | 69,477 | 99,224 | 47,995 | 145,196 | 193,191 |
| Uninsured: | | | | | | | |
| GNMA | | 180,197 | | 180,197 | 172,291 | | 172,291 |
| FHLMC | | 242,257 | 3,384 | 245,641 | 121,373 | 3,914 | 125,287 |
| FNMA | | 126,994 | 160 | 127,154 | 129,488 | 250 | 129,738 |
| Other | | 1,222,871 | 85,218 | 1,308,089 | 1,392,923 | 102,486 | 1,495,409 |
| Total | | $ 1,802,066 | $ 158,239 | $ 1,960,305 | $ 1,864,070 | $ 251,846 | $ 2,115,916 |

(A) Rating in effect as of September 30, 2008

**Collateralized debt obligation** investments are included in the corporate securities portfolio. One collateralized debt obligation is partially backed by subprime mortgage and was written down during the first and second quarters of 2008 to the estimated fair value of $0.2 million. This security had an amortized cost of $10.0 million and fair value of $1.5 million at December 31, 2007. This security was sold during the third quarter for the estimated fair value of $0.2 million. Our other investments in collateralized debt obligations are backed by investment grade credit default swaps with no home equity exposure. These are rated AA or above with a carrying value totaling $14.6 million and unrealized loss of $37.4 million at September 30, 2008 and a carrying value of $42.1 million and unrealized loss of $9.9 million at December 31, 2007. The unrealized loss increased in 2008 primarily due to actual defaults in the collateral, general spread widening and market concerns of increased defaults in the future. All of these securities could withstand more defaults without incurring any principal defaults on our issues. We have the intent and ability to hold these investments until a recovery of fair value, which may be maturity, and therefore to do not consider them to be other-than-temporarily impaired at September 30, 2008.

**State, municipal and other government securities** include investments in general obligation, revenue, military housing and municipal housing bonds. Our investment strategy is to utilize municipal bonds in addition to corporate bonds, as we believe they provide additional diversification and have historically low default rates compared with similarly rated corporate bonds. We evaluate the credit strength of the underlying issues on both a quantitative and qualitative basis, excluding insurance, prior to acquisition. The majority of the municipal bonds we hold are investment grade credits without consideration of insurance. The insolvency of one or more of the credit enhancing entities would be a meaningful short-term market liquidity event, but would not dramatically increase our investment portfolio s risk profile.

FBL Financial Group, Inc. September 30, 2008

**State, Municipal and Other Government Holdings by Insurance and Rating at September 30, 2008**

| | Uninsured Bonds | | Insured Bonds by Insurer Rating | | Insured Bonds By Underlying Issue Rating | | Total Bonds by Insurer Rating | | Total Bonds By Underlying Issue Rating | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rating | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total |
| | (Dollars in thousands) | | | | | | | | | |
| AAA (1) | $177,698 | 51.7% | $ 212,147 | 21.0% | $ 4,000 | 0.4% | $ 389,845 | 28.8% | $ 181,698 | 13.4% |
| AA | 120,823 | 35.1 | 642,600 | 63.6 | 346,650 | 34.3 | 763,423 | 56.4 | 467,473 | 34.5 |
| A | 14,717 | 4.3 | 124,928 | 12.4 | 370,541 | 36.7 | 139,645 | 10.3 | 385,258 | 28.5 |
| BBB | 28,940 | 8.4 | 17,215 | 1.7 | 56,073 | 5.6 | 46,155 | 3.4 | 85,013 | 6.3 |
| BB | 1,627 | 0.5 | | | | | 1,627 | 0.1 | 1,627 | 0.1 |
| NR (2) | | | 12,881 | 1.3 | 232,507 | 23.0 | 12,881 | 1.0 | 232,507 | 17.2 |
| | $343,805 | 100.0% | $1,009,771 | 100.0% | $1,009,771 | 100.0% | $1,353,576 | 100.0% | $1,353,576 | 100.0% |

**State, Municipal and Other Government Holdings by Insurance and Rating at December 31, 2007**

| | Uninsured Bonds | | Insured Bonds by Insurer Rating | | Insured Bonds By Underlying Issue Rating | | Total Bonds by Insurer Rating | | Total Bonds by By Underlying Issue Rating | |
|---|---|---|---|---|---|---|---|---|---|---|
| Rating | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total | Carrying Value | % of Total |
| | (Dollars in thousands) | | | | | | | | | |
| AAA (1) | $146,483 | 48.4% | $947,316 | 99.7% | $ | % | $1,093,799 | 87.3% | $ 146,483 | 11.7% |
| AA | 112,912 | 37.3 | 3,075 | 0.3 | 316,797 | 33.3 | 115,987 | 9.3 | 429,709 | 34.3 |
| A | 9,987 | 3.3 | | | 302,980 | 31.9 | 9,987 | 0.8 | 312,967 | 25.0 |
| BBB | 31,367 | 10.4 | | | 57,983 | 6.1 | 31,367 | 2.5 | 89,350 | 7.1 |
| BB | 1,759 | 0.6 | | | | | 1,759 | 0.1 | 1,759 | 0.1 |
| NR (2) | | | | | 272,631 | 28.7 | | | 272,631 | 21.8 |
| | $302,508 | 100.0% | $950,391 | 100.0% | $950,391 | 100.0% | $1,252,899 | 100.0% | $1,252,899 | 100.0% |

(1) AAA uninsured bonds includes $62.3 million in 2008 and $47.2 million in 2007 of bonds with GNMA and/or FNMA collateral.

(2) No formal public rating issued. Approximately 51% in 2008 and 53% in 2007 of the non-rated securities relate to military housing bonds, which we believe have an A- shadow rating; approximately 33% in 2008 and 31% in 2007 are revenue obligation bonds; and approximately 16% in 2008 and 2007 are general obligation bonds. Insurance on these bonds is provided by AMBAC Assurance Corporation (64% in 2008 and 2007), Financial Security Assurance, Inc. (19% in 2008 and 18% 2007), MBIA Insurance Corporation (10% in 2008 and 11% in 2007), Financial Guaranty Insurance Co. (6% in 2008 and 2007) and other

(1% in 2008 and
2007).

**Equity securities** totaled $11.3 million at June 30, 2008 and $23.6 million at December 31, 2007. Gross unrealized gains totaled $0.1 million and gross unrealized losses totaled $0.2 million at September 30, 2008. At December 31, 2007, gross unrealized gains totaled $1.3 million and gross unrealized losses totaled $0.1 million on these securities. Included in equity securities is our investment in American Equity Investment Life Holding Company which totaled $0.4 million at September 30, 2008 and $12.6 million at December 31, 2007.

**Mortgage loans** totaled $1,316.9 million at September 30, 2008 and $1,221.6 million at December 31, 2007. These mortgage loans are diversified as to property type, location and loan size, and are collateralized by the related properties. There were no mortgages more than 60 days delinquent at September 30, 2008 or December 31, 2007. New loans are generally $5 million to $20 million in size, with an average loan size of $5.5 million and an average loan term of 11 years. The majority of these loans amortize principal, with 7.8% that are interest only loans at September 30, 2008. At September 30, 2008, the average loan-to-value of the current outstanding principal balance to the appraised value at origination was 59% and the weighted average debt service coverage ratio was 1.57. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and require diversification by geographic location and collateral type.

FBL Financial Group, Inc. September 30, 2008

**Mortgage Loans by Collateral Type**

| Collateral Type | September 30, 2008 Mortgage Loan Carrying Value | September 30, 2008 Percent of Total | December 31, 2007 Mortgage Loan Carrying Value | December 31, 2007 Percent of Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Office | $ 443,118 | 33.6% | $ 426,005 | 34.9% |
| Retail | 442,739 | 33.6 | 386,506 | 31.6 |
| Industrial | 401,046 | 30.5 | 373,449 | 30.6 |
| Other | 30,002 | 2.3 | 35,613 | 2.9 |
| Total | $ 1,316,905 | 100.0% | $ 1,221,573 | 100.0% |

**Mortgage Loans by Geographic Location within the United States**

| Region of the United States | September 30, 2008 Mortgage Loan Carrying Value | September 30, 2008 Percent of Total | December 31, 2007 Mortgage Loan Carrying Value | December 31, 2007 Percent of Total |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| South Atlantic | $ 338,737 | 25.7% | $ 284,872 | 23.3% |
| East North Central | 262,822 | 20.0 | 242,899 | 19.9 |
| Pacific | 232,988 | 17.7 | 228,366 | 18.7 |
| West North Central | 154,269 | 11.7 | 158,538 | 13.0 |
| Mountain | 134,002 | 10.2 | 127,055 | 10.4 |
| West South Central | 65,918 | 5.0 | 69,739 | 5.7 |
| Other | 128,169 | 9.7 | 110,104 | 9.0 |
| Total | $ 1,316,905 | 100.0% | $ 1,221,573 | 100.0% |

Our asset-liability management program includes (i) designing and developing products that encourage persistency and help ensure targeted spreads are earned and, as a result, create a stable liability structure, and (ii) structuring the investment portfolio with duration and cash flow characteristics consistent with the duration and cash flow characteristics of our insurance liabilities. The weighted average life of the fixed maturity and mortgage loan portfolio based on market values and excluding convertible bonds, was approximately 9.3 years at September 30, 2008 and December 31, 2007. Based on calculations utilizing our fixed income analytical system, including our mortgage backed prepayment assumptions, the effective duration of our fixed maturity and mortgage loan portfolios was 6.5 at September 30, 2008 and 6.3 at December 31, 2007.

*Collateral Related to Securities Lending and Other Transactions*

We participate in a securities lending program whereby certain fixed maturity securities from our investment portfolio are loaned to other institutions for a short period of time. We require collateral equal to or greater than 102% of the market value of the loaned securities and at least 100% collateral be maintained through the period the securities are on loan. The collateral is invested by the lending agent, in accordance with our guidelines, generating fee income that is recognized as net investment income over the period the securities are on loan. The collateral is accounted for as a

secured borrowing and is recorded as an asset on the consolidated balance sheets, with a corresponding liability reflecting our obligation to return this collateral upon the return of the loaned securities. Securities recorded on our consolidated balance sheet with a market value of $66.9 million at September 30, 2008 and $179.5 million at December 31, 2007 were on loan under the program, and we were liable for cash collateral under our control totaling $70.3 million at September 30, 2008 and $185.3 million at December 31, 2007. As discussed under Realized/unrealized Gains (Losses) on Investments above, during the third quarter we recorded an other-than-temporary impairment for one security in the collateral fund totaling $1.5 million, which reduced the collateral held for securities lending. During the second quarter of 2008 we discontinued entering into any new securities lending agreements and we expect the existing loaned securities to decrease over the next twelve months as the underlying collateral matures.

*Other Assets*

Deferred policy acquisition costs increased 28.0% to $1,268.4 million and deferred sales inducements increased 24.3% to $399.2 million at September 30, 2008 primarily due to the impact of the change in unrealized appreciation/depreciation on fixed maturity securities and capitalization of costs incurred with new sales, partially offset by the impact of the change in net unrealized gains/losses on derivatives. The impact of the change in unrealized appreciation/depreciation on fixed maturity securities increased deferred policy acquisition costs $279.8 million and deferred sales inducements $99.0 million during 2008. The impact of the change in net unrealized gain/losses on derivatives decreased deferred policy acquisition costs $23.7 million and deferred sales inducements $19.3 million during 2008. The change in unrealized appreciation/depreciation on fixed maturity securities totaling $829.0 million also contributed to the $175.2 million change in deferred income taxes from a liability of $28.2 million at December 31, 2007 to an asset of $147.0 million at September 30, 2008. Assets held in separate accounts decreased 16.7% to $718.5 million primarily due to unrealized losses on the underlying investment portfolios.

*Liabilities*

Policy liabilities and accruals and other policyholders funds increased 9.4% to $12,592.2 million at September 30, 2008 primarily due to increases in the volume of business in force. Long-term debt increased 4.4% to $331.0 as we increased the borrowings on our outstanding line of credit $14.0 million in the third quarter of 2008. We also issued a $20.0 million note payable to our affiliate, Farm Bureau Mutual, which is due on December 29, 2008.

*Stockholders Equity*

Stockholders equity decreased 38.4%, to $555.9 million at September 30, 2008, compared to $902.9 million at December 31, 2007. This decrease is primarily attributable to the change in the unrealized appreciation/depreciation on fixed maturity securities and dividends paid during 2008.

At September 30, 2008, common stockholders equity was $552.9 million, or $18.32 per share, compared to $899.9 million or $29.98 per share at December 31, 2007. Included in stockholders equity per common share is $12.50 at September 30, 2008 and $1.21 at December 31, 2007 attributable to accumulated other comprehensive loss.

**Liquidity and Capital Resources**

*FBL Financial Group, Inc.*

Parent company cash inflows from operations consist primarily of (i) dividends from subsidiaries, if declared and paid, (ii) fees that it charges the various subsidiaries and affiliates for management of their operations, (iii) expense reimbursements from subsidiaries and affiliates, (iv) proceeds from the exercise of employee stock options, (v) proceeds from borrowings and (vi) tax settlements between the parent company and its subsidiaries. Cash outflows are principally for salaries, taxes and other expenses related to providing these management services, capital contributions to subsidiaries, dividends on outstanding stock and interest on our parent company debt.

We paid cash dividends on our common and preferred stock during the nine-month period totaling $11.3 million in 2008 and $10.7 million in 2007. Interest payments on our debt totaled $13.5 million for the nine months ended September 30, 2008 and $11.0 million for the 2007 period. It is anticipated quarterly cash dividend requirements for the remainder of 2008 will be $0.125 per common and $0.0075 per Series B redeemable preferred share or approximately $3.8 million. In addition, interest payments on our existing debt are estimated to be $4.2 million for the remainder of 2008.

The ability of the Life Companies to pay dividends to FBL Financial Group, Inc. is limited by law to earned profits (statutory unassigned surplus) as of the date the dividend is paid, as determined in accordance with accounting practices prescribed by insurance regulatory authorities of the State of Iowa. The annual dividend limitation is defined under the Iowa Insurance Holding Company Act as any dividend or distribution of cash or other property whose fair market value, together with that of other dividends or distributions made within the preceding 12 months, exceeds the greater of (i) 10% of policyholders surplus (total statutory capital stock and statutory surplus) as of December 31 of the preceding year, or (ii) the statutory net gain from operations of the insurer for the 12-month

period ending December 31 of the preceding year. During 2008, the maximum amount legally available for distribution to FBL Financial Group, Inc., without further regulatory approval, from Farm Bureau Life is $51.7 million and from EquiTrust Life is $39.2 million.

FBL Financial Group, Inc. expects to rely on available cash resources and dividends from Farm Bureau Life to make dividend payments to its stockholders and interest payments on its debt. During the first nine months of 2008, Farm Bureau Life paid dividends totaling $15.0 million and we anticipate that Farm Bureau Life will pay dividends totaling $20.0 million in 2008 ($5.0 million in the fourth quarter).

During the third quarter of 2008, the parent company borrowed an additional $14.0 million on a bank line of credit and $20 million from Farm Bureau Mutual, an affiliate. Borrowings on the line of credit are due in October 2010 and the borrowing from Farm Bureau Mutual is due in December 2008. With these borrowings and existing cash resources, during the third quarter funds totaling $55 million were contributed to EquiTrust Life. The parent company had available cash and investments totaling $7.5 million at September 30, 2008.

During the fourth quarter, the parent company issued 9.25% notes payable that mature in November 2011 of $75.0 million to Farm Bureau Mutual and $25.0 million from an investment affiliate of Iowa Farm Bureau Federation, our majority shareholder. A portion of the proceeds from these notes will be used to repay the $20.0 million short-term borrowing from Farm Bureau Mutual and the remaining proceeds will be held at the parent company as a source of excess capital to be used as needs dictate. Additional details regarding these notes are summarized in Note 3 to the consolidated financial statements.

As of September 30, 2008, we had no material commitments for capital expenditures.

*Insurance Operations*

The Life Companies cash inflows consist primarily of premium income, deposits to policyholder account balances, income from investments, sales, maturities and calls of investments, repayments of investment principal and proceeds from call option exercises. In addition, EquiTrust Life receives capital contributions from FBL Financial Group to help fund its growth. The Life Companies cash outflows are primarily related to withdrawals of policyholder account balances, investment purchases, payment of policy acquisition costs, policyholder benefits, income taxes, dividends and current operating expenses. Life insurance companies generally produce a positive cash flow which may be measured by the degree to which cash inflows are adequate to meet benefit obligations to policyholders and normal operating expenses as they are incurred. The remaining cash flow is generally used to increase the asset base to provide funds to meet the need for future policy benefit payments and for writing new business. The Life Companies liquidity positions continued to be favorable in the three and nine month periods ended September 30, 2008, with cash inflows at levels sufficient to provide the funds necessary to meet their obligations.

For the life insurance operations, cash outflow requirements for operations are typically met from normal premium and deposit cash inflows. This has been the case for all reported periods as the Life Companies continuing operations and financing activities relating to interest sensitive and index products provided funds totaling $1,261 million in the nine months ended September 30, 2008 and $972.6 million in the 2007 period. Positive cash flow from operations is generally used to increase the insurance companies fixed maturity securities and other investment portfolios. In developing their investment strategy, the Life Companies establish a level of cash and securities which, combined with expected net cash inflows from operations, maturities of fixed maturity investments and principal payments on mortgage and asset-backed securities and mortgage loans, are believed adequate to meet anticipated short-term and long-term benefit and expense payment obligations.

As noted above, the parent company contributed $55.0 million to EquiTrust Life during the third quarter of 2008. This capital was needed to fund EquiTrust Life s significant growth and to replenish capital used as a result of write-downs of securities for other-than-temporary impairments during the first nine months of 2008. We expect to slow EquiTrust Life s sales to help ensure the subsidiary is self sufficient from a capital perspective over the intermediate term.

We anticipate that funds to meet our short-term and long-term capital expenditures, cash dividends to stockholders and operating cash needs will come from existing capital and internally generated funds. We believe that the current level of cash, available-for-sale and short-term securities, combined with expected net cash inflows from operations, maturities of fixed maturity investments, principal payments on mortgage and asset-backed securities and mortgage loans and premiums and deposits on our insurance products, are adequate to meet our anticipated cash obligations for the foreseeable future. Our investment portfolio at September 30, 2008, included $90.1 million of short-term investments, $87.2 million of cash and $1,238.3 million in carrying value of U.S. Government and U.S. Government agency-backed securities that could be readily converted to cash at or near carrying value.

*Contractual Obligations*

In the normal course of business, we enter into insurance contracts, financing transactions, lease agreements or other commitments which are necessary or beneficial to our operations. These commitments may obligate us to certain cash flows during future periods. As of December 31, 2007, we had contractual obligations totaling $21,283.1 million with payments due as follows: less than one year $1,385.7 million, one-to-three years $2,250.0 million, four-to-five years $2,514.9 million and after five years $15,132.4 million. There have been no material changes to our total contractual obligations since December 31, 2007.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The level of credit risk in our investment portfolio has increased. See Financial Condition - Investments for additional information about credit risk in our investment portfolio. There have been no other material changes in the market risks of our financial instruments since December 31, 2007.

**ITEM 4. CONTROLS AND PROCEDURES**

At the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities and Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports that it files or submits under the Act is accumulated and communicated to the issuer s management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Our internal control over financial reporting changes from time-to-time as we modify and enhance our systems and processes to meet our dynamic needs. Changes are also made as we strive to be more efficient in how we conduct our business. Any significant changes in controls are evaluated prior to implementation to help ensure the continued effectiveness of our internal controls and internal control environment. While changes have taken place in our internal controls during the quarter ended September 30, 2008, there have been no changes that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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**PART II. OTHER INFORMATION**

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

(c) The following table sets forth issuer purchases of equity securities for the quarter ended September 30, 2008.

| Period | (a) Total Number of Shares (or Units) Purchased (1) | (b) Average Price Paid per Share (or Unit) (1) | (c) Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | (d) Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs |
| --- | --- | --- | --- | --- |
| July 1, 2008 through July 31, 2008 | | $ | Not applicable | Not applicable |
| August 1, 2008 through August 31, 2008 | | | Not applicable | Not applicable |
| September 1, 2008 through September 30, 2008 | 2,624 | 27.75 | Not applicable | Not applicable |
| Total | 2,624 | $ 27.75 | | |

(1) Our Amended and Restated 1996 and 2006 Class A Common Stock Compensation Plans (the Plans) provide for the grant of incentive stock options, nonqualified stock options, bonus stock, restricted stock and stock appreciation rights to directors, officers and employees. Under the Plans, the purchase price for any

shares purchased pursuant to the exercise of an option shall be paid in full upon such exercise in cash, by check or by transferring shares of Class A common stock to the Company. Activity in this table represents Class A common shares returned to the Company in connection with the exercise of employee stock options.

**ITEM 6. EXHIBITS**

(a) Exhibits:

| | |
|---|---|
| 3(i)(a) | Restated Articles of Incorporation, filed with Iowa Secretary of State March 19, 1996 (G) |
| 3(i)(b) | Articles of Amendment, Designation of Series A Preferred Stock, filed with Iowa Secretary of State April 30, 1996 (G) |
| 3(i)(c) | Articles of Amendment, Designation of Series B Preferred Stock, filed with Iowa Secretary of State May 30, 1997 (G) |
| 3(i)(d) | Articles of Correction, filed with Iowa Secretary of State October 27, 2000 (G) |
| 3(i)(f) | Articles of Amendment, filed with Iowa Secretary of State May 15, 2003 (G) |
| 3(i)(g) | Articles of Amendment, filed with Iowa Secretary of State May 14, 2004 (G) |
| 3(ii)(a) | Second Restated Bylaws, adopted May 14, 2004 (G) |
| 3(ii)(b) | Amendment to Article VI of Second Restated Bylaws adopted May 16, 2007 (P) |
| 4.1 | Form of Class A Common Stock Certificate of the Registrant (A) |
| 4.2 | Restated Stockholders Agreement Regarding Management and Transfer of Shares of Class B Common Stock of FBL Financial Group, Inc. dated as of March 31, 2004 (G) |
| 4.3 | |

| | |
|---|---|
| | Certificate of Trust; Declaration of Trust of FBL Financial Group Capital Trust dated May 30, 1997, including in Annex I thereto the form of Trust Preferred Security and the form of Trust Common Security; Subordinated Deferrable Interest Note Agreement dated May 30, 1997 between FBL Financial Group, Inc. and FBL Financial Group Capital Trust, including therein the form of Subordinated Deferrable Interest Note; Preferred Securities Guarantee Agreement of FBL Financial Group, Inc., dated May 30, 1997 (B) |
| 4.4(a) | Master Transaction Agreement between Federal Home Loan Bank of Des Moines and Farm Bureau Life Insurance Company dated May 1, 2006 (M) |

FBL Financial Group, Inc. September 30, 2008

| | |
|---|---|
| 4.4(b) | Advance Agreement between Federal Home Loan Bank of Des Moines and Farm Bureau Life Insurance Company dated September 12, 2006 (M) |
| 4.5 | Amended and Restated Credit Agreement and related Schedules and Exhibits dated as of October 7, 2005 between FBL Financial Group, Inc. and LaSalle Bank National Association. These documents are not filed pursuant to the exception of Regulation S-K, Item 601(b)(4)(iii)(A); FBL Financial Group, Inc. agrees to furnish these documents to the Commission upon request. |
| 4.6 | Indenture, dated as of April 12, 2004, between FBL Financial Group, Inc. and Deutsche Bank Trust Company Americas as Trustee (F) |
| 4.7 | Form of 5.85% Senior Note Due 2014 (F) |
| 4.8 | Demand Note, dated as of September 29, 2008, between FBL Financial Group, Inc. and Farm Bureau Mutual (R) |
| 4.10 | Indenture, dated as of March 12, 2007, between FBL Financial Group, Inc. and LaSalle Bank National Association as Trustee (O) |
| 4.11 | Form of 5.875% Senior Note Due 2017 (O) |
| 10.1 | 2006 Class A Common Stock Compensation Plan adopted May 17, 2006 (L) * |
| 10.1(a) | Form of Stock Option Agreement, pursuant to the FBL Financial Group, Inc. 2006 Class A Common Stock Compensation Plan (L) * |
| 10.2 | Trademark License from the American Farm Bureau Federation to Farm Bureau Life Insurance Company dated May 20, 1987 (A) |
| 10.3 | Membership Agreement between American Farm Bureau Federation to the Iowa Farm Bureau Federation dated February 13, 1987 (A) |
| 10.4 | Form of Royalty Agreement with Farm Bureau organizations (I) |
| 10.5 | Executive Salary and Bonus Deferred Compensation Plan, effective June 1, 2005 (J) * |
| 10.6 | 2008 Revised Rules for Payment of Meeting Fees, Retainers and Expenses to the Board of Directors (Q) * |
| 10.7 | Form of Services Agreement between FBL Financial Group, Inc. and Farm Bureau Management Corporation, dated as of January 1, 1996 (A) |
| 10.8 | Management Services Agreement between FBL Financial Group, Inc. and Farm Bureau Mutual effective as of January 1, 2003 (E) |
| 10.10 | Management Performance Plan (2008) sponsored by FBL Financial Group, Inc. (Q) * |

10.14 Lease Agreement dated as of March 31, 1998 between IFBF Property Management, Inc., FBL Financial Group, Inc. and Farm Bureau Mutual (C)

10.15 Building Management Services Agreement dated as of March 31, 1998 between IFBF Property Management, Inc. and FBL Financial Group, Inc. (C)

10.16 Coinsurance Agreement between EquiTrust Life Insurance Company and American Equity Investment Life Insurance Company, dated December 29, 2003 (E)

10.17 First Amendment to the Coinsurance Agreement by and between EquiTrust Life Insurance Company and American Equity Investment Life Insurance Company, effective August 1, 2004 (H)

10.18 Form of Change in Control Agreement Form A between the Company and James W. Noyce and John M. Paule (April 22, 2002), Bruce A. Trost (November 24, 2004), James P. Brannen (January 1, 2007) and Richard J. Kypta (March 1, 2008) (D) *

10.19 Form of Change In Control Agreement Form B, dated as of April 22, 2002 between the Company and Douglas W. Gumm and Donald J. Seibel and dated as of November 24, 2004 between the Company and David T. Sebastian and dated as of August 1, 2008 between the Company and Charles T. Happel (D) *

10.22 Form of Restricted Stock Agreement, dated as of January 16, 2006 between the Company and each of James W. Noyce, John M. Paule, Bruce A. Trost, James P. Brannen, Douglas W. Gumm and David T. Sebastian (K) *

10.23 Form of Early Retirement Agreement, dated June 1, 1993 executed by the Company and James W. Noyce (K) *

10.24 Summary of Named Executive Officer Compensation (Q) *

10.25 Form of Restricted Stock Agreement, dated as of February 20, 2007 between the Company and each of James W. Noyce, John M. Paule, Bruce A. Trost, James P. Brannen, Douglas W. Gumm, David T. Sebastian and Donald J. Seibel (N) *

FBL Financial Group, Inc. September 30, 2008

| | |
|---|---|
| 10.26 | Form of Restricted Stock Agreement, dated as of February 19, 2008 between the Company and each of James W. Noyce, Richard J. Kypta, John M. Paule, Bruce A. Trost, James P. Brannen, Douglas W. Gumm, David T. Sebastian and Donald J. Seibel (Q) * |
| 31.1 | Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 31.2 | Certification Pursuant to Exchange Act Rules 13a-14(a)/15d-14(a), as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32 | Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

* exhibit relates to a compensatory plan for management or directors

Incorporated by reference to:

(A) Form S-1 filed on July 11, 1996, File No. 333-04332

(B) Form 8-K filed on June 6, 1997, File No. 001-11917

(C) Form 10-Q for the period ended March 31, 1998, File No. 001-11917

(D) Form 10-Q for the period ended June 30, 2002, File No. 001-11917

(E) Form 10-K for the period ended December 31, 2003, File No. 001-11917

(F) Form S-4 filed on May 5, 2004, File No. 333-115197

(G) Form 10-Q for the period ended June 30, 2004, File No. 001-11917

(H) Form 10-Q for the period ended September 30, 2004, File No. 001-11917

(I) Form 10-Q for the period ended March 31, 2005, File No. 001-11917

(J) Form 10-Q for the period ended June 30, 2005, File No. 001-11917

(K) Form 10-K for the period ended December 31, 2005, File No. 001-11917

(L) Form 10-Q for the period ended June 30, 2006, File No. 001-11917

(M) Form 10-Q for the period ended September 30, 2006, File No. 001-11917

(N) Form 10-K for the period ended December 31, 2006, File No. 001-11917

(O) Form S-4 filed on April 6, 2007, File No. 333-141949

(P) Form 8-K filed on May 16, 2007, File No. 001-11917

(Q) Form 10-K for the period ended December 31, 2007, File No. 001-11917

(R) Form 10-Q for the period ended September 30, 2008, File No. 001-11917

FBL Financial Group, Inc. September 30, 2008

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 6, 2008

FBL FINANCIAL GROUP, INC.

By /s/ James W. Noyce

James W. Noyce
Chief Executive Officer (Principal
Executive Officer)

By /s/ James P. Brannen

James P. Brannen
Chief Financial Officer (Principal
Financial and
Accounting Officer)

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