AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
May 06, 2011

FORM 10-Q

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2011

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 : 001-31911
American Equity Investment Life Holding Company
(Exact name of registrant as specified in its charter)

Iowa	42-1447959
(State of Incorporation)	(I.R.S. Employer Identification No.)
6000 Westown Parkway	
West Des Moines, Iowa	50266
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code	(515) 221-0002
	(Telephone)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, par value $1	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $1

Indicate by check mark whether the registrant (1) has filed all documents and reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or 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. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filed, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of “large accelerated filer”, “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o	Accelerated filer x
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.) Yes o No x

APPLICABLE TO CORPORATE ISSUERS:
Shares of common stock outstanding at April 30, 2011: 59,497,039

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

	March 31, 2011 (Unaudited)	December 31, 2010
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2011 - $15,588,780; 2010 - $15,621,894)	$15,745,405	$15,830,663
Held for investment, at amortized cost (fair value: 2011 - $1,527,349; 2010 - $781,748)	1,593,459	822,200
Equity securities, available for sale, at fair value (cost: 2011 - $62,787; 2010 - $61,185)	69,644	65,961
Mortgage loans on real estate	2,730,841	2,598,641
Derivative instruments	622,106	479,786
Other investments	23,357	19,680
Total investments	20,784,812	19,816,931
Cash and cash equivalents	746,737	597,766
Coinsurance deposits	2,657,102	2,613,191
Accrued investment income	197,648	167,645
Deferred policy acquisition costs	1,827,090	1,747,760
Deferred sales inducements	1,313,986	1,227,328
Deferred income taxes	192,518	143,253
Income taxes recoverable	—	6,134
Other assets	114,983	106,755
Total assets	$27,834,876	$26,426,763
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	$24,983,321	$23,655,807
Other policy funds and contract claims	268,676	222,860
Notes payable	334,000	330,835
Subordinated debentures	268,473	268,435
Income taxes payable	50,447	—
Other liabilities	968,782	1,010,779
Total liabilities	26,873,699	25,488,716
Stockholders' equity:		
Preferred stock, no par value, 2,000,000 shares authorized, 2011 and 2010 no shares issued and outstanding	—	—
Common stock, par value $1 per share, 125,000,000 shares authorized; issued and outstanding: 2011 - 57,688,425 shares (excluding 5,568,360 treasury shares);	57,688	56,968

2010 - 56,968,446 shares (excluding 5,874,392 treasury shares)		
Additional paid-in capital	459,498	454,454
Unallocated common stock held by ESOP; 2011 - 447,048 shares; 2010 - 447,048 shares	(4,551)	(4,815)
Accumulated other comprehensive income	67,579	81,820
Retained earnings	380,963	349,620
Total stockholders' equity	961,177	938,047
Total liabilities and stockholders' equity	$27,834,876	$26,426,763

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share data)
(Unaudited)

	Three Months Ended March 31, 2011	2010
Revenues:		
Traditional life and accident and health insurance premiums	$2,916	$3,287
Annuity product charges	16,962	15,518
Net investment income	292,128	242,910
Change in fair value of derivatives	148,653	82,015
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	(1,193)	9,903
OTTI losses on investments:		
Total OTTI losses	(5,100)	(12,584)
Portion of OTTI losses recognized in (from) other comprehensive income	(1,471)	9,361
Net OTTI losses recognized in operations	(6,571)	(3,223)
Total revenues	452,895	350,410
Benefits and expenses:		
Insurance policy benefits and change in future policy benefits	1,895	2,332
Interest sensitive and index product benefits	159,665	196,869
Amortization of deferred sales inducements	30,692	13,089
Change in fair value of embedded derivatives	128,303	63,875
Interest expense on notes payable	7,907	4,651
Interest expense on subordinated debentures	3,466	3,685
Interest expense on amounts due under repurchase agreements	4	—
Amortization of deferred policy acquisition costs	55,223	27,268
Other operating costs and expenses	17,474	15,985
Total benefits and expenses	404,629	327,754
Income before income taxes	48,266	22,656
Income tax expense	16,923	7,771
Net income	$31,343	$14,885
Earnings per common share	$0.53	$0.26
Earnings per common share - assuming dilution	$0.48	$0.25

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Dollars in thousands, except per share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2010	$56,968	$454,454	$(4,815)	$81,820	$349,620	$938,047
Other comprehensive income:						
Net income for the period	—	—	—	—	31,343	31,343
Change in net unrealized investment gains/losses	—	—	—	(14,660)	—	(14,660)
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	419	—	419
Other comprehensive income						17,102
Allocation of 24,492 shares of common stock by ESOP, including excess income tax benefits	—	37	264	—	—	301
Share-based compensation, including excess income tax benefits	—	2,630	—	—	—	2,630
Issuance of 719,979 shares of common stock under compensation plans, including excess income tax benefits	720	2,377	—	—	—	3,097
Balance at March 31, 2011	$57,688	$459,498	$(4,551)	$67,579	$380,963	$961,177
Balance at December 31, 2009	$56,203	$422,225	$(5,679)	$(30,456)	$312,330	$754,623
Other comprehensive income:						
Net income for period	—	—	—	—	14,885	14,885
Change in net unrealized investment gains/losses	—	—	—	41,770	—	41,770
Noncredit component of OTTI losses, available for sale securities, net	—	—	—	(6,084)	—	(6,084)
Other comprehensive income						50,571
Acquisition of 6,300 shares of common stock	(6)	(44)	—	—	—	(50)
Allocation of 16,813 shares of common stock by ESOP, including excess income tax benefits	—	(24)	181	—	—	157
Share-based compensation, including excess income tax benefits	—	2,056	—	—	—	2,056
Issuance of 231,215 shares of common stock under compensation plans, including excess income tax	231	312	—	—	—	543

benefits						
Balance at March 31, 2010	$56,428	$424,525	$(5,498)	$5,230	$327,215	$807,900

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2011	2010
Operating activities		
Net income	$31,343	$14,885
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	159,665	196,869
Amortization of deferred sales inducements	30,693	13,089
Annuity product charges	(16,962)	(15,518)
Change in fair value of embedded derivatives	128,303	63,875
Increase in traditional life and accident and health insurance reserves	24,356	2,677
Policy acquisition costs deferred	(117,501)	(64,441)
Amortization of deferred policy acquisition costs	55,223	27,268
Provision for depreciation and other amortization	4,515	2,345
Amortization of discounts and premiums on investments	(45,564)	(53,692)
Realized losses (gains) on investments and net OTTI losses recognized	7,764	(6,680)
Change in fair value of derivatives	(149,241)	(82,653)
Deferred income taxes	(41,597)	(21,440)
Share-based compensation	1,719	1,881
Change in accrued investment income	(30,003)	(17,590)
Change in income taxes recoverable/payable	56,581	127,782
Change in other assets	253	4,303
Change in other policy funds and contract claims	45,816	13,169
Change in collateral held for derivatives	122,437	(25,005)
Change in other liabilities	(28,408)	(1,971)
Other	317	143
Net cash provided by operating activities	239,709	179,296
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	1,732,408	1,074,998
Fixed maturity securities - held for investment	—	616,334
Equity securities - available for sale	—	23,014
Mortgage loans on real estate	52,768	26,058
Derivative instruments	97,878	135,601
Acquisition of investments:		
Fixed maturity securities - available for sale	(1,824,696)	(2,068,305)
Fixed maturity securities - held for investment	(760,505)	—
Equity securities - available for sale	(1,600)	(10,125)
Mortgage loans on real estate	(191,583)	(45,230)
Derivative instruments	(83,409)	(60,809)
Other investments	(33)	(26)
Purchases of property, furniture and equipment	(2,656)	(604)
Net cash used in investing activities	(981,428)	(309,094)

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)
(Dollars in thousands)
(Unaudited)

	Three Months Ended March 31, 2011	2010
Financing activities		
Receipts credited to annuity policyholder account balances	$1,341,844	$846,855
Coinsurance deposits	(16,207)	(139,240)
Return of annuity policyholder account balances	(438,371)	(382,706)
Financing fees incurred and deferred	(1,566)	—
Acquisition of common stock	—	(50)
Excess tax benefits realized from share-based compensation plans	935	199
Proceeds from issuance of common stock	3,052	533
Change in checks in excess of cash balance	1,003	(19,653)
Other	—	24
Net cash provided by financing activities	890,690	305,962
Increase in cash and cash equivalents	148,971	176,164
Cash and cash equivalents at beginning of period	597,766	528,002
Cash and cash equivalents at end of period	$746,737	$704,166
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	$6,792	$3,911
Income taxes	1,000	390
Income tax refunds received	—	100,000
Non-cash operating activity:		
Deferral of sales inducements	106,249	61,206
Non-cash investing activity:		
Real estate acquired in satisfaction of mortgage loans	3,781	2,905

See accompanying notes to unaudited consolidated financial statements.

AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2010
(Unaudited)

1. Significant Accounting Policies
Consolidation and Basis of Presentation
The accompanying consolidated financial statements of American Equity Investment Life Holding Company (“we”, “us” or “our”) 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 the information and notes required by GAAP for complete financial statements. The consolidated financial statements reflect all adjustments, consisting only of normal recurring items, which are necessary to present fairly our financial position and results of operations on a basis consistent with the prior audited consolidated financial statements. Operating results for the three month period ended March 31, 2011 are not necessarily indicative of the results that may be expected for the year ended December 31, 2011. All significant intercompany accounts and transactions have been eliminated. The preparation of financial statements requires the use of management estimates. For further information related to a description of areas of judgment and estimates and other information necessary to understand our financial position and results of operations, refer to the audited consolidated financial statements and notes included in our Annual Report on Form 10-K for the year ended December 31, 2010.
During the three months ended March 31, 2011, we discovered a prior period error related to policy benefit reserves for our single premium immediate annuity products. Accordingly, we made an adjustment in the current period which resulted in a decrease of policy benefit reserves and a decrease in interest sensitive and index product benefits of $4.2 million. On an after-tax basis, the adjustment resulted in a $2.7 million increase in net income for the three months ended March 31, 2011.
Adopted Accounting Pronouncements
In January 2010, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that expands the disclosure requirements related to fair value measurements. A reporting entity is now required to present on a gross basis rather than as one net number information about the purchases, sales, issuances and settlements of financial instruments that are categorized as Level 3 for fair value measurements. Clarification on existing disclosure requirements is also provided in this update relating to the level of disaggregation of information as to determining appropriate classes of assets and liabilities as well as disclosure requirements regarding valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. This standard was effective for us on January 1, 2011, and has not had a material impact on our consolidated financial statements.
New Accounting Pronouncements
In October 2010, as a result of a consensus of the FASB Emerging Issues Task Force, the FASB issued an accounting standards update that modifies the definition of the types of costs incurred that can be capitalized in the acquisition of new and renewal insurance contracts. This guidance defines the costs that qualify for deferral as incremental direct costs that result directly from and are essential to successful contract transactions and would not have been incurred by the insurance entity had the contract transactions not occurred. In addition, it lists certain costs as deferrable as those that are directly related to underwriting, policy issuance and processing, medical and inspection, and sales force contract selling as deferrable, as well as the portion of an employee's total compensation related directly to time spent performing those activities for actual acquired contracts and other costs related directly to those activities that would not have been incurred if the contract had not been acquired. This amendment to current GAAP should be applied prospectively and is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011, with retrospective application permitted. We are currently evaluating the impact of the guidance on our consolidated financial statements. See note 6 to our audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010, for the policy issue costs that could be subject to non-deferral.

2. Fair Values of Financial Instruments

The following sets forth a comparison of the carrying amounts and fair values of our financial instruments:

	March 31, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	$15,745,405	$15,745,405	$15,830,663	$15,830,663
Held for investment	1,593,459	1,527,349	822,200	781,748
Equity securities, available for sale	69,644	69,644	65,961	65,961
Mortgage loans on real estate	2,730,841	2,791,645	2,598,641	2,670,009
Derivative instruments	622,106	622,106	479,786	479,786
Policy loans	567	567	558	558
Cash and cash equivalents	746,737	746,737	597,766	597,766
Coinsurance deposits	2,657,102	2,336,020	2,613,191	2,282,998
2015 notes hedges	71,864	71,864	66,595	66,595
Liabilities				
Policy benefit reserves - annuities	24,769,905	20,590,974	23,464,810	19,594,396
Notes payable	334,000	501,474	330,835	489,097
Subordinated debentures	268,473	254,655	268,435	213,369
2015 notes embedded derivatives	71,864	71,864	66,595	66,595
Interest rate swaps	1,456	1,456	1,976	1,976

Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. The objective of a fair value measurement is to determine that price for each financial instrument at each measurement date. We meet this objective using various methods of valuation that include market, income and cost approaches.

We categorize our financial instruments into three levels of fair value hierarchy based on the priority of inputs used in determining fair value. The hierarchy defines the highest priority inputs (Level 1) as quoted prices in active markets for identical assets or liabilities. The lowest priority inputs (Level 3) are our own assumptions about what a market participant would use in determining fair value such as estimated future cash flows. 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. We categorize financial assets and liabilities recorded at fair value in the consolidated balance sheets as follows:

Level 1— Quoted prices are available in active markets for identical financial instruments as of the reporting date. 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— Quoted prices in active markets for similar financial instruments, quoted prices for identical or similar financial instruments in markets that are not active; and models and other valuation methodologies using inputs other than quoted prices that are observable.

Level 3— Models and other valuation methodologies using significant inputs that are unobservable for financial instruments 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 Level 3 are securities for which no market activity or data exists and for which we used discounted expected future cash flows with our own assumptions about what a market participant would use in determining fair value.

Transfers of securities among the levels occur at times and depend on the type of inputs used to determine fair value of each security, however there were no transfers between levels during the three months ended March 31, 2011.

Our assets and liabilities which are measured at fair value on a recurring basis as of March 31, 2011 and December 31, 2010 are presented below based on the fair value hierarchy levels:

	Total Fair Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(Dollars in thousands)			
March 31, 2011				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$4,335	$4,335	$—	$—
United States Government sponsored agencies	2,389,503	—	2,389,503	—
United States municipalities, states and territories	2,489,998	—	2,489,998	—
Corporate securities	7,959,187	64,862	7,894,325	—
Residential mortgage backed securities	2,902,382	—	2,899,681	2,701
Equity securities, available for sale: finance, insurance and real estate	69,644	48,223	19,821	1,600
Derivative instruments	622,106	—	622,106	—
Cash and cash equivalents	746,737	746,737	—	—
2015 notes hedges	71,864	—	71,864	—
	$17,255,756	$864,157	$16,387,298	$4,301
Liabilities				
Interest rate swaps	$1,456	$—	$1,456	$—
2015 notes embedded derivatives	71,864	—	71,864	—
Fixed index annuities - embedded derivatives	2,242,000	—	—	2,242,000
	$2,315,320	$—	$73,320	$2,242,000
December 31, 2010				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$4,388	$4,388	$—	$—
United States Government sponsored agencies	3,003,651	—	3,003,651	—
United States municipalities, states and territories	2,367,003	—	2,367,003	—
Corporate securities	7,577,064	71,230	7,505,834	—
Residential mortgage backed securities	2,878,557	—	2,875,855	2,702
Equity securities, available for sale: finance, insurance and real estate	65,961	46,925	19,036	—
Derivative instruments	479,786	—	479,786	—
Cash and cash equivalents	597,766	597,766	—	—
2015 notes hedges	66,595	—	66,595	—
	$17,040,771	$720,309	$16,317,760	$2,702
Liabilities				
Interest rate swaps	$1,976	$—	$1,976	$—
2015 notes embedded derivatives	66,595	—	66,595	—
Fixed index annuities - embedded derivatives	1,971,383	—	—	1,971,383
	$2,039,954	$—	$68,571	$1,971,383

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The following methods and assumptions were used in estimating the fair values of financial instruments during the periods presented in these consolidated financial statements.

Fixed maturity securities, equity securities, and short-term investments

The fair values of fixed maturity securities, equity securities, and short-term investments in an active and orderly market are determined by utilizing independent pricing services. The independent pricing services incorporate a variety of observable market data in their valuation techniques, including:

- reported trading prices,
- benchmark yields
- broker-dealer quotes,
- benchmark securities,
- bids and offers,
- credit ratings,
- relative credit information, and
- other reference data.

The independent pricing services also take into account perceived market movements and sector news, as well as a security's terms and conditions, including any features specific to that issue that may influence risk and marketability. Depending on the security, the priority of the use of observable market inputs may change as some observable market inputs may not be relevant or additional inputs may be necessary.

The independent pricing services provide quoted market prices when available. Quoted prices are not always available due to market inactivity. When quoted market prices are not available, the third parties use yield data and other factors relating to instruments or securities with similar characteristics to determine fair value for securities that are not actively traded. We generally obtain one value from our primary external pricing service. In situations where a price is not available from this service, we may obtain further quotes or prices from additional parties as needed. In addition, for our callable United States Government sponsored agencies we obtain two broker quotes and take the average of two broker prices received. Market indices of similar rated asset class spreads are considered for valuations and broker indications of similar securities are compared. Inputs used by the broker include market information, such as yield data and other factors relating to instruments or securities with similar characteristics. Valuations and quotes obtained from third party commercial pricing services are non-binding and do not represent quotes on which one may execute the disposition of the assets.

We validate external valuations at least quarterly through a combination of procedures that include the evaluation of methodologies used by the pricing services, analytical reviews and performance analysis of the prices against trends, and maintenance of a securities watch list. Additionally, as needed we utilize discounted cash flow models or perform independent valuations on a case-by-case basis of inputs and assumptions similar to those used by the pricing services. Although we do identify differences from time to time as a result of these validation procedures, we did not make any significant adjustments as of March 31, 2011 and December 31, 2010.

Mortgage loans on real estate

The fair values of mortgage loans on real estate are calculated using discounted expected cash flows using current competitive market interest rates currently being offered for similar loans which are not fair value exit prices.

Derivative instruments

The fair values of derivative instruments, primarily call options, are based upon the amount of cash that we will receive to settle each derivative instrument on the reporting date. These amounts are obtained from each of the counterparties using industry accepted valuation models and are adjusted for the nonperformance risk of each counterparty net of any collateral held. Inputs include market volatility and risk free interest rates and are used in income valuation techniques in arriving at a fair value for each option contract. The nonperformance risk for each counterparty is based upon its credit default swap rate. We have no performance obligations related to the call options purchased to fund our fixed index annuity policy liabilities.

Policy loans

We have not attempted to determine the fair values associated with our policy loans, as we believe any differences between carrying value and the fair values afforded these instruments are immaterial to our consolidated financial position and, accordingly, the cost to provide such disclosure does not justify the benefit to be derived.

Cash and cash equivalents

Amounts reported in the consolidated balance sheets for these instruments are reported at their historical cost which approximates fair value due to the nature of the assets assigned to this category.

2015 notes hedges

The fair value of these call options is determined by a third party who applies market observable data such as our common stock price, its dividend yield and its volatility, as well as the time to expiration of the call options to determine a fair value of the buy side of these options.

Policy benefit reserves and coinsurance deposits

The fair values of the liabilities under contracts not involving significant mortality or morbidity risks (principally deferred annuities), are stated at the cost we would incur to extinguish the liability (i.e., the cash surrender value) as these contracts are generally issued without an annuitization date. The coinsurance deposits related to the annuity benefit reserves have fair values determined in a similar fashion. We are not required to and have not estimated the fair value of the liabilities under contracts that involve significant mortality or morbidity risks, as these liabilities fall within the definition of insurance contracts that are exceptions from financial instruments that require disclosures of fair value.

Notes payable

The fair value of the convertible senior notes is based upon quoted market prices. Fair values of other notes payable are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Subordinated debentures

Fair values for subordinated debentures are estimated using discounted cash flow calculations based principally on observable inputs including our incremental borrowing rates, which reflect our credit rating, for similar types of borrowings with maturities consistent with those remaining for the debt being valued.

Interest rate swaps

The fair values of our pay fixed/receive variable interest rate swaps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swaps.

2015 notes embedded derivatives

The fair value of this embedded derivative is determined by pricing the call options that hedge this potential liability. The terms of the conversion premium are identical to the 2015 notes hedges and the method of determining fair value of the call options is based upon observable market data.

Fixed index annuities - embedded derivatives

We estimate the fair value of the embedded derivative component of our fixed index annuity policy liabilities at each valuation date by (i) projecting policy contract values and minimum guaranteed contract values over the expected lives of the contracts and (ii) discounting the excess of the projected contract value amounts at the applicable risk free interest rates adjusted for our nonperformance risk related to those liabilities. The projections of policy contract values are based on our best estimate assumptions for future policy growth and future policy decrements. Our best estimate assumptions for future policy growth include assumptions for the expected index credit on the next policy anniversary date which are derived from the fair values of the underlying call options purchased to fund such index credits and the expected costs of annual call options we will purchase in the future to fund index credits beyond the next policy anniversary. The projections of minimum guaranteed contract values include the same best estimate assumptions for policy decrements as were used to project policy contract values.

The following tables provide a reconciliation of the beginning and ending balances for our Level 3 assets and liabilities, which are measured at fair value on a recurring basis using significant unobservable inputs for the three months ended March 31, 2011 and 2010:

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Available for sale securities		
Beginning balance	$2,702	$17,918
Purchases	1,600	—
Principal returned	(188)	(158)
Accretion of discount	12	22
Total gains (losses) (realized/unrealized):		
Included in other comprehensive income (loss)	175	1,127

Net OTTI losses recognized in operations	—	—
Ending balance	$4,301	$18,909

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Fixed index annuities - embedded derivatives		
Beginning balance	$1,971,383	$1,375,866
Premiums less benefits	215,943	163,148
Change in unrealized gains, net	54,674	(12,897)
Ending balance	$2,242,000	$1,526,117

Change in unrealized gains, net for each period in our embedded derivatives are included in change in fair value of embedded derivatives in the unaudited consolidated statements of operations.

3. Investments

At March 31, 2011 and December 31, 2010, the amortized cost and fair value of fixed maturity securities and equity securities were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in thousands)			
March 31, 2011				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$4,083	$278	$(26)	$4,335
United States Government sponsored agencies	2,397,874	5,068	(13,439)	2,389,503
United States municipalities, states and territories	2,533,833	22,083	(65,918)	2,489,998
Corporate securities	7,756,861	366,497	(164,171)	7,959,187
Residential mortgage backed securities	2,896,129	89,976	(83,723)	2,902,382
	$15,588,780	$483,902	$(327,277)	$15,745,405
Held for investment:				
United States Government sponsored agencies	$1,517,637	$169	$(46,081)	$1,471,725
Corporate security	75,822	—	(20,198)	55,624
	$1,593,459	$169	$(66,279)	$1,527,349
Equity securities, available for sale:				
Finance, insurance, and real estate	$62,787	$7,877	$(1,020)	$69,644
December 31, 2010				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$4,082	$324	$(18)	$4,388
United States Government sponsored agencies	2,994,174	11,123	(1,646)	3,003,651
United States municipalities, states and territories	2,397,622	22,765	(53,384)	2,367,003
Corporate securities	7,325,988	387,916	(136,840)	7,577,064
Residential mortgage backed securities	2,900,028	86,950	(108,421)	2,878,557
	$15,621,894	$509,078	$(300,309)	$15,830,663
Held for investment:				
United States Government sponsored agencies	$746,414	$—	$(15,309)	$731,105
Corporate security	75,786	—	(25,143)	50,643
	$822,200	$—	$(40,452)	$781,748
Equity securities, available for sale:				
Finance, insurance, and real estate	$61,185	$6,722	$(1,946)	$65,961

During the three months ended March 31, 2011 and 2010, we received $1.5 billion and $1.3 billion, respectively, in redemption proceeds related to calls of our callable United States Government sponsored agency securities and public and private corporate bonds, of which $616.3 million were classified as held for investment for the three months ended March 31, 2010. There were no calls of held for investment securities during the three months ended March 31, 2011. We reinvested proceeds from these redemptions primarily in United States Government sponsored agencies, United States municipalities, states and territories, corporate securities, and residential mortgage backed securities. At March 31, 2011, 37% of our fixed income securities have call features and 1% ($0.1 billion) of those securities were subject to call redemption. Another 22% ($3.8 billion) will become subject to call redemption during the next twelve months.

The amortized cost and fair value of fixed maturity securities at March 31, 2011, by contractual maturity, are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. All of our residential mortgage backed securities provide for periodic payments throughout their lives and are shown below as a separate line.

	Available-for-sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$36,754	$37,468	$—	$—
Due after one year through five years	394,166	436,490	—	—
Due after five years through ten years	1,862,941	2,029,935	—	—
Due after ten years through twenty years	3,463,416	3,470,211	—	—
Due after twenty years	6,935,374	6,868,919	1,593,459	1,527,349
	12,692,651	12,843,023	1,593,459	1,527,349
Residential mortgage backed securities	2,896,129	2,902,382	—	—
	$15,588,780	$15,745,405	$1,593,459	$1,527,349

Net unrealized gains on available for sale fixed maturity securities and equity securities reported as a separate component of stockholders' equity were comprised of the following:

	March 31, 2011	December 31, 2010
	(Dollars in thousands)	
Net unrealized gains on available for sale fixed maturity securities and equity securities	$163,482	$213,545
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	(94,182)	(122,336)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax benefit	(24,255)	(31,923)
Net unrealized gains reported as accumulated other comprehensive income	$67,579	$81,820

The National Association of Insurance Commissioners ("NAIC") assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). In general, securities are assigned a designation based upon the ratings they are given by the Nationally Recognized Statistical Rating Organizations ("NRSRO's"). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 designations are considered "investment grade" while NAIC Class 3 through 6 designations are considered "non-investment grade". Based on the NAIC designations, we had 98% of our fixed maturity portfolio rated investment grade at March 31, 2011 and December 31, 2010.

The following table summarizes the credit quality, as determined by NAIC designation, of our fixed maturity portfolio as of the dates indicated:

	March 31, 2011		December 31, 2010	
NAIC Designation	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	$12,876,546	$12,879,124	$12,152,552	$12,246,954
2	3,984,690	4,100,086	3,892,680	4,012,076
3	293,391	264,229	368,680	323,113
4	17,926	18,026	19,820	19,178
5	5,589	6,173	6,089	6,262
6	4,097	5,116	4,273	4,828
	$17,182,239	$17,272,754	$16,444,094	$16,612,411

The following tables show our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 870 and 780 securities, respectively) have been in a continuous unrealized loss position, at March 31, 2011 and December 31, 2010:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
March 31, 2011						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$858	$(26)	$—	$—	$858	$(26)
United States Government sponsored agencies	1,810,087	(13,439)	—	—	1,810,087	(13,439)
United States municipalities, states and territories	1,658,830	(65,108)	8,118	(810)	1,666,948	(65,918)
Corporate securities:						
Finance, insurance and real estate	670,851	(26,521)	110,842	(11,283)	781,693	(37,804)
Manufacturing, construction and mining	1,078,807	(51,105)	21,931	(1,763)	1,100,738	(52,868)
Utilities and related sectors	1,026,357	(48,820)	15,365	(3,334)	1,041,722	(52,154)
Wholesale/retail trade	139,580	(6,762)	9,400	(1,077)	148,980	(7,839)
Services, media and other	284,892	(13,506)	—	—	284,892	(13,506)
Residential mortgage backed securities	251,963	(4,008)	910,363	(79,715)	1,162,326	(83,723)
	$6,922,225	$(229,295)	$1,076,019	$(97,982)	$7,998,244	$(327,277)
Held for investment:						
United States Government sponsored agencies	967,860	(46,081)	—	—	967,860	(46,081)
Corporate security:						
Insurance	—	—	55,624	(20,198)	55,624	(20,198)
	967,860	(46,081)	55,624	(20,198)	1,023,484	(66,279)
Equity securities, available for sale:						
Finance, insurance and real estate	$2,452	$(205)	$23,310	$(815)	$25,762	$(1,020)
December 31, 2010						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$548	$(18)	$—	$—	$548	$(18)
United States Government sponsored agencies	110,101	(1,646)	—	—	110,101	(1,646)
United States municipalities, states and territories	1,510,354	(51,989)	7,525	(1,395)	1,517,879	(53,384)
Corporate securities:						
Finance, insurance and real estate	626,363	(31,352)	114,128	(13,001)	740,491	(44,353)
Manufacturing, construction and mining	1,032,170	(33,893)	34,490	(2,333)	1,066,660	(36,226)

Utilities and related sectors	933,727	(34,657)	14,157	(4,552)	947,884	(39,209)
Wholesale/retail trade	153,699	(4,947)	9,175	(1,304)	162,874	(6,251)
Services, media and other	195,516	(10,801)	—	—	195,516	(10,801)
Residential mortgage backed securities	396,083	(14,100)	966,332	(94,321)	1,362,415	(108,421)
	$4,958,561	$(183,403)	$1,145,807	$(116,906)	$6,104,368	$(300,309)
Held for investment:						
United States Government sponsored agencies	$731,105	$(15,309)	$—	$—	$731,105	$(15,309)
Corporate security:						
Insurance	—	—	50,643	(25,143)	50,643	(25,143)
	$731,105	$(15,309)	$50,643	$(25,143)	$781,748	$(40,452)
Equity securities, available for sale:						
Finance, insurance and real estate	$14,583	$(1,199)	$16,253	$(747)	$30,836	$(1,946)

The following is a description of the factors causing the temporary unrealized losses by investment category as of March 31, 2011:

United States Government sponsored agencies; and United States municipalities, states and territories: These securities are relatively long in duration, making the value of such securities sensitive to changes in market interest rates. During the last fifteen months spreads on agency securities have improved; however, long term interest rates have risen by a greater amount. These securities carry yields less than those available at March 31, 2011 as the result of these rising interest rates.

Corporate securities: The unrealized losses in these securities are due partially to a rise in interest rates in 2011 as well as the continuation of wider than historic credit spreads in certain sectors of the corporate bond market. While credit spreads narrowed, several sectors remain at spreads wider than pre-crisis levels, such as financial and select economic sensitive issuers. As the result of wider spreads, these issues carry yields less than those available in the market as of March 31, 2011.

Residential mortgage backed securities: At March 31, 2011, we had no exposure to sub-prime residential mortgage backed securities. All of our residential mortgage backed securities are pools of first-lien residential mortgage loans. Substantially all of the securities that we own are in the most senior tranche of the securitization in which they are structured and are not subordinated to any other tranche. Our "Alt-A" residential mortgage backed securities are comprised of 36 securities with a total amortized cost basis of $466.2 million and a fair value of $438.5 million. Despite recent improvements in the capital markets, the fair values of RMBS continue at prices below amortized cost. RMBS prices will likely remain below our cost basis until the housing market is able to absorb current and future foreclosures.

Equity securities: The unrealized loss on equity securities, which are primarily investment grade perpetual preferred stocks with exposure to REITS, investment banks and finance companies, are due to the ongoing concerns relating to capital, asset quality and earnings stability due to the financial crisis. All of the equity securities in an unrealized loss position for 12 months or more are investment grade perpetual preferred stocks that are absent credit deterioration. A continued difficult housing market has raised concerns in regard to earnings and dividend stability in many companies which directly affect the values of these securities.

Where the decline in market value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these securities before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until a recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis based upon consideration of all the evidence available to us, including the magnitude of an unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security. For equity securities we measure impairment charges based upon the difference between the book value of a security and its fair value.

All of the fixed maturity securities with unrealized losses are current with respect to the payment of principal and interest.

Changes in net unrealized gains/losses on investments for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Fixed maturity securities held for investment carried at amortized cost	$(25,658)	$7,496
Investments carried at fair value:		
Fixed maturity securities, available for sale	$(52,144)	$137,007
Equity securities, available for sale	2,081	1,582
	(50,063)	138,589
Adjustment for effect on other balance sheet accounts:		
Deferred policy acquisition costs and deferred sales inducements	28,154	(83,687)
Deferred income tax asset	7,668	(19,216)

	35,822	(102,903)
(Decrease) increase in net unrealized gains/losses on investments carried at fair value	$(14,241)	$35,686

Proceeds from sales of available for sale securities for the three months ended March 31, 2011 and 2010 were $40.5 million and $138.2 million, respectively. Scheduled principal repayments, calls and tenders for available for sale securities for the three months ended March 31, 2011 and 2010 were $1.7 billion and $801.6 million, respectively. Calls of held for investment fixed maturity securities for the three months ended March 31, 2010 were $616.3 million. There were no calls of held for investment fixed maturity securities during the three months ended March 31, 2011.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Realized gains (losses) on investments, excluding net OTTI losses for the three months ended March 31, 2011 and 2010 are as follows:

	Three Months Ended March 31,	
	2011	2010
	(Dollars in thousands)	
Available for sale fixed maturity securities:		
Gross realized gains	$1,641	$7,894
Gross realized losses	—	(129)
	1,641	7,765
Equity securities:		
Gross realized gains	—	6,207
Mortgage loans on real estate:		
Impairment losses	(2,834)	(4,069)
	$(1,193)	$9,903

We review and analyze all investments on an ongoing basis for changes in market interest rates and credit deterioration. This review process includes analyzing our ability to recover the amortized cost basis of each investment that has a fair value that is materially lower than its amortized cost and requires a high degree of management judgment and involves uncertainty. The evaluation of securities for other than temporary impairments is a quantitative and qualitative process, which is subject to risks and uncertainties.

We have a policy and process in place to identify securities that could potentially have an impairment that is other than temporary. This process involves monitoring market events and other items that could impact issuers. The evaluation includes but is not limited to such factors as:

- the length of time and the extent to which the fair value has been less than amortized cost or cost;
- whether the issuer is current on all payments and all contractual payments have been made as agreed;
- the remaining payment terms and the financial condition and near-term prospects of the issuer;
- the lack of ability to refinance due to liquidity problems in the credit market;
- the fair value of any underlying collateral;
- the existence of any credit protection available;
- our intent to sell and whether it is more likely than not we would be required to sell prior to recovery for debt securities;
- our assessment in the case of equity securities including perpetual preferred stocks with credit deterioration that the security cannot recover to cost in a reasonable period of time;
- our intent and ability to retain equity securities for a period of time sufficient to allow for recovery;
- consideration of rating agency actions; and
- changes in estimated cash flows of residential mortgage and asset backed securities.

We determine whether other than temporary impairment losses should be recognized for debt and equity securities by assessing all facts and circumstances surrounding each security. Where the decline in market value of debt securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and we anticipate recovery of all contractual or expected cash flows, we do not consider these investments to be other than temporarily impaired because we do not intend to sell these investments and it is not more likely than not we will be required to sell these investments before a recovery of amortized cost, which may be maturity. For equity securities, we recognize an impairment charge in the period in which we do not have the intent and ability to hold the securities until recovery of cost or we determine that the security will not recover to book value within a reasonable period of time. We determine what constitutes a reasonable period of time on a security-by-security basis by considering all the evidence available to us, including the magnitude of any unrealized loss and its duration. In any event, this period does not exceed 18 months from the date of impairment for perpetual preferred securities for which there is evidence of deterioration in credit of the issuer and common equity securities. For perpetual preferred

securities absent evidence of a deterioration in credit of the issuer we apply an impairment model, including an anticipated recovery period, similar to a debt security.
Other than temporary impairment losses on equity securities are recognized in operations. If we intend to sell a debt security or if it is more likely than not that we will be required to sell a debt security before recovery of its amortized cost basis, other than temporary impairment has occurred and the difference between amortized cost and fair value will be recognized as a loss in operations.
If we do not intend to sell and it is not more likely than not we will be required to sell the debt security but also do not expect to recover the entire amortized cost basis of the security, an impairment loss would be recognized in operations in the amount of the expected credit loss. We calculate the present value of the cash flows expected to be collected discounted at each security's acquisition yield based on our consideration of whether the security was of high credit quality at the time of acquisition. The difference between the present value of expected future cash flows and the amortized cost basis of the security is the amount of credit loss recognized in operations. The remaining amount of the other than temporary impairment is recognized in other comprehensive income.
The determination of the credit loss component of a residential mortgage backed security is based on a number of factors. The primary consideration in this evaluation process is the issuer's ability to meet current and future interest and principal payments as contractually stated at time of purchase. Our review of these securities includes an analysis of the cash flow modeling under various default scenarios considering independent third party benchmarks, the seniority of the specific tranche within the structure of the security, the composition of the collateral and the actual

default, loss severity and prepayment experience exhibited. With the input of third party assumptions for default projections, loss severity and prepayment expectations, we evaluate the cash flow projections to determine whether the security is performing in accordance with its contractual obligation.

We utilize the models from a leading structured product software specialist serving institutional investors. These models incorporate each security's seniority and cash flow structure. In circumstances where the analysis implies a potential for principal loss at some point in the future, we use the "best estimate" cash flow projection discounted at the security's effective yield at acquisition to determine the amount of our potential credit loss associated with this security. The discounted expected future cash flows equates to our expected recovery value. Any shortfall of the expected recovery when compared to the amortized cost of the security will be recorded as the credit loss component of other than temporary impairment.

The cash flow modeling is performed on a security-by-security basis and incorporates actual cash flows on the residential mortgage backed securities through the current period, as well as the projection of remaining cash flows using a number of assumptions including default rates, prepayment rates and loss severity rates. The default curves we use are tailored to the Prime or Alt-A residential mortgage backed securities that we own, which assume lower default rates and loss severity for Prime securities versus Alt-A securities. These default curves are scaled higher or lower depending on factors such as current underlying mortgage loan performance, rating agency loss projections, loan to value ratios, geographic diversity, as well as other appropriate considerations. The default curves generally assume lower loss levels for older vintage securities versus more recent vintage securities, which reflects the decline in underwriting standards over the years.

The following table presents the range of significant assumptions used to determine the credit loss component of other than temporary impairments we have recognized on residential mortgage backed securities which are all senior level tranches within the structure of the securities:

		Discount Rate		Default Rate		Loss Severity	
Sector	Vintage	Min	Max	Min	Max	Min	Max
Three months ended March 31, 2011							
Prime	2005	7.7 %	7.7 %	8 %	8 %	50 %	50 %
	2006	7.3 %	7.6 %	9 %	11 %	50 %	55 %
	2007	5.8 %	7.3 %	8 %	30 %	40 %	60 %
Alt-A	2005	6.0 %	7.7 %	18 %	18 %	50 %	50 %
	2006	6.0 %	6.0 %	30 %	30 %	50 %	50 %
	2007	6.2 %	7.4 %	29 %	41 %	50 %	60 %
Three months ended March 31, 2010							
Prime	2006	7.3 %	7.3 %	11 %	11 %	45 %	45 %
	2007	5.8 %	5.8 %	19 %	19 %	50 %	50 %
Alt-A	2005	6.8 %	7.4 %	12 %	26 %	45 %	50 %

The determination of the credit loss component of a corporate bond (including redeemable preferred stocks) is based on the underlying financial performance of the issuer and their ability to meet their contractual obligations. Considerations in our evaluation include, but are not limited to, credit rating changes, financial statement and ratio analysis, changes in management, significant changes in credit spreads, breaches of financial covenants and a review of the economic outlook for the industry and markets in which they trade. In circumstances where an issuer appears unlikely to meet its future obligation, or the security's price decline is deemed other than temporary, an estimate of credit loss is determined. Credit loss is calculated using default probabilities as derived from the credit default swaps markets in conjunction with recovery rates derived from independent third party analysis or a best estimate of credit loss. This credit loss rate is then incorporated into a present value calculation based on an expected principal loss in the future discounted at the yield at the date of purchase and compared to amortized cost to determine the amount of credit loss associated with the security.

The following table summarizes other than temporary impairments for the three months ended March 31, 2011 and 2010, by asset type:

	Number of Securities	Total OTTI Losses	Portion of OTTI Losses Recognized in (from) Other Comprehensive Income	Net OTTI Losses in Operations
		(Dollars in thousands)		
Three months ended March 31, 2011				
Residential mortgage backed securities	24	$(5,100)	$(1,471)	$(6,571)
Three months ended March 31, 2010				
Residential mortgage backed securities	4	$(12,584)	$9,361	$(3,223)

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The cumulative portion of other than temporary impairments determined to be credit losses which have been recognized in operations for debt securities are summarized as follows:

	Three Months Ended March 31, 2011	2010
	(Dollars in thousands)	
Cumulative credit loss at beginning of period	$(96,893)	$(82,930)
Credit losses on securities for which OTTI has not previously been recognized	(789)	(2,419)
Additional credit losses on securities for which OTTI has previously been recognized	(5,782)	(804)
Accumulated losses on securities that were disposed of during the period	1,213	1,622
	$(102,251)	$(84,531)

The following table summarizes the cumulative noncredit portion of OTTI and the change in fair value since recognition of OTTI, both of which were recognized in other comprehensive income, by major type of security for securities that are part of our investment portfolio at March 31, 2011 and December 31, 2010:

	Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	Fair Value
	(Dollars in thousands)			
March 31, 2011				
Corporate fixed maturity securities	$3,200	$(2,151)	$5,748	$6,797
Residential mortgage backed securities	953,683	(199,450)	135,735	889,968
Equity securities:				
Finance, insurance and real estate	14,771	—	6,396	21,167
	$971,654	$(201,601)	$147,879	$917,932
December 31, 2010				
Corporate fixed maturity securities	$5,055	$(2,151)	$5,437	$8,341
Residential mortgage backed securities	904,704	(200,921)	124,240	828,023
Equity securities:				
Finance, insurance and real estate	14,771	—	5,783	20,554
	$924,530	$(203,072)	$135,460	$856,918

4. Mortgage Loans on Real Estate

Our mortgage loan portfolio totaled $2.7 billion and $2.6 billion at March 31, 2011 and December 31, 2010, respectively, with commitments outstanding of $94.1 million at March 31, 2011. The portfolio consists of commercial mortgage loans collateralized by the related properties and diversified as to property type, location and loan size. Our mortgage lending policies establish limits on the amount that can be loaned to one borrower and other criteria to attempt to reduce the risk of default. The mortgage loan portfolio is summarized by geographic region and property type as follows:

	March 31, 2011			December 31, 2010		
	Carrying Amount	Percent		Carrying Amount	Percent	
	(Dollars in thousands)					
Geographic distribution						
East	$653,566	23.8	%	$618,250	23.6	%
Middle Atlantic	182,514	6.6	%	172,443	6.6	%
Mountain	409,555	14.9	%	402,965	15.4	%
New England	42,225	1.5	%	42,695	1.6	%
Pacific	282,415	10.3	%	247,254	9.5	%
South Atlantic	505,099	18.4	%	496,606	19.0	%
West North Central	438,083	15.9	%	419,002	16.0	%
West South Central	234,326	8.6	%	215,650	8.3	%
	$2,747,783	100.0	%	$2,614,865	100.0	%
Loan loss allowance	(16,942)			(16,224)		
	2,730,841			2,598,641		
Property type distribution						
Office	$739,960	26.9	%	$683,404	26.1	%
Medical Office	168,376	6.1	%	166,930	6.4	%
Retail	613,582	22.3	%	589,369	22.5	%
Industrial/Warehouse	691,448	25.2	%	666,908	25.6	%
Hotel	150,241	5.5	%	151,516	5.8	%
Apartment	149,019	5.4	%	131,682		