AMERICAN EQUITY INVESTMENT LIFE HOLDING CO
Form 10-Q
August 10, 2015
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015
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 : 001-31911
American Equity Investment Life Holding Company
(Exact name of registrant as specified in its charter)

Iowa	42-1447959
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6000 Westown Parkway
West Des Moines, Iowa 50266
(Address of principal executive offices, including zip code)
(515) 221-0002
(Registrant's telephone number, including area code)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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. 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 x No o
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 the definitions of “large accelerated filer," “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o	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:
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
As of July 31, 2015, there were 77,146,375 shares of the registrant's common stock, $1 par value, outstanding.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

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

	June 30, 2015 (Unaudited)	December 31, 2014
Assets		
Investments:		
Fixed maturity securities:		
Available for sale, at fair value (amortized cost: 2015 - $32,692,702; 2014 - $30,205,046)	$33,905,869	$32,445,202
Held for investment, at amortized cost (fair value: 2015 - $65,705; 2014 - $75,838)	76,526	76,432
Equity securities, available for sale, at fair value (cost: 2015 - $7,512; 2014 - $7,509)	7,861	7,805
Mortgage loans on real estate	2,450,676	2,434,580
Derivative instruments	503,953	731,113
Other investments	285,743	286,726
Total investments	37,230,628	35,981,858
Cash and cash equivalents	733,814	701,514
Coinsurance deposits	3,101,189	3,044,342
Accrued investment income	343,172	326,559
Deferred policy acquisition costs	2,522,277	2,058,556
Deferred sales inducements	1,944,619	1,587,257
Deferred income taxes	172,114	—
Income taxes recoverable	21,888	9,252
Other assets	177,781	280,396
Total assets	$46,247,482	$43,989,734
Liabilities and Stockholders' Equity		
Liabilities:		
Policy benefit reserves	$42,494,314	$39,802,861
Other policy funds and contract claims	342,878	365,819
Notes payable	422,163	421,679
Subordinated debentures	246,345	246,243
Deferred income taxes	—	3,895
Other liabilities	834,020	1,009,361
Total liabilities	44,339,720	41,849,858
Stockholders' equity:		
Preferred stock, par value $1 per share, 2,000,000 shares authorized, 2015 and 2014 - no shares issued and outstanding	—	—
Common stock, par value $1 per share, 200,000,000 shares authorized; issued and outstanding:	76,794	76,062

2015 - 76,793,577 shares (excluding 3,620,484 treasury shares);		
2014 - 76,062,407 shares (excluding 4,126,167 treasury shares)		
Additional paid-in capital	524,246	513,218
Accumulated other comprehensive income	388,779	721,401
Retained earnings	917,943	829,195
Total stockholders' equity	1,907,762	2,139,876
Total liabilities and stockholders' equity	$46,247,482	$43,989,734

See accompanying notes to unaudited consolidated financial statements.

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

	Three Months Ended June 30, 2015	2014	Six Months Ended June 30, 2015	2014
Revenues:				
Premiums and other considerations	$10,037	$9,123	$17,034	$16,454
Annuity product charges	32,409	29,247	61,091	54,519
Net investment income	418,176	370,882	817,845	740,887
Change in fair value of derivatives	(23,024)	270,883	(54,124)	319,376
Net realized gains (losses) on investments, excluding other than temporary impairment ("OTTI") losses	4,324	(2,230)	9,203	(2,944)
OTTI losses on investments:				
Total OTTI losses	—	—	(132)	—
Portion of OTTI losses recognized from other comprehensive income	(828)	(594)	(828)	(1,499)
Net OTTI losses recognized in operations	(828)	(594)	(960)	(1,499)
Loss on extinguishment of debt	—	(6,574)	—	(10,551)
Total revenues	441,094	670,737	850,089	1,116,242
Benefits and expenses:				
Insurance policy benefits and change in future policy benefits	12,450	10,987	21,670	21,082
Interest sensitive and index product benefits	306,141	367,774	588,966	684,966
Amortization of deferred sales inducements	75,518	55,349	86,471	56,015
Change in fair value of embedded derivatives	(219,601)	80,935	(168,388)	173,554
Interest expense on notes payable	7,354	9,121	14,693	19,385
Interest expense on subordinated debentures	3,047	3,024	6,063	6,032
Amortization of deferred policy acquisition costs	104,700	67,084	118,986	74,278
Other operating costs and expenses	24,868	20,887	45,990	39,972
Total benefits and expenses	314,477	615,161	714,451	1,075,284
Income before income taxes	126,617	55,576	135,638	40,958
Income tax expense	43,772	18,832	46,890	13,967
Net income	$82,845	$36,744	$88,748	$26,991
Earnings per common share	$1.07	$0.49	$1.15	$0.37
Earnings per common share - assuming dilution	$1.05	$0.46	$1.12	$0.34
Weighted average common shares outstanding (in thousands):				
Earnings per common share	77,237	74,461	77,140	73,495
Earnings per common share - assuming dilution	79,227	79,518	79,173	79,583

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net income	$82,845	$36,744	$88,748	$26,991
Other comprehensive income (loss):				
Change in net unrealized investment gains/losses (1)	(778,097)	343,316	(513,984)	784,004
Noncredit component of OTTI losses (1)	413	286	413	694
Reclassification of unrealized investment gains/losses to net income (1)	825	454	1,844	(276)
Other comprehensive income (loss) before income tax	(776,859)	344,056	(511,727)	784,422
Income tax effect related to other comprehensive income (loss)	271,900	(120,420)	179,105	(274,547)
Other comprehensive income (loss)	(504,959)	223,636	(332,622)	509,875
Comprehensive income (loss)	$(422,114)	$260,380	$(243,874)	$536,866

(1) Net of related adjustments to amortization of deferred sales inducements and deferred policy acquisition costs.

See accompanying notes to unaudited consolidated financial statements.

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

	Common Stock	Additional Paid-in Capital	Unallocated Common Stock Held by ESOP	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
Balance at December 31, 2014	$76,062	$513,218	$—	$ 721,401	$829,195	$2,139,876
Net income for period	—	—	—	—	88,748	88,748
Other comprehensive loss	—	—	—	(332,622)	—	(332,622)
Share-based compensation, including excess income tax benefits	—	6,361	—	—	—	6,361
Issuance of 731,170 shares of common stock under compensation plans, including excess income tax benefits	732	4,667	—	—	—	5,399
Balance at June 30, 2015	$76,794	$524,246	$—	$ 388,779	$917,943	$1,907,762
Balance at December 31, 2013	$70,535	$550,400	$(631)	$ 46,196	$718,187	$1,384,687
Net income for period	—	—	—	—	26,991	26,991
Other comprehensive income	—	—	—	509,875	—	509,875
Allocation of 58,618 shares of common stock by ESOP, including excess income tax benefits	—	721	631	—	—	1,352
Share-based compensation, including excess income tax benefits	—	3,607	—	—	—	3,607
Issuance of 1,109,882 shares of common stock under compensation plans, including excess income tax benefits	1,110	7,720	—	—	—	8,830
Extinguishment of convertible senior notes, net of tax, including 2,443,457 shares of common stock issued upon conversion	2,444	6,479	—	—	—	8,923
Warrants reclassified to embedded derivative liability to be settled in cash	—	(30,455)	—	—	—	(30,455)
Balance at June 30, 2014	$74,089	$538,472	$—	$ 556,071	$745,178	$1,913,810

See accompanying notes to unaudited consolidated financial statements.

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

	Six Months Ended June 30, 2015	2014
Operating activities		
Net income	$88,748	$26,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Interest sensitive and index product benefits	588,966	684,966
Amortization of deferred sales inducements	86,471	56,015
Annuity product charges	(61,091)	(54,519)
Change in fair value of embedded derivatives	(168,388)	173,554
Decrease in traditional life and accident and health insurance reserves	1,699	1,323
Policy acquisition costs deferred	(292,140)	(199,978)
Amortization of deferred policy acquisition costs	118,986	74,278
Provision for depreciation and other amortization	2,518	5,398
Amortization of discounts and premiums on investments	(6,528)	(2,424)
Realized gains/losses on investments and net OTTI losses recognized in operations	(8,243)	4,443
Change in fair value of derivatives	53,191	(319,853)
Deferred income taxes	3,096	(42,918)
Loss on extinguishment of debt	—	10,551
Share-based compensation	3,347	620
Change in accrued investment income	(16,613)	(2,400)
Change in income taxes recoverable/payable	(12,636)	(37,087)
Change in other assets	178	(80)
Change in other policy funds and contract claims	(27,115)	(30,857)
Change in collateral held for derivatives	(97,273)	81,341
Change in other liabilities	13,141	(32,286)
Other	(4,817)	(1,697)
Net cash provided by operating activities	265,497	395,381
Investing activities		
Sales, maturities, or repayments of investments:		
Fixed maturity securities - available for sale	886,573	939,430
Mortgage loans on real estate	229,179	217,785
Derivative instruments	452,212	532,867
Other investments	10,930	13,245
Acquisition of investments:		
Fixed maturity securities - available for sale	(3,312,404)	(1,993,092)
Mortgage loans on real estate	(239,408)	(193,731)
Derivative instruments	(275,523)	(227,024)
Other investments	(4,901)	(5,598)
Purchases of property, furniture and equipment	(592)	(622)
Net cash used in investing activities	(2,253,934)	(716,740)

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

	Six Months Ended June 30,	
	2015	2014
Financing activities		
Receipts credited to annuity and single premium universal life policyholder account balances	$3,095,837	$1,950,707
Coinsurance deposits	(16,800)	14,113
Return of annuity policyholder account balances	(1,022,667)	(944,679)
Financing fees incurred and deferred	—	(100)
Repayment of notes payable	—	(119,677)
Net proceeds from settlement of notes hedges and warrants	—	10,401
Excess tax benefits realized from share-based compensation plans	3,014	3,776
Proceeds from issuance of common stock	5,399	8,041
Change in checks in excess of cash balance	(44,046)	(34,219)
Net cash provided by financing activities	2,020,737	888,363
Increase in cash and cash equivalents	32,300	567,004
Cash and cash equivalents at beginning of period	701,514	897,529
Cash and cash equivalents at end of period	$733,814	$1,464,533
Supplemental disclosures of cash flow information		
Cash paid during period for:		
Interest expense	$19,526	$22,097
Income taxes	53,401	68,423
Non-cash operating activity:		
Deferral of sales inducements	219,191	155,957
Non-cash investing activity:		
Real estate acquired in satisfaction of mortgage loans	—	10,007
Non-cash financing activities:		
Common stock issued in extinguishment of debt	—	56,292

See accompanying notes to unaudited consolidated financial statements.

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AMERICAN EQUITY INVESTMENT LIFE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2015
(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 and six month periods ended June 30, 2015 are not necessarily indicative of the results that may be expected for the year ended December 31, 2015. 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, 2014.

Adopted Accounting Pronouncements

There were no accounting pronouncements that were adopted during the current period.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board ("FASB") issued an accounting standards update ("ASU") which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This ASU will be effective for us on January 1, 2016, and retroactive application is required. It is not expected to have a material impact on our consolidated financial statements.

In June 2014, the FASB issued an ASU that requires that a performance target in a share-based payment arrangement that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The requisite service period ends when the employee can cease rendering service and still be eligible to vest in the award if the performance target is achieved. This ASU will be effective for us on January 1, 2016, and early adoption is permitted, but it is not expected to have a material impact on our consolidated financial statements.

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2. Fair Values of Financial Instruments

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

	June 30, 2015		December 31, 2014	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(Dollars in thousands)			
Assets				
Fixed maturity securities:				
Available for sale	$33,905,869	$33,905,869	$32,445,202	$32,445,202
Held for investment	76,526	65,705	76,432	75,838
Equity securities, available for sale	7,861	7,861	7,805	7,805
Mortgage loans on real estate	2,450,676	2,494,270	2,434,580	2,493,901
Derivative instruments	503,953	503,953	731,113	731,113
Other investments	272,785	279,575	266,488	273,004
Cash and cash equivalents	733,814	733,814	701,514	701,514
Coinsurance deposits	3,101,189	2,767,173	3,044,342	2,698,552
Interest rate caps	2,324	2,324	2,778	2,778
2015 notes hedges	26,916	26,916	30,291	30,291
Counterparty collateral	112,449	112,449	206,096	206,096
Liabilities				
Policy benefit reserves	42,153,741	35,569,121	39,463,987	33,078,978
Single premium immediate annuity (SPIA) benefit reserves	342,621	354,769	365,440	377,654
Notes payable	422,163	446,345	421,679	503,349
Subordinated debentures	246,345	217,653	246,243	244,437
2015 notes embedded conversion derivative	26,916	26,916	30,291	30,291
Interest rate swap	2,644	2,644	2,644	2,644

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. There were no transfers between levels during any period presented.

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Our assets and liabilities which are measured at fair value on a recurring basis as of June 30, 2015 and December 31, 2014 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)			
June 30, 2015				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$37,269	$3,776	$33,493	$—
United States Government sponsored agencies	1,346,299	—	1,346,299	—
United States municipalities, states and territories	3,683,015	—	3,683,015	—
Foreign government obligations	220,439	—	220,439	—
Corporate securities	22,399,342	12	22,399,330	—
Residential mortgage backed securities	1,619,463	—	1,619,437	26
Commercial mortgage backed securities	3,558,419	—	3,558,419	—
Other asset backed securities	1,041,623	365	1,041,258	—
Equity securities, available for sale: finance, insurance and real estate	7,861	—	7,861	—
Derivative instruments	503,953	—	503,953	—
Cash and cash equivalents	733,814	733,814	—	—
Interest rate caps	2,324	—	2,324	—
2015 notes hedges	26,916	—	26,916	—
Counterparty collateral	112,449	—	112,449	—
	$35,293,186	$737,967	$34,555,193	$26
Liabilities				
2015 notes embedded conversion derivative	$26,916	$—	$26,916	$—
Interest rate swap	2,644	—	2,644	—
Fixed index annuities - embedded derivatives	5,984,007	—	—	5,984,007
	$6,013,567	$—	$29,560	$5,984,007
December 31, 2014				
Assets				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$138,460	$4,255	$134,205	$—
United States Government sponsored agencies	1,393,890	—	1,393,890	—
United States municipalities, states and territories	3,723,309	—	3,723,309	—
Foreign government obligations	193,803	—	193,803	—
Corporate securities	21,490,292	11	21,490,281	—
Residential mortgage backed securities	1,751,345	—	1,750,970	375
Commercial mortgage backed securities	2,807,620	—	2,807,620	—
Other asset backed securities	946,483	—	946,483	—
Equity securities, available for sale: finance, insurance and real estate	7,805	—	7,805	—
Derivative instruments	731,113	—	731,113	—

Cash and cash equivalents	701,514	701,514	—	—
Interest rate caps	2,778	—	2,778	—
2015 notes hedges	30,291	—	30,291	—
Counterparty collateral	206,096	—	206,096	—
	$34,124,799	$705,780	$33,418,644	$375
Liabilities				
2015 notes embedded conversion derivative	$30,291	$—	$30,291	$—
Interest rate swap	2,644	—	2,644	—
Fixed index annuities - embedded derivatives	5,574,653	—	—	5,574,653
	$5,607,588	$—	$32,935	$5,574,653

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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 and equity securities

The fair values of fixed maturity securities and equity securities 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 multiple broker quotes and take the average of the 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 using 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 June 30, 2015 and December 31, 2014.

Mortgage loans on real estate

Mortgage loans on real estate are not measured at fair value on a recurring basis. 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. The fair values of impaired mortgage loans on real estate that we have considered to be collateral dependent are based on the fair value of the real estate collateral (based on appraised values) less estimated costs to sell. The inputs utilized to determine fair value of all mortgage loans are unobservable market data (competitive market interest rates and appraised property values); therefore, fair value of mortgage loans falls into Level 3 in the fair value hierarchy.

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 determined by our investment team 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.

Other investments

None of the financial instruments included in other investments are measured at fair value on a recurring basis. Financial instruments included in other investments are policy loans, equity method investments and company owned life insurance (COLI). 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. The fair value of our equity method investments qualify as Level 3 fair values and were determined by calculating the present value of future cash flows discounted by a risk free rate, a risk spread and a liquidity discount. The risk spread and liquidity discount are rates determined by our investment professionals and are unobservable market inputs. The fair value of our COLI approximates the cash surrender value of the policies and whose fair values fall within Level 2 of the fair value hierarchy.

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.
Interest rate swap and caps
The fair values of our pay fixed/receive variable interest rate swap and our interest rate caps are obtained from third parties and are determined by discounting expected future cash flows using projected LIBOR rates for the term of the swap and caps.
2015 notes hedges
The fair value of these call options has been 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.
Counterparty collateral
Amounts reported in other assets on 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.
Policy benefit reserves, coinsurance deposits and SPIA benefit reserves
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. For period-certain annuity benefit contracts, the fair value is determined by discounting the benefits at the interest rates currently in effect for newly purchased immediate annuity contracts. 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. Policy benefit reserves, coinsurance deposits and SPIA benefit reserves are not measured at fair value on a recurring basis. All of the fair values presented within these categories fall within Level 3 of the fair value hierarchy as most of the inputs are unobservable market data.
Notes payable
The fair values of our senior unsecured notes and convertible senior notes are based upon pricing matrices developed by a third party pricing service when quoted market prices are not available and are categorized as Level 2 within the fair value hierarchy. Notes payable are not remeasured at fair value on a recurring basis.
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. These fair values are categorized as Level 2 within the fair value hierarchy. Subordinated debentures are not measured at fair value on a recurring basis.
2015 notes embedded conversion derivative
The fair value of this embedded derivative is determined by pricing the call options that hedge this potential liability. The terms of the conversion option 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 benefit reserves 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.

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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 and six months ended June 30, 2015 and 2014:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Available for sale securities				
Beginning balance	$342	$1,080	$375	$1,376
Principal returned	(9)	(114)	(21)	(192)
Amortization of premium/accretion of discount	(409)	(138)	(466)	(165)
Total gains (losses) (realized/unrealized):				
Included in other comprehensive income (loss)	240	45	276	(146)
Included in operations	(138)	(205)	(138)	(205)
Ending balance	$26	$668	$26	$668

The Level 3 assets included in the table above are not material to our financial position, results of operations or cash flows, and it is management's opinion that the sensitivity of the inputs used in determining the fair value of these assets is not material as well.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Fixed index annuities - embedded derivatives				
Beginning balance	$5,865,171	$4,755,913	$5,574,653	$4,406,163
Premiums less benefits	453,317	425,776	813,712	797,729
Change in fair value, net	(334,481)	(61,866)	(404,358)	(84,069)
Ending balance	$5,984,007	$5,119,823	$5,984,007	$5,119,823

Change in fair value, 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.

Certain derivatives embedded in our fixed index annuity contracts are our most significant financial instrument measured at fair value that are categorized as Level 3 in the fair value hierarchy. The contractual obligations for future annual index credits within our fixed index annuity contracts are treated as a "series of embedded derivatives" over the expected life of the applicable contracts. We estimate the fair value of these embedded derivatives at each valuation date by the method described above under fixed index annuities - embedded derivatives. 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 most sensitive assumption in determining policy liabilities for fixed index annuities is the rates used to discount the excess projected contract values. As indicated above, the discount rate reflects our nonperformance risk. If the discount rates used to discount the excess projected contract values at June 30, 2015, were to increase by 100 basis points, the fair value of the embedded derivatives would decrease by $399.3 million recorded through operations as a decrease in the change in fair value of embedded derivatives and there would be a corresponding decrease of $238.6 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as an increase in amortization of deferred policy acquisition costs and deferred sales inducements. A decrease by 100 basis points in the discount rate used to discount the excess projected contract values would increase the fair value of the embedded derivatives by $444.8 million recorded through operations as an increase in the change in fair value of embedded derivatives and there would be a corresponding increase of $254.4 million to our combined balance for deferred policy acquisition costs and deferred sales inducements recorded through operations as a decrease in amortization of deferred policy acquisition costs and deferred sales inducements.

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3. Investments

At June 30, 2015 and December 31, 2014, 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)			
June 30, 2015				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$36,574	$789	$(94)	$37,269
United States Government sponsored agencies	1,345,273	22,461	(21,435)	1,346,299
United States municipalities, states and territories	3,384,101	314,439	(15,525)	3,683,015
Foreign government obligations	210,930	14,110	(4,601)	220,439
Corporate securities	21,682,728	1,038,079	(321,465)	22,399,342
Residential mortgage backed securities	1,498,441	126,122	(5,100)	1,619,463
Commercial mortgage backed securities	3,528,243	62,158	(31,982)	3,558,419
Other asset backed securities	1,006,412	46,800	(11,589)	1,041,623
	$32,692,702	$1,624,958	$(411,791)	$33,905,869
Held for investment:				
Corporate security	$76,526	$—	$(10,821)	$65,705
Equity securities, available for sale:				
Finance, insurance, and real estate	$7,512	$349	$—	$7,861
December 31, 2014				
Fixed maturity securities:				
Available for sale:				
United States Government full faith and credit	$137,710	$765	$(15)	$138,460
United States Government sponsored agencies	1,364,424	43,399	(13,933)	1,393,890
United States municipalities, states and territories	3,293,551	430,469	(711)	3,723,309
Foreign government obligations	181,128	16,628	(3,953)	193,803
Corporate securities	19,984,747	1,628,941	(123,396)	21,490,292
Residential mortgage backed securities	1,616,846	136,704	(2,205)	1,751,345
Commercial mortgage backed securities	2,720,294	90,649	(3,323)	2,807,620
Other asset backed securities	906,346	48,022	(7,885)	946,483
	$30,205,046	$2,395,577	$(155,421)	$32,445,202
Held for investment:				
Corporate security	$76,432	$—	$(594)	$75,838
Equity securities, available for sale:				
Finance, insurance, and real estate	$7,509	$296	$—	$7,805

At June 30, 2015, 33% of our fixed income securities have call features, of which 1.0% ($0.4 billion) were subject to call redemption and another 2% ($0.6 billion) will become subject to call redemption during the next twelve months. Approximately 63% of our fixed income securities that have call features are not callable until within six months of their stated maturities.

The amortized cost and fair value of fixed maturity securities at June 30, 2015, 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 mortgage and other asset backed securities provide for periodic payments throughout their lives and are shown below as separate lines.

	Available for sale		Held for investment	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
Due in one year or less	$115,065	$119,061	$—	$—
Due after one year through five years	1,568,460	1,718,885	—	—
Due after five years through ten years	9,583,053	9,673,185	—	—
Due after ten years through twenty years	7,890,764	8,338,748	—	—
Due after twenty years	7,502,264	7,836,485	76,526	65,705
	26,659,606	27,686,364	76,526	65,705
Residential mortgage backed securities	1,498,441	1,619,463	—	—
Commercial mortgage backed securities	3,528,243	3,558,419	—	—
Other asset backed securities	1,006,412	1,041,623	—	—
	$32,692,702	$33,905,869	$76,526	$65,705

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:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Net unrealized gains on available for sale fixed maturity securities and equity securities	$1,213,516	$2,240,452
Adjustments for assumed changes in amortization of deferred policy acquisition costs and deferred sales inducements	(650,062)	(1,165,271)
Deferred income tax valuation allowance reversal	22,534	22,534
Deferred income tax expense	(197,209)	(376,314)
Net unrealized gains reported as accumulated other comprehensive income	$388,779	$721,401

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 both June 30, 2015 and December 31, 2014.

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

	June 30, 2015		December 31, 2014	
NAIC Designation	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in thousands)			
1	$20,987,149	$21,984,922	$19,223,151	$20,941,634
2	11,066,108	11,324,503	10,432,593	10,981,618
3	678,879	642,995	602,191	583,313
4	24,032	13,774	22,888	14,089
5	—	—	—	—
6	13,060	5,380	655	386

	$32,769,228	$33,971,574	$30,281,478	$32,521,040

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The following table shows our investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities (consisting of 926 and 402 securities, respectively) have been in a continuous unrealized loss position, at June 30, 2015 and December 31, 2014:

	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in thousands)					
June 30, 2015						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$7,614	$(94)	$—	$—	$7,614	$(94)
United States Government sponsored agencies	789,276	(21,435)	—	—	789,276	(21,435)
United States municipalities, states and territories	384,668	(15,340)	2,815	(185)	387,483	(15,525)
Foreign government obligations	43,757	(1,279)	11,088	(3,322)	54,845	(4,601)
Corporate securities:						
Finance, insurance and real estate	1,677,103	(45,815)	77,533	(12,230)	1,754,636	(58,045)
Manufacturing, construction and mining	3,137,250	(113,863)	235,631	(33,320)	3,372,881	(147,183)
Utilities and related sectors	1,669,968	(65,725)	65,412	(5,704)	1,735,380	(71,429)
Wholesale/retail trade	387,401	(14,280)	23,173	(2,312)	410,574	(16,592)
Services, media and other	875,606	(25,991)	33,938	(2,225)	909,544	(28,216)
Residential mortgage backed securities	226,168	(4,380)	9,214	(720)	235,382	(5,100)
Commercial mortgage backed securities	1,516,961	(31,982)	—	—	1,516,961	(31,982)
Other asset backed securities	147,816	(1,213)	51,077	(10,376)	198,893	(11,589)
	$10,863,588	$(341,397)	$509,881	$(70,394)	$11,373,469	$(411,791)
Held for investment:						
Corporate security:						
Insurance	$65,705	$(10,821)	$—	$—	$65,705	$(10,821)
December 31, 2014						
Fixed maturity securities:						
Available for sale:						
United States Government full faith and credit	$—	$—	$498	$(15)	$498	$(15)
United States Government sponsored agencies	—	—	610,339	(13,933)	610,339	(13,933)
United States municipalities, states and territories	—	—	27,947	(711)	27,947	(711)
Foreign government obligations	14,194	(1,068)	11,542	(2,885)	25,736	(3,953)
Corporate securities:						
Finance, insurance and real estate	253,439	(2,586)	399,874	(16,277)	653,313	(18,863)
Manufacturing, construction and mining	1,078,089	(35,151)	694,088	(35,926)	1,772,177	(71,077)
Utilities and related sectors	373,952	(8,185)	344,313	(10,153)	718,265	(18,338)

Wholesale/retail trade	88,766	(2,290)	99,427	(3,122)	188,193	(5,412)
Services, media and other	131,940	(1,567)	277,296	(8,139)	409,236	(9,706)
Residential mortgage backed securities	22,115	(1,219)	20,427	(986)	42,542	(2,205)
Commercial mortgage backed securities	241,637	(1,344)	187,241	(1,979)	428,878	(3,323)
Other asset backed securities	142,094	(3,519)	58,958	(4,366)	201,052	(7,885)
	$2,346,226	$(56,929)	$2,731,950	$(98,492)	$5,078,176	$(155,421)
Held for investment:						
Corporate security:						
Insurance	$—	$—	$75,838	$(594)	$75,838	$(594)

Based on the results of our process for evaluating available for sale securities in unrealized loss positions for other-than-temporary-impairments, which is discussed in detail later in this footnote, we have determined that the unrealized losses on the securities in the preceding table are temporary. The unrealized losses at June 30, 2015 are principally related to timing of the purchases of these securities, which carry less yield than those available at June 30, 2015. In addition, a number of securities have seen their credit spreads remain wide due to issuer or industry specific news while some financial and industrial sector credit spreads remain wide due to continued economic uncertainty and concerns of prolonged economic weakness.

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At June 30, 2015, 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 34 securities with a total amortized cost basis of $226.2 million and a fair value of $253.5 million.

Approximately 86% and 78% of the unrealized losses on fixed maturity securities shown in the above table for June 30, 2015 and December 31, 2014, respectively, are on securities that are rated investment grade, defined as being the highest two NAIC designations. 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 on investments for the three and six months ended June 30, 2015 and 2014 are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Fixed maturity securities held for investment carried at amortized cost	$(17,326)	$1,607	$(10,227)	$5,644
Investments carried at fair value:				
Fixed maturity securities, available for sale	$(1,547,155)	$716,779	$(1,026,989)	$1,693,910
Equity securities, available for sale	11	(6)	53	(19)
	(1,547,144)	716,773	(1,026,936)	1,693,891
Adjustment for effect on other balance sheet accounts:				
Deferred policy acquisition costs and deferred sales inducements	770,285	(372,717)	515,209	(909,469)
Deferred income tax asset/liability	271,900	(120,420)	179,105	(274,547)
	1,042,185	(493,137)	694,314	(1,184,016)
Change in net unrealized gains on investments carried at fair value	$(504,959)	$223,636	$(332,622)	$509,875

Proceeds from sales of available for sale securities for the six months ended June 30, 2015 and 2014 were $242.8 million and $130.4 million, respectively. Scheduled principal repayments, calls and tenders for available for sale securities for the six months ended June 30, 2015 and 2014 were $643.8 million and $809.0 million, respectively.

Realized gains and losses on sales are determined on the basis of specific identification of investments based on the trade date. Net realized gains (losses) on investments, excluding net OTTI losses for the three and six months ended June 30, 2015 and 2014, are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Available for sale fixed maturity securities:				
Gross realized gains	$2,212	$1,173	$4,500	$1,357
Gross realized losses	(511)	(71)	(800)	(762)
	1,701	1,102	3,700	595
Other investments:				
Gain on sale of real estate	195	282	1,033	1,038
Loss on sale of real estate	(193)	(231)	(575)	(231)
Impairment losses on real estate	—	—	(629)	(799)
	2	51	(171)	8
Mortgage loans on real estate:				
Decrease (increase) in allowance for credit losses	(499)	(3,383)	1,299	(3,547)

Recovery of specific allowance	3,120	—	4,375	—
	2,621	(3,383)	5,674	(3,547)
	$4,324	$(2,230)	$9,203	$(2,944)

Losses on available for sale fixed maturity securities were realized primarily due to strategies to reposition the fixed maturity security portfolio that result in improved net investment income, risk or duration profiles as they pertain to our asset liability management.

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.

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We have a policy and process to identify securities that could potentially have impairments that are 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 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 fair 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.

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 determine the amount of expected credit loss by calculating 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 (loss).

The determination of the credit loss component of a 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.

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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 for the six months ended June 30, 2015 and 2014, 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
Six months ended June 30, 2015							
Prime	2006	6.5 %	6.5 %	14 %	14 %	40 %	40 %
	2007	6.4 %	7.0 %	15 %	19 %	55 %	55 %
Alt-A	2005	5.6 %	5.6 %	99 %	99 %	2 %	2 %
Six months ended June 30, 2014							
Prime	2005	7.5 %	7.5 %	15 %	15 %	50 %	50 %
	2006	6.5 %	7.4 %	11 %	12 %	50 %	50 %
Alt-A	2005	5.6 %	6.4 %	87 %	87 %	2 %	2 %

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.

In addition, for debt securities which we do not intend to sell and it is not more likely than not we will be required to sell, but our intent changes due to changes or events that could not have been reasonably anticipated, an other than temporary impairment charge is recognized in net income and amortized cost is written down to fair value. Once an impairment charge has been recorded, we then continue to review the other than temporarily impaired securities for appropriate valuation on an ongoing basis. Unrealized losses may be recognized in future periods through a charge to earnings, should we later conclude that the decline in fair value below amortized cost is other than temporary pursuant to our accounting policy described above. The use of different methodologies and assumptions to determine the fair value of investments and the timing and amount of impairments may have a material effect on the amounts presented in our consolidated financial statements.

The following table summarizes other than temporary impairments for the three and six months ended June 30, 2015 and 2014, by asset type:

	Number of Securities	Total OTTI Losses	Portion of OTTI Losses Recognized from Other Comprehensive Income	Net OTTI Losses Recognized in Operations
		(Dollars in thousands)		
Three months ended June 30, 2015				
Fixed maturity securities, available for sale:				
Residential mortgage backed securities	3	$—	$(828)	$(828)
Three months ended June 30, 2014				

Fixed maturity securities, available for sale:				
Residential mortgage backed securities	3	$—	$(594)	$(594)
Six months ended June 30, 2015				
Fixed maturity securities, available for sale:				
Residential mortgage backed securities	4	$(132)	$(828)	$(960)
Six months ended June 30, 2014				
Fixed maturity securities, available for sale:				
Residential mortgage backed securities	5	$—	$(1,499)	$(1,499)

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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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Cumulative credit loss at beginning of period	$(127,182)	$(126,865)	$(127,050)	$(125,960)
Credit losses on securities for which OTTI has not previously been recognized	—	—	(132)	—
Additional credit losses on securities for which OTTI has previously been recognized	(828)	(594)	(828)	(1,499)
Cumulative credit loss at end of period	$(128,010)	$(127,459)	$(128,010)	$(127,459)

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 (loss), by major type of security, for securities that are part of our investment portfolio at June 30, 2015 and December 31, 2014:

	Amortized Cost	OTTI Recognized in Other Comprehensive Income	Change in Fair Value Since OTTI was Recognized	Fair Value
	(Dollars in thousands)			
June 30, 2015				
Fixed maturity securities, available for sale:				
Corporate securities	$—	$—	$12	$12
Residential mortgage backed securities	524,449	(172,666)	213,900	565,683
	$524,449	$(172,666)	$213,912	$565,695
December 31, 2014				
Fixed maturity securities, available for sale:				
Corporate securities	$—	$—	$11	$11
Residential mortgage backed securities	569,508	(173,494)	215,625	611,639
	$569,508	$(173,494)	$215,636	$611,650

4. Mortgage Loans on Real Estate

Our mortgage loan portfolio, summarized in the following table, totaled $2.5 billion at June 30, 2015 and $2.4 billion December 31, 2014, respectively, with commitments outstanding of $109.6 million at June 30, 2015.

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Principal outstanding	$2,467,950	$2,457,721
Loan loss allowance	(16,816)	(22,633)
Deferred prepayment fees	(458)	(508)
Carrying value	$2,450,676	$2,434,580

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:

	June 30, 2015		December 31, 2014	
	Principal	Percent	Principal	Percent
	(Dollars in thousands)			
Geographic distribution				
East	$722,023	29.3 %	$701,638	28.5 %
Middle Atlantic	166,314	6.7 %	166,249	6.8 %
Mountain	274,743	11.1 %	279,075	11.4 %
New England	9,464	0.4 %	12,280	0.5 %
Pacific	329,543	13.4 %	302,307	12.3 %
South Atlantic	450,083	18.2 %	471,849	19.2 %
West North Central	326,333	13.2 %	349,028	14.2 %
West South Central	189,447	7.7 %	175,295	7.1 %
	$2,467,950	100.0 %	$2,457,721	100.0 %
Property type distribution				
Office	$451,847	18.3 %	$484,585	19.7 %
Medical Office	83,393	3.4 %	88,275	3.6 %
Retail	714,174	28.9 %	711,775	29.0 %
Industrial/Warehouse	664,066	26.9 %	649,425	26.4 %
Hotel	18,411	0.8 %	30,640	1.3 %
Apartment	373,550	15.1 %	335,087	13.6 %
Mixed use/other	162,509	6.6 %	157,934	6.4 %
	$2,467,950	100.0 %	$2,457,721	100.0 %

Our financing receivables currently consist of one portfolio segment which is our commercial mortgage loan portfolio. These are mortgage loans with collateral consisting of commercial real estate and borrowers consisting mostly of limited liability partnerships or limited liability corporations.

We evaluate our mortgage loan portfolio for the establishment of a loan loss allowance by specific identification of impaired loans and the measurement of an estimated loss for each individual loan identified. A mortgage loan is impaired when it is probable that we will be unable to collect all amounts due according to the contractual terms of the loan agreement. If we determine that the value of any specific mortgage loan is impaired, the carrying amount of the mortgage loan will be reduced to its fair value, based upon the present value of expected future cash flows from the loan discounted at the loan's effective interest rate, or the fair value of the underlying collateral less estimated costs to sell.

In addition, we analyze the mortgage loan portfolio for the need of a general loan allowance for probable losses on all other loans on a quantitative and qualitative basis. The amount of the general loan allowance is based upon management's evaluation of the collectability of the loan portfolio, historical loss experience, delinquencies, credit concentrations, underwriting standards and national and local economic conditions.

We rate each of the mortgage loans in our portfolio based on factors such as historical operating performance, loan to value ratio and economic outlook, among others. We calculate a loss factor to apply to each rating based on historical losses we have recognized in our mortgage loan portfolio. We apply the loss factors to the total principal outstanding within each rating category to determine an appropriate estimate of the general loan loss allowance. We also assess the portfolio qualitatively and apply a loss rate to all loans without a specific allowance based on management's assessment of economic conditions, and we apply an additional amount of loss allowance to a group of loans that we have identified as having higher risk of loss.

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The following table presents a rollforward of our specific and general valuation allowances for mortgage loans on real estate:

	Three Months Ended June 30, 2015		Three Months Ended June 30, 2014	
	Specific Allowance	General Allowance	Specific Allowance	General Allowance
	(Dollars in thousands)			
Beginning allowance balance	$(12,452)	$(7,000)	$(16,462)	$(8,800)
Charge-offs	15	—	1,808	—
Recoveries	3,120	—	255	—
Change in provision for credit losses	1	(500)	(2,883)	(500)
Ending allowance balance	$(9,316)	$(7,500)	$(17,282)	$(9,300)

	Six Months Ended June 30, 2015		Six Months Ended June 30, 2014	
	Specific Allowance	General Allowance	Specific Allowance	General Allowance
	(Dollars in thousands)			
Beginning allowance balance	$(12,333)	$(10,300)	$(16,847)	$(9,200)
Charge-offs	143	—	2,757	—
Recoveries	4,375	—	255	—
Change in provision for credit losses	(1,501)	2,800	(3,447)	(100)
Ending allowance balance	$(9,316)	$(7,500)	$(17,282)	$(9,300)

The specific allowance represents the total credit loss allowances on loans which are individually evaluated for impairment. The general allowance is for the group of loans discussed above which are collectively evaluated for impairment. The following table presents the total outstanding principal of loans evaluated for impairment by basis of impairment method:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Individually evaluated for impairment	$24,725	$29,116
Collectively evaluated for impairment	2,443,225	2,428,605
Total loans evaluated for impairment	$2,467,950	$2,457,721

Charge-offs include allowances that have been established on loans that were satisfied by taking ownership of the collateral. When ownership of the property is taken it is recorded at the lower of the mortgage loan's carrying value or the property's fair value (based on appraised values) less estimated costs to sell. The real estate owned is recorded as a component of other investments and the mortgage loan is recorded as fully paid, with any allowance for credit loss that has been established charged off. Fair value of the real estate is determined by third party appraisal. Recoveries are situations where we have received a payment from the borrower in an amount greater than the carrying value of the loan (principal outstanding less specific allowance).

During the three and six months ended June 30, 2015, no mortgage loans were satisfied by taking ownership of any real estate serving as collateral compared to four and five mortgage loans for the same periods in 2014. The following table summarizes the activity in the real estate owned, included in Other investments, which was obtained in satisfaction of mortgage loans on real estate:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Real estate owned at beginning of period	$14,611	$20,592	$20,238	$22,844

Real estate acquired in satisfaction of mortgage loans	—	8,294	—	10,007
Sales	(1,581)	(4,118)	(6,480)	(7,148)
Impairments	—	—	(629)	(799)
Depreciation	(72)	(162)	(171)	(298)
Real estate owned at end of period	$12,958	$24,606	$12,958	$24,606

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We analyze credit risk of our mortgage loans by analyzing all available evidence on loans that are delinquent and loans that are in a workout period.

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Credit Exposure--By Payment Activity		
Performing	$2,445,361	$2,451,760
In workout	11,897	—
Delinquent	6,844	—
Collateral dependent	3,848	5,961
	$2,467,950	$2,457,721

The loans that are categorized as "in workout" consist of loans that we have agreed to lower or no mortgage payments for a period of time while the borrowers address cash flow and/or operational issues. The key features of these workouts have been determined on a loan-by-loan basis. Most of these loans are in a period of low cash flow due to tenants vacating their space or tenants requesting rent relief during difficult economic periods. Generally, we have allowed the borrower a six month interest only period and in some cases a twelve month period of interest only. Interest only workout loans are expected to return to their regular debt service payments after the interest only period. Interest only loans that are not fully amortizing will have a larger balance at their balloon date than originally contracted. Fully amortizing loans that are in interest only periods will have larger debt service payments for their remaining term due to lost principal payments during the interest only period. In limited circumstances we have allowed borrowers to pay the principal portion of their loan payment into an escrow account that can be used for capital and tenant improvements for a period of not more than twelve months. In these situations new loan amortization schedules are calculated based on the principal not collected during this twelve month workout period and larger payments are collected for the remaining term of each loan. In all cases, the original interest rate and maturity date have not been modified, and we have not forgiven any principal amounts.

Mortgage loans are considered delinquent when they become 60 days or more past due. In general, when loans become 90 days past due, become collateral dependent or enter a period with no debt service payments required we place them on non-accrual status and discontinue recognizing interest income. If payments are received on a delinquent loan, interest income is recognized to the extent it would have been recognized if normal principal and interest would have been received timely. If payments are received to bring a delinquent loan back to current we will resume accruing interest income on that loan. Outstanding principal of loans in a non-accrual status at June 30, 2015 and December 31, 2014 totaled $3.8 million and $6.0 million, respectively.

We define collateral dependent loans as those mortgage loans for which we will depend on the value of the collateral real estate to satisfy the outstanding principal of the loan.

All of our commercial mortgage loans depend on the cash flow of the borrower to be at a sufficient level to service the principal and interest payments as they come due. In general, cash inflows of the borrowers are generated by collecting monthly rent from tenants occupying space within the borrowers' properties. Our borrowers face collateral risks such as tenants going out of business, tenants struggling to make rent payments as they become due, and tenants canceling leases and moving to other locations. We have a number of loans where the real estate is occupied by a single tenant. Our borrowers sometimes face both a reduction in cash flow on their mortgage property as well as a reduction in the fair value of the real estate collateral. If borrowers are unable to replace lost rent revenue and increases in the fair value of their property do not materialize we could potentially incur more losses than what we have allowed for in our specific and general loan loss allowances.

Aging of financing receivables is summarized in the following table, with loans in a "workout" period as of the reporting date considered current if payments are current in accordance with agreed upon terms:

	30 - 59 Days	60 - 89 Days	90 Days and Over	Total Past Due	Current	Collateral Dependent Receivables	Total Financing Receivables
	(Dollars in thousands)						

Commercial Mortgage Loans							
June 30, 2015	$—	$—	$6,844	$6,844	$2,457,258	$3,848	$2,467,950
December 31, 2014	$—	$—	$—	$—	$2,451,760	$5,961	$2,457,721

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Financing receivables summarized in the following two tables represent all loans that we are either not currently collecting, or those we feel it is probable we will not collect, all amounts due according to the contractual terms of the loan agreements (all loans that we have worked with the borrower to alleviate short-term cash flow issues, loans delinquent for 60 days or more at the reporting date, loans we have determined to be collateral dependent and loans that we have recorded specific impairments on that we feel may continue to have performance issues).

	Recorded Investment	Unpaid Principal Balance	Related Allowance
	(Dollars in thousands)		
June 30, 2015			
Mortgage loans with an allowance	$15,409	$24,725	$(9,316)
Mortgage loans with no related allowance	11,844	11,844	—
	$27,253	$36,569	$(9,316)
December 31, 2014			
Mortgage loans with an allowance	$16,783	$29,116	$(12,333)
Mortgage loans with no related allowance	2,656	2,656	—
	$19,439	$31,772	$(12,333)

	Average Recorded Investment	Interest Income Recognized
	(Dollars in thousands)	
Three months ended June 30, 2015		
Mortgage loans with an allowance	$15,518	$394
Mortgage loans with no related allowance	11,856	180
	$27,374	$574
Three months ended June 30, 2014		
Mortgage loans with an allowance	$27,054	$600
Mortgage loans with no related allowance	2,656	13
	$29,710	$613
Six months ended June 30, 2015		
Mortgage loans with an allowance	$15,893	$738
Mortgage loans with no related allowance	11,873	372
	$27,766	$1,110
Six months ended June 30, 2014		
Mortgage loans with an allowance	$27,236	$1,235
Mortgage loans with no related allowance	2,656	—
	$29,892	$1,235

A Troubled Debt Restructuring ("TDR") is a situation where we have granted a concession to a borrower for economic or legal reasons related to the borrower's financial difficulties that we would not otherwise consider. A mortgage loan that has been granted new terms, including workout terms as described previously, would be considered a TDR if it meets conditions that would indicate a borrower is experiencing financial difficulty and the new terms constitute a concession on our part. We analyze all loans where we have agreed to workout terms and all loans that we have refinanced to determine if they meet the definition of a TDR. We consider the following factors in determining whether or not a borrower is experiencing financial difficulty:

- borrower is in default,
- borrower has declared bankruptcy,
- there is growing concern about the borrower's ability to continue as a going concern,
- borrower has insufficient cash flows to service debt,
- borrower's inability to obtain funds from other sources, and
- there is a breach of financial covenants by the borrower.

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If the borrower is determined to be in financial difficulty, we consider the following conditions to determine if the borrower was granted a concession:

- assets used to satisfy debt are less than our recorded investment,
- interest rate is modified,
- maturity date extension at an interest rate less than market rate,
- capitalization of interest,
- delaying principal and/or interest for a period of three months or more, and
- partial forgiveness of the balance or charge-off.

Mortgage loan workouts, refinances or restructures that are classified as TDRs are individually evaluated and measured for impairment. A summary of mortgage loans on commercial real estate with outstanding principal at June 30, 2015 and December 31, 2014 that we determined to be TDRs are as follows:

Geographic Region	Number of TDRs	Principal Balance Outstanding	Specific Loan Loss Allowance	Net Carrying Amount
		(Dollars in thousands)		
June 30, 2015				
South Atlantic	6	$10,878	$(2,992)	$7,886
East North Central	2	3,345	(467)	2,878
West North Central	2	7,790	(1,046)	6,744
	10	$22,013	$(4,505)	$17,508
December 31, 2014				
South Atlantic	7	14,475	(4,244)	10,231
East North Central	1	2,177	(467)	1,710
West North Central	1	1,881	(1,047)	834
	9	$18,533	$(5,758)	$12,775

5. Derivative Instruments

We recognize all derivative instruments as assets or liabilities in the consolidated balance sheets at fair value. None of our derivatives qualify for hedge accounting, thus, any change in the fair value of the derivatives is recognized immediately in the consolidated statements of operations. The fair value of our derivative instruments, including derivative instruments embedded in fixed index annuity contracts and derivative instruments embedded in a convertible debt issue, presented in the consolidated balance sheets are as follows:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Assets		
Derivative instruments		
Call options	$503,953	$731,113
Other assets		
2015 notes hedges	26,916	30,291
Interest rate caps	2,324	2,778
	$533,193	$764,182
Liabilities		
Policy benefit reserves - annuity products		
Fixed index annuities - embedded derivatives	$5,984,007	$5,574,653
Other liabilities		
2015 notes embedded conversion derivative	26,916	30,291
Interest rate swap	2,644	2,644
	$6,013,567	$5,607,588

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The changes in fair value of derivatives included in the unaudited consolidated statements of operations are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands)			
Change in fair value of derivatives:				
Call options	$(20,141)	$273,769	$(49,361)	$345,242
2015 notes hedges	(3,942)	100	(3,375)	(20,301)
Interest rate swap	827	(1,848)	(934)	(3,250)
Interest rate caps	232	(1,138)	(454)	(2,315)
	$(23,024)	$270,883	$(54,124)	$319,376
Change in fair value of embedded derivatives:				
Fixed index annuities—embedded derivatives	$(215,659)	$85,067	$(165,013)	$198,087
2015 notes embedded conversion derivative	$(3,942)	$(4,132)	(3,375)	(24,533)
	$(219,601)	$80,935	$(168,388)	$173,554

We have fixed index annuity products that guarantee the return of principal to the policyholder and credit interest based on a percentage of the gain in a specified market index. When fixed index annuity deposits are received, a portion of the deposit is used to purchase derivatives consisting of call options on the applicable market indices to fund the index credits due to fixed index annuity policyholders. Substantially all such call options are one year options purchased to match the funding requirements of the underlying policies. The call options are marked to fair value with the change in fair value included as a component of revenues. The change in fair value of derivatives includes the gains or losses recognized at the expiration of the option term or upon early termination and the changes in fair value for open positions. On the respective anniversary dates of the index policies, the index used to compute the annual index credit is reset and we purchase new one-year call options to fund the next annual index credit. We manage the cost of these purchases through the terms of our fixed index annuities, which permit us to change caps, participation rates, and/or asset fees, subject to guaranteed minimums on each policy's anniversary date. By adjusting caps, participation rates, or asset fees, we can generally manage option costs except in cases where the contractual features would prevent further modifications.

Our strategy attempts to mitigate any potential risk of loss under these agreements through a regular monitoring process which evaluates the program's effectiveness. We do not purchase call options that would require payment or collateral to another institution and our call options do not contain counterparty credit-risk-related contingent features. We are exposed to risk of loss in the event of nonperformance by the counterparties and, accordingly, we purchase our option contracts from multiple counterparties and evaluate the creditworthiness of all counterparties prior to purchase of the contracts. All of these options have been purchased from nationally recognized financial institutions with a Standard and Poor's credit rating of A- or higher at the time of purchase and the maximum credit exposure to any single counterparty is subject to concentration limits. We also have credit support agreements that allow us to request the counterparty to provide collateral to us when the fair value of our exposure to the counterparty exceeds specified amounts.

The notional amount and fair value of our call options by counterparty and each counterparty's current credit rating are as follows:

Counterparty	Credit Rating (S&P)	Credit Rating (Moody's)	June 30, 2015 Notional Amount	June 30, 2015 Fair Value	December 31, 2014 Notional Amount	December 31, 2014 Fair Value
			(Dollars in thousands)			
Bank of America	A	A1	$4,579,352	$85,902	$2,114,812	$62,932
Barclays	A-	A2	3,147,493	75,319	4,083,259	135,609
BNP Paribas	A+	A1	1,511,811	29,220	1,321,136	42,644
Citibank, N.A.	A	A1	3,029,615	40,285	3,190,204	96,759

Credit Suisse	A	A1	1,856,096	32,128	2,354,811	75,381
Deutsche Bank	BBB+	A3	2,498,954	35,450	2,682,960	64,028
HSBC	AA-	Aa3	—	—	38,599	1,767
J.P. Morgan	A+	Aa3	602,951	6,190	401,804	13,488
Morgan Stanley	A-	A3	2,914,931	52,982	2,605,687	77,106
Royal Bank of Canada	AA-	Aa3	1,911,994	42,735	1,364,362	41,717
SunTrust	A-	Baa1	836,304	15,392	248,622	5,405
Wells Fargo	AA-	Aa2	3,839,915	88,350	3,550,188	114,277
			$26,729,416	$503,953	$23,956,444	$731,113

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As of June 30, 2015 and December 31, 2014, we held $552.1 million and $743.0 million, respectively, of cash and cash equivalents and other securities from counterparties for derivative collateral, which is included in other liabilities on our consolidated balance sheets. This derivative collateral limits the maximum amount of economic loss due to credit risk that we would incur if parties to the call options failed completely to perform according to the terms of the contracts to $23.3 million and $47.4 million at June 30, 2015 and December 31, 2014, respectively.
The future annual index credits on our fixed index annuities are treated as a "series of embedded derivatives" over the expected life of the applicable contract. We do not purchase call options to fund the index liabilities which may arise after the next policy anniversary date. We must value both the call options and the related forward embedded options in the policies at fair value. During the three months ended June 30, 2014, we revised future period assumptions for lapse rates and the expected costs of annual call options used in determining fixed index annuity embedded derivatives. These revisions decreased the change in fair value of embedded derivatives for the three and six months ended June 30, 2014 by $62.6 million, which after related adjustments to deferred sales inducements and deferred policy acquisition costs and income taxes, increased net income and earnings per common share - assuming dilution by $14.8 million and $0.19, respectively.
We entered into an interest rate swap and interest rate caps to manage interest rate risk associated with the floating rate component on certain of our subordinated debentures. See Note 10 in our Annual Report on Form 10-K for the year ended December 31, 2014 for more information on our subordinated debentures. The terms of the interest rate swap provide that we pay a fixed rate of interest and receive a floating rate of interest. The terms of the interest rate caps limit the three month London Interbank Offered Rate ("LIBOR") to 2.50%. The interest rate swap and caps are not effective hedges under accounting guidance for derivative instruments and hedging activities. Therefore, we record the interest rate swap and caps at fair value and any net cash payments received or paid are included in the change in fair value of derivatives in the unaudited consolidated statements of operations.
Details regarding the interest rate swap are as follows:

Maturity Date	Notional Amount	Receive Rate	Pay Rate	Counterparty	June 30, 2015 Fair Value	December 31, 2014 Fair Value
					(Dollars in thousands)	
March 15, 2021	$85,500	LIBOR	2.415 %	SunTrust	$(2,644)	$(2,644)

Details regarding the interest rate caps are as follows:

Maturity Date	Notional Amount	Floating Rate	Cap Rate	Counterparty	June 30, 2015 Fair Value	December 31, 2014 Fair Value
					(Dollars in thousands)	
July 7, 2021	$40,000	LIBOR	2.50 %	SunTrust	$1,168	$1,398
July 8, 2021	12,000	LIBOR	2.50 %	SunTrust	350	420
July 29, 2021	27,000	LIBOR	2.50 %	SunTrust	806	960
	$79,000				$2,324	$2,778

The interest rate swap converts floating rates to fixed rates for seven years which began in March 2014. The interest rate caps cap our interest rates for seven years which began in July 2014.
In September 2010, concurrently with the issuance of $200.0 million principal amount of 3.50% Convertible Senior Notes due September 15, 2015 (the "2015 notes"), we entered into hedge transactions (the "2015 notes hedges") with two counterparties whereby we would receive the cash equivalent of the conversion spread on 16.0 million shares of our common stock based upon a strike price of $12.50 per share, subject to certain conversion rate adjustments in the 2015 notes. The number of shares and strike price of the 2015 notes hedges are subject to adjustment based on dividends we pay subsequent to their purchase. The 2015 notes hedges expire on September 15, 2015, and must be settled in cash. The 2015 notes hedges are accounted for as derivative assets and are included in other assets in our consolidated balance sheets. The 2015 notes hedges and 2015 notes embedded conversion derivative are adjusted to

fair value each reporting period and unrealized gains and losses are reflected in our consolidated statements of operations.

In separate transactions, we sold warrants (the "2015 warrants") to the 2015 notes hedges counterparties for the purchase of up to 16.0 million shares of our common stock at a price of $16.00 per share. We received $15.6 million in cash proceeds from the sale of the 2015 warrants, which was recorded as an increase in additional paid-in capital. The number of shares and strike price of the warrants are subject to adjustment based on dividends we pay subsequent to selling the warrants. The warrants expire on various dates from December 2015 through March 2016 and are intended to be settled in net shares. Changes in the fair value of these warrants will not be recognized in our consolidated financial statements as long as the instruments remain classified as equity.

At June 30, 2015 and December 31, 2014, as a result of partial unwind transactions executed in 2013 and 2014 and cash dividend adjustments, we had 2015 notes hedges and 2015 warrants outstanding on 1.8 million shares of our common stock at strike prices of $12.25 and $15.68 per share, respectively.

At June 30, 2015 and 2014, the remaining 2015 warrants were dilutive as the average price of our common stock exceeded the strike price of the 2015 warrants and the effect has been included in diluted earnings per share for the three and six months ended June 30, 2015 and 2014.

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6. Notes Payable

The carrying amount of the 2015 notes and the amount by which the if-converted value exceeds the outstanding principal for the 2015 notes is as follows:

	June 30, 2015	December 31, 2014
	(Dollars in thousands)	
Principal amount of liability component	$22,377	$22,377
Unamortized discount	(214)	(698)
Net carrying amount of liability component	$22,163	$21,679
Amount by which the if-converted value exceeds principal	$26,494	$30,497

The discount is being amortized over the expected life of the 2015 notes, which is the maturity date of September 15, 2015. The effective interest rate for the 2015 notes is 8.9%. The interest cost recognized in operations for the convertible notes, inclusive of the coupon and amortization of the discount and debt issue costs, was $0.5 million and $1.0 million for the three and six months ended June 30, 2015, compared to $2.3 million and $5.7 million for the same periods in 2014. The 2015 notes are excluded from the dilutive effect in our diluted earnings per share calculation as they are intended to be settled only in cash.

During the six months ended June 30, 2014, we extinguished $36.2 million principal amount of our 2029 notes and $46.5 million principal amount of our 2015 notes. Total consideration paid to holders of the 2029 notes consisted of $66.8 million in cash and and $23.2 million in shares of our common stock (946,793 shares). The carrying value of the 2029 notes at extinguishment was $34.6 million which resulted in a loss of $2.5 million on extinguishment of debt, net of income taxes. Total consideration paid to holders of the 2015 notes consisted of $52.9 million in cash and $33.1 million in shares of our common stock (1,496,664 shares). The carrying value of the 2015 notes at extinguishment was $43.8 million which resulted in a loss of $5.4 million, net of income taxes.

We have a $140 million unsecured revolving line of credit agreement with five banks that terminates on November 22, 2017. The interest rate is floating at a rate based on our election that will be equal to the alternate base rate (as defined in the credit agreement) plus the applicable margin or the adjusted LIBOR rate (as defined in the credit agreement) plus the applicable margin. We also pay a commitment fee based on the available unused portion of the credit facility. The applicable margin and commitment fee rate are based on our credit rating and can change throughout the period of the credit facility. Based upon our current credit rating, the applicable margin is 1.00% for alternate base rate borrowings and 2.00% for adjusted LIBOR rate borrowings, and the commitment fee is 0.35%. Under this agreement, we are required to maintain a minimum risk-based capital ratio at our subsidiary, American Equity Investment Life Insurance Company ("American Equity Life"), of 275%, a maximum ratio of adjusted debt to total adjusted capital of 0.35, and a minimum level of statutory surplus at American Equity Life equal to the sum of 1) 80% of statutory surplus at September 30, 2013, 2) 50% of the statutory net income for each fiscal quarter ending after September 30, 2013, and 3) 50% of all capital contributed to American Equity Life after September 30, 2013. The agreement contains an accordion feature that allows us, on up to three occasions and subject to credit availability, to increase the credit facility by an additional $50 million in the aggregate. We also have the ability to extend the maturity date by an additional one year past the initial maturity date of November 22, 2017 with the consent of the extending banks. There are currently no guarantors of the credit facility, but certain of our subsidiaries must guarantee our obligations under the credit agreement if such subsidiaries guarantee other material amounts of our debt. No amounts were outstanding at June 30, 2015 and December 31, 2014. As of June 30, 2015, $511.9 million is unrestricted and could be distributed to shareholders and still be in compliance with all covenants under this credit agreement.

As part of our investment strategy, we enter into securities repurchase agreements (short-term collateralized borrowings). The maximum amount borrowed was $40.6 million and $138.7 million during the six months ended June 30, 2015 and 2014, respectively. When we do borrow cash on these repurchase agreements, we pledge collateral in the form of debt securities with fair values approximately equal to the amount due and we use the cash to purchase debt securities ahead of the time we collect the cash from selling annuity policies to avoid a lag between the investment of funds and the obligation to credit interest to policyholders. We earn investment income on the securities purchased with these borrowings at a rate in excess of the cost of these borrowings. Such borrowings averaged $0.9 million for the six months ended June 30, 2015 compared to $13.7 million for the six months ended June 30, 2014. We had no borrowings under repurchase agreements during the three months ended June 30, 2015 and 2014, respectively. The weighted average interest rate on amounts due under repurchase agreements was 0.39% for the six months ended June 30, 2015 compared to 0.15% for the six months ended June 30, 2014.

7. Commitments and Contingencies

We are occasionally involved in litigation, both as a defendant and as a plaintiff. In addition, state regulatory bodies, such as state insurance departments, the SEC, FINRA, the Department of Labor, and other regulatory bodies regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, insurance laws, securities laws, the Employee Retirement Income Security Act of 1974, as amended, and laws governing the activities of broker-dealers.

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In accordance with applicable accounting guidelines, we establish an accrued liability for litigation and regulatory matters when those matters present loss contingencies that are both probable and estimable. As a litigation or regulatory matter is developing we, in conjunction with outside counsel, evaluate on an ongoing basis whether the matter presents a loss contingency that meets conditions indicating the need for accrual and/or disclosure, and if not the matter will continue to be monitored for further developments. If and when the loss contingency related to litigation or regulatory matters is deemed to be both probable and estimable, we will establish an accrued liability with respect to that matter and will continue to monitor the matter for further developments that may affect the amount of the accrued liability.

Companies in the life insurance and annuity business have faced litigation, including class action lawsuits, alleging improper product design, improper sales practices and similar claims. We were a defendant in a purported class action, McCormack, et al. v. American Equity Investment Life Insurance Company, et al., in the United States District Court for the Central District of California, Western Division and Anagnostis v. American Equity, et al., coordinated in the Central District, entitled, In Re: American Equity Annuity Practices and Sales Litigation (complaint filed September 7, 2005) (the "Los Angeles Case"), involving allegations of improper sales practices and similar claims.

The Los Angeles Case was a consolidated action involving several lawsuits filed by putative class members seeking class action status for a national class of purchasers of annuities issued by us. On July 30, 2013, the parties entered into a settlement agreement and stipulated to certification of the case as a class action for settlement purposes only. Notice of the terms of the settlement was mailed to the members of the class on October 7, 2013 and settlement claim forms were due from members of the class on or before December 6, 2013. On January 27, 2014, a hearing was held regarding the fairness of the settlement. On January 29, 2014, the District Court signed a final order approving the settlement and finding the settlement is fair and represents a complete resolution of all claims asserted on behalf of the class. On January 30, 2014, a final judgment was entered dismissing the case on the merits and with prejudice. On February 28, 2014, a member of the class filed an appeal of the District Court's approval of the terms of the settlement agreement with the United States Court of Appeals for the Ninth Circuit.

We recorded an estimated litigation liability of $17.5 million during the third quarter of 2012 related to the Los Angeles Case. We increased our estimated litigation liability for this matter to $21.2 million during the fourth quarter of 2013 following the passage of the deadline for submission of claims by class members in the lawsuit and based upon information available at that time. However, we decreased the liability by $2.3 million in the first quarter of 2014 as additional information became available concerning the nature and magnitude of the claims received. In addition, during the first quarter of 2014, we paid $7.8 million in legal fees to the plaintiffs' counsel. The estimated litigation liability at June 30, 2015 is $11.1 million. While review of the claim forms has been stayed due to the appeal and it is difficult to predict the amount of the liabilities that will ultimately result from the completion of the claims process, the $11.1 million litigation liability represents our best estimate of probable loss with respect to this litigation.

In light of the inherent uncertainties involved in the matter described above, there can be no assurance that such litigation, or any other pending or future litigation, will not have a material adverse effect on our business, financial condition, or results of operations.

In addition to our commitments to fund mortgage loans, we have unfunded commitments at June 30, 2015 to limited partnerships of $28.7 million and to secured bank loans of $19.2 million.

8. Earnings Per Share

The following table sets forth the computation of earnings per common share and earnings per common share - assuming dilution:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Numerator:				
Net income - numerator for earnings per common share	$82,845	$36,744	$88,748	$26,991
Denominator:				

Weighted average common shares outstanding (1)	77,237,200	74,461,264	77,139,992	73,495,286
Effect of dilutive securities:				
Convertible senior notes	—	2,259,425	—	2,843,987
2015 warrants	779,926	1,595,519	793,132	1,981,815
Stock options and deferred compensation agreements	1,087,893	1,154,726	1,123,614	1,220,996
Restricted stock and restricted stock units	122,298	46,870	116,405	40,679
Denominator for earnings per common share - assuming dilution	79,227,317	79,517,804	79,173,143	79,582,763
Earnings per common share	$1.07	$0.49	$1.15	$0.37
Earnings per common share - assuming dilution	$1.05	$0.46	$1.12	$0.34

(1) Weighted average common shares outstanding include shares vested under the NMO Deferred Compensation Plan and exclude unallocated shares held by the ESOP.

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Options to purchase shares of our common stock that were outstanding during the respective periods indicated but were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common shares are as follows:

Period	Number of Shares	Range of Exercise Prices	
		Minimum	Maximum
Three months ended June 30, 2015	—	$—	$—
Three months ended June 30, 2014	1,277,650	$24.79	$24.79
Six months ended June 30, 2015	—	$—	$—
Six months ended June 30, 2014	1,277,650	$24.79	$24.79

9. Subsequent Event

In August 2015, we commenced and priced an underwritten public offering of 8,600,000 shares of our common stock at a public offering price of $25.25 per share, of which 4,300,000 shares are subject to a forward sale agreement described below. The offering of 4,300,000 shares of our common stock (shares not subject to the forward sale agreement) will result in initial net proceeds of approximately $104.2 million (after deducting fees and estimated expenses related to the offering). The underwriters have exercised in full their option to purchase 1,290,000 additional shares of common stock, which will be subject to a separate forward sale agreement. The closing of the offering, together with the closing of the sale of shares to the underwriters pursuant to their option to purchase additional shares, is expected to occur on or about August 12, 2015 subject to customary closing conditions. In connection with this offering, we entered into a forward sale agreement and, in connection with the election of the underwriters to purchase additional shares, we will enter into an additional forward sale agreement with the forward counterparty. Settlement of the forward sale agreements will occur on one or more dates occurring no later than 12 months after the closing date of the offering. We intend to use the net proceeds from the offering for general corporate purposes, including contributions to the capital and surplus of our life insurance subsidiaries.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's discussion and analysis reviews our unaudited consolidated financial position at June 30, 2015, and the unaudited consolidated results of operations for the three and six month periods ended June 30, 2015 and 2014, and where appropriate, factors that may affect future financial performance. This analysis should be read in conjunction with our unaudited consolidated financial statements and notes thereto appearing elsewhere in this Form 10-Q, and the audited consolidated financial statements, notes thereto and selected consolidated financial data appearing in our Annual Report on Form 10-K for the year ended December 31, 2014.

Cautionary Statement Regarding Forward-Looking Information

All statements, trend analyses and other information contained in this report and elsewhere (such as in filings by us with the Securities and Exchange Commission ("SEC"), press releases, presentations by us or our management or oral statements) relative to markets for our products and trends in our operations or financial results, as well as other statements including words such as "anticipate", "believe", "plan", "estimate", "expect", "intend", and other similar expressions, constitute forward-looking statements. We caution that these statements may and often do vary from actual results and the differences between these statements and actual results can be material. Accordingly, we cannot assure you that actual results will not differ materially from those expressed or implied by the forward-looking statements. Factors that could contribute to these differences include, among other things:

- general economic conditions and other factors, including prevailing interest rate levels and stock and credit market performance which may affect (among other things) our ability to sell our products, our ability to access capital resources and the costs associated therewith, the fair value of our investments, which could result in impairments and other than temporary impairments, and certain liabilities, and the lapse rate and profitability of policies;
- customer response to new products and marketing initiatives;
- changes in Federal income tax laws and regulations which may affect the relative income tax advantages of our products;
- increasing competition in the sale of annuities;
- regulatory changes or actions, including those relating to regulation of financial services affecting (among other things) bank sales and underwriting of insurance products and regulation of the sale, underwriting and pricing of products; and
- the risk factors or uncertainties listed from time to time in our filings with the SEC.

For a detailed discussion of these and other factors that might affect our performance, see Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2014 and Item 1A of our Quarterly Report on Form 10-Q for the three months ended March 31, 2015.

Overview

We specialize in the sale of individual annuities (primarily deferred annuities) and, to a lesser extent, we also sell life insurance policies. Under U.S. generally accepted accounting principles ("GAAP"), premium collections for deferred annuities are reported as deposit liabilities instead of as revenues. Similarly, cash payments to policyholders are reported as decreases in the liabilities for policyholder account balances and not as expenses. Sources of revenues for products accounted for as deposit liabilities are net investment income, surrender and other charges deducted from the account balances of policyholders, net realized gains (losses) on investments and changes in fair value of derivatives. Components of expenses for products accounted for as deposit liabilities are interest sensitive and index product benefits (primarily interest credited to account balances), changes in fair value of embedded derivatives, amortization of deferred sales inducements and deferred policy acquisition costs, other operating costs and expenses and income taxes.

Our business model contemplates continued growth in invested assets and operating income while maintaining a high quality investment portfolio that will not experience significant losses from impairments of invested assets. Growth in invested assets is predicated on a continuation of attaining a high level of sales while at the same time maintaining a high level of retention of the funds received. The economic and personal investing environments continue to be conducive for high sales levels as retirees and others look to put their money in instruments that will protect their principal and provide them with consistent cash flow sources in their retirement years. We are committed to maintaining a high quality investment portfolio with limited exposure to below investment grade securities and other riskier assets.

Earnings from products accounted for as deposit liabilities are primarily generated from the excess of net investment income earned over the interest credited or the cost of providing index credits to the policyholder, or the "investment spread." Our investment spread is summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Average yield on invested assets	4.78%	4.83%	4.76%	4.89%
Aggregate cost of money	1.94%	2.13%	1.96%	2.15%
Aggregate investment spread	2.84%	2.70%	2.80%	2.74%
Impact of:				
Investment yield - additional prepayment income	0.07%	0.01%	0.04%	0.03%
Cost of money benefit of over hedging	0.07%	0.03%	0.06%	0.01%

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The cost of money for fixed index annuities and average crediting rates for fixed rate annuities are computed based upon policyholder account balances and do not include the impact of amortization of deferred sales inducements. See Critical Accounting Policies - Deferred Policy Acquisition Costs and Deferred Sales Inducements included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2014. With respect to our fixed index annuities, the cost of money includes the average crediting rate on amounts allocated to the fixed rate strategy, expenses we incur to fund the annual index credits (primarily costs to purchase call options) and where applicable, minimum guaranteed interest credited. Proceeds received upon expiration of call options purchased to fund annual index credits are recorded as part of the change in fair value of derivatives, and are largely offset by an expense for interest credited to annuity policyholder account balances. See Critical Accounting Policies - Policy Liabilities for Fixed Index Annuities and Financial Condition - Derivative Instruments included in Management's Discussion and Analysis in our Annual Report on Form 10-K for the year ended December 31, 2014.
As reported in previous filings, in response to the persistent low interest rate environment, we have been reducing policyholder crediting rates for new annuities and existing annuities since the fourth quarter of 2011. Spread results for the 2015 and 2014 periods reflect the benefit from these reductions; however, the reductions in cost of money were offset by continued lower yields available on investments. We reduced new money crediting rates in early March of 2015 by approximately 0.20%. In addition, during the first quarter of 2015, we began to initiate additional renewal crediting rate reductions on existing policies. A portion of the 2015 renewal rate reductions occurred in the first and second quarters of 2015 but a majority will occur on policy anniversary dates over the next twelve months. Our active management of renewal crediting rates will continue should the low investment yields currently available to us persist. The current interest rate environment with low yields for investments with the credit quality we prefer presents a strong headwind to restoring our investment spread to the 3.00% target rate. With our portfolio yield still under pressure from lower rates on benchmark U.S. Treasury securities and narrower credit spreads, further adjustments to new and renewal crediting rates will be considered. We have on average 0.57% of room to reduce rates before we would reach guaranteed rates on the entire June 30, 2015 in force book of business.
Our profitability depends in large part upon the amount of assets under our management, investment spreads we earn on our policyholder account balances, our ability to manage our investment portfolio to maximize returns and minimize risks such as interest rate changes and defaults or impairment of investments, our ability to manage interest rates credited to policyholders and costs of the options purchased to fund the annual index credits on our fixed index annuities, our ability to manage the costs of acquiring new business (principally commissions to agents and bonuses credited to policyholders) and our ability to manage our operating expenses.
Results of Operations for the Three and Six Months Ended June 30, 2015 and 2014
Annuity deposits by product type collected during the three and six months ended June 30, 2015 and 2014, were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
Product Type	2015	2014	2015	2014
	(Dollars in thousands)			
Fixed index annuities	$1,757,193	$995,853	$2,984,433	$1,841,657
Annual reset fixed rate annuities	13,137	17,160	24,187	32,400
Multi-year fixed rate annuities	17,715	22,063	87,217	76,650
Single premium immediate annuities	9,632	7,140	18,164	12,426
Total before coinsurance ceded	1,797,677	1,042,216	3,114,001	1,963,133
Coinsurance ceded	68,952	32,165	173,946	82,391
Net after coinsurance ceded	$			