

## *Derivatives*

Interest rate swaps and options are primarily used to reduce exposure to changes in interest rates and to manage duration mismatches. Call options are primarily used to hedge equity-indexed products. Credit default swaps are coupled with a bond to synthetically create an investment cheaper than the equivalent instrument traded in the cash market. Although we are subject to the risk that counterparties will fail to perform, credit standings of counterparties are monitored regularly. We only enter into transactions with highly rated counterparties. We are also subject to the risk associated with changes in the value of contracts. However, such adverse changes in value generally are offset by changes in the value of the items being hedged. The notional principal amounts of the swaps and options, which represent the extent of our involvement in such contracts but not the risk of loss, at December 31, 2003, amounted to \$2,603.3 million. The interest rate swaps had a carrying value of a net receivable position of \$3.2 million at December 31, 2003. The credit default swaps had a carrying value of a net receivable position of \$0.6 million at December 31, 2003. The carrying value of options amounted to \$134.9 million at December 31, 2003. For each of these derivatives, the carrying value is equal to fair value as of December 31, 2003. The derivatives are reflected as other investments on the consolidated financial statements. The net amount payable or receivable from interest rate and credit default swaps are accrued as an adjustment to interest income. Effective October 1, 2003, we adopted DIG Issue B36 and effective January 1, 2001, we adopted SFAS 133. See note 4 to the consolidated financial statements for further discussion of the impact of adopting both accounting pronouncements.

## *Mortgage Loans*

As of December 31, 2003, mortgage loans in the investment portfolio were \$968.6 million, or 5.4% of the aggregate carrying value of invested assets. As of December 31, 2003, commercial mortgage loans and residential mortgage loans comprised 87.4% and 12.6%, respectively, of total mortgage loans. Commercial mortgage loans consist primarily of fixed-rate mortgage loans. As of December 31, 2003, we held 686 individual commercial mortgage loans with an average balance of \$1.2 million.

As of December 31, 2003, four loans in the loan portfolio with a carrying value of \$5.5 million were classified as delinquent and no loans were in foreclosure. As of the same date, only two loans with a carrying value aggregating \$1.2 million were classified as restructured. During 2003, we had one foreclosure.

## *Other*

We participate in a securities lending program whereby certain fixed maturity securities from the investment portfolio are loaned to other institutions for a short period of time. We receive a fee in exchange for the loan of securities and require initial collateral equal to 102 percent of the market value of the loaned securities to be separately maintained. Securities with a market value of \$154.6 million were on loan under the program and the Company has cash collateral under its control of \$158.8 million at December 31, 2003. There were no securities on loan at December 31, 2002. We also may enter into securities borrowing arrangements from time to time. At December 31, 2003 and 2002, there were no securities borrowed.

We held \$494.6 million of policy loans on individual insurance products as of December 31, 2003. Policy loans are permitted to the extent of a policy's contractual limits and are fully collateralized by policy cash values. As of December 31, 2003, we held equity securities of \$76.5 million of which the largest holding was Federal Home Loan Bank common stock totaling \$58.1 million.

We held \$368.6 million of other invested assets (including short-term investments and real estate) on December 31, 2003. Other invested assets consist primarily of our Ameritas Joint Venture investment, various other joint ventures and limited partnership investments and derivatives.

## *Structured Securities Arrangements*

We have utilized a limited number of structured finance arrangements. The structures primarily consisted of interests in collateralized bond obligations and special-purpose entities with principal protected limited partnership interests. Neither AmerUs nor any management members had operating control or management