oversight of the entities and accordingly the entities were not consolidated but rather accounted for as available for sale debt securities or equity method investments. In addition, we did not have any continued obligation or commitment to provide additional financing to the entities. At December 31, 2002, approximately $560 million of such structured finance investments were included in invested assets. These structured securities were liquidated during 2003.

We hold investments in indexed debt instruments (IDIs) in which the principal is initially partially defeased by an obligation of a third party financial institution (institution) collateralized by U.S. Treasuries which will accrete to 50% of the original principal amount of the IDIs at maturity. The balance of the principal amount due at maturity is subject to a dynamic defeasance mechanism, which should provide a return of the initial investment. The instruments issued by the institutions are linked to the performance of a hedge fund or fund of funds. The annual income on these investments will be equal to the quarterly distribution of the hedge fund or fund of funds plus the change in the present value of anticipated distributions to be received at maturity and will be included in net investment income. Over the life of the IDIs, the income will be a function of the cumulative performance of the linked hedge fund or fund of funds and the return on any defeased portion of the investment. The quarterly distribution paid, if any, reduces the amount of future participation in the performance of the linked hedge fund or fund of funds. At maturity, the Company will take delivery of the referenced hedge fund interests and cash or U.S. Treasuries equal to the portion of the instruments that have been defeased, the total of which should equal or exceed the instruments' principal amount. The investment purpose of these instruments is to enable the Company to obtain the return as if they had invested in hedge funds or fund of funds with dynamic principal protection. The instruments as of December 31, 2003 carried an A rating or better by Fitch. The carrying value of IDIs was $396.1 million at December 31, 2003.

Impairments

Our evaluation of other-than-temporary impairment (OTTI) for fixed income securities follows a three-step process of 1) screen and identify; 2) assess and document; 3) recommend and approve. In identifying potential OTTI's, we screen for all securities that have a fair value less than 80% of amortized cost. In addition, we monitor securities for general credit issues that have been identified and included on a watch list which may result in the potential impairment list including other securities that have a fair value at or greater than 80% of amortized cost. For asset backed securities, the guidance of EITF 99-20 is followed which requires an impairment loss if the fair value of the security is less than amortized costs and there is an adverse change in estimated cash flows from the cash flows previously projected.

The list of securities identified is subject to a formal assessment to determine if an impairment is other than temporary. Management makes certain assumptions or judgments in its assessment of potentially impaired securities including but not limited to:

- Industry characteristics and trends, company to industry profile, quality of management
- Financial conditions and trends including strength of balance sheet and financial liquidity
- Significant events affecting the company and/or industry
- Viability of the business model incorporating an evaluation of default probability and associated recoverable value
- Length of time the fair value was below 80% of amortized cost
- Ability and intent to retain the investment to maturity or for a sufficient period of time for it to recover

If the determination is that the security is OTTI, it is written down to fair value. This is reviewed and approved by senior management. The difference between amortized cost and fair value is charged to net income.

When actively traded market prices are not available, fair values are determined using present value or other standard valuation techniques such as earnings multiples and asset valuations. The fair value