

REINSURANCE GROUP OF AMERICA INC
Form 10-Q
November 05, 2014
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2014

OR

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

Commission File Number 1-11848

REINSURANCE GROUP OF AMERICA, INCORPORATED
(Exact name of Registrant as specified in its charter)

MISSOURI
(State or other jurisdiction
of incorporation or organization)
1370 Timberlake Manor Parkway
Chesterfield, Missouri 63017
(Address of principal executive offices)
(636) 736-7000
(Registrant's telephone number, including area code)

43-1627032
(IRS employer
identification number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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 No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See 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 Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

As of October 31, 2014, 68,696,255 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

	September 30, 2014	December 31, 2013
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$22,452,941 and \$20,270,734)	\$ 24,475,451	\$ 21,474,136
Mortgage loans on real estate (net of allowances of \$6,842 and \$10,106)	2,617,091	2,486,680
Policy loans	1,249,948	1,244,469
Funds withheld at interest	5,969,006	5,771,467
Short-term investments	44,437	139,395
Other invested assets	1,165,021	1,324,960
Total investments	35,520,954	32,441,107
Cash and cash equivalents	1,118,745	923,647
Accrued investment income	305,880	267,908
Premiums receivable and other reinsurance balances	1,491,993	1,439,528
Reinsurance ceded receivables	596,704	594,515
Deferred policy acquisition costs	3,297,616	3,517,796
Other assets	578,471	489,972
Total assets	\$ 42,910,363	\$ 39,674,473
Liabilities and Stockholders' Equity		
Future policy benefits	\$ 13,541,687	\$ 11,866,776
Interest-sensitive contract liabilities	12,638,117	12,947,557
Other policy claims and benefits	3,861,060	3,571,761
Other reinsurance balances	276,314	275,138
Deferred income taxes	2,149,076	1,837,577
Other liabilities	967,303	541,035
Long-term debt	2,314,693	2,214,350
Collateral finance facility	482,115	484,752
Total liabilities	36,230,365	33,738,946
Commitments and contingent liabilities (See Note 8)		
Stockholders' Equity:		
Preferred stock - par value \$.01 per share, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock - par value \$.01 per share, 140,000,000 shares authorized, 79,137,758 shares issued at September 30, 2014 and December 31, 2013	791	791
Additional paid-in-capital	1,784,818	1,777,906
Retained earnings	4,074,047	3,659,938
Treasury stock, at cost - 10,472,116 and 8,369,540 shares	(679,265)	(508,715)
Accumulated other comprehensive income	1,499,607	1,005,607
Total stockholders' equity	6,679,998	5,935,527
Total liabilities and stockholders' equity	\$ 42,910,363	\$ 39,674,473

See accompanying notes to condensed consolidated financial statements (unaudited).

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:	(Dollars in thousands, except per share data)			
Net premiums	\$2,168,285	\$2,026,180	\$6,452,082	\$6,041,029
Investment income, net of related expenses	447,106	369,366	1,262,088	1,238,731
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(246	) (391	) (1,419	) (10,396
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	—	59	—	(247
Other investment related gains (losses), net	22,564	(76,133	) 226,835	76,792
Total investment related gains (losses), net	22,318	(76,465	) 225,416	66,149
Other revenues	78,879	70,734	267,195	235,650
Total revenues	2,716,588	2,389,815	8,206,781	7,581,559
Benefits and Expenses:				
Claims and other policy benefits	1,855,037	1,714,899	5,540,599	5,434,383
Interest credited	120,952	59,939	347,508	303,767
Policy acquisition costs and other insurance expenses	336,411	268,081	1,100,658	995,943
Other operating expenses	133,737	111,672	372,135	344,581
Interest expense	36,065	30,831	106,360	89,235
Collateral finance facility expense	2,571	2,698	7,731	7,886
Total benefits and expenses	2,484,773	2,188,120	7,474,991	7,175,795
Income before income taxes	231,815	201,695	731,790	405,764
Provision for income taxes	73,819	63,740	238,834	131,886
Net income	\$157,996	\$137,955	\$492,956	\$273,878
Earnings per share:				
Basic earnings per share	\$2.30	\$1.95	\$7.10	\$3.79
Diluted earnings per share	\$2.28	\$1.93	\$7.03	\$3.76
Dividends declared per share	\$0.33	\$0.30	\$0.93	\$0.78

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Comprehensive income (loss)	(Dollars in thousands)			
Net income	\$157,996	\$137,955	\$492,956	\$273,878
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	(75,107)	27,139	(75,147)	(75,798)
Change in net unrealized gains and losses on investments	(55,615)	(112,035)	566,014	(938,216)
Change in other-than-temporary impairment losses on fixed maturity securities	1,248	2,246	1,698	2,896
Changes in pension and other postretirement plan adjustments	421	517	1,435	2,217
Total other comprehensive income (loss), net of tax	(129,053)	(82,133)	494,000	(1,008,901)
Total comprehensive income (loss)	\$28,943	\$55,822	\$986,956	\$(735,023)
See accompanying notes to condensed consolidated financial statements (unaudited).				

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited)

	Nine months ended September 30,	
	2014	2013
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$492,956	\$273,878
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(41,658	) (63,339
Premiums receivable and other reinsurance balances	(74,089	) 81,189
Deferred policy acquisition costs	185,107	56,286
Reinsurance ceded receivable balances	9,961	49,286
Future policy benefits, other policy claims and benefits, and other reinsurance balances	736,169	1,005,756
Deferred income taxes	43,670	276,372
Other assets and other liabilities, net	134,471	(293,106
Amortization of net investment premiums, discounts and other	(80,188	) (70,687
Investment related gains, net	(225,416	) (66,149
Gain on repurchase of collateral finance facility securities	—	(46,506
Excess tax benefits from share-based payment arrangement	3,088	(2,410
Other, net	54,105	50,460
Net cash provided by operating activities	1,238,176	1,251,030
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	3,370,036	2,838,099
Maturities of fixed maturity securities available-for-sale	353,554	118,951
Purchases of fixed maturity securities available-for-sale	(4,414,097	) (3,496,639
Cash invested in mortgage loans on real estate	(480,906	) (467,429
Cash invested in policy loans	(52,914) —
Cash invested in funds withheld at interest	(67,024	) (70,753
Principal payments on mortgage loans on real estate	341,989	262,226
Principal payments on policy loans	47,435	33,314
Purchase of a business, net of cash acquired of \$9,709	—	(2,805
Purchase of property and equipment	(74,342) —
Cash received under securities repurchase agreements	100,000	—
Change in short-term investments	93,116	235,260
Change in other invested assets	266,389	35,341
Net cash used in investing activities	(516,764	) (514,435
Cash Flows from Financing Activities:		
Dividends to stockholders	(64,587	) (56,465
Repurchase and repayment of collateral finance facility securities	—	(119,255
Net change in short-term debt	—	—
Proceeds from long-term debt issuance	100,000	398,492
Debt issuance costs	—	(3,400
Principal payments of long-term debt	(192) —
Purchases of treasury stock	(201,032	) (269,204
Excess tax benefits from share-based payment arrangement	(3,088) 2,410
Exercise of stock options, net	17,010	9,212

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Change in cash collateral for derivatives and other arrangements	83,283	(68,635)
Deposits on universal life and other investment type policies and contracts	84,036	120,250	
Withdrawals on universal life and other investment type policies and contracts	(525,217	) (550,122)
Net cash used in financing activities	(509,787	) (536,717)
Effect of exchange rate changes on cash	(16,527	) (36,535)
Change in cash and cash equivalents	195,098	163,343	
Cash and cash equivalents, beginning of period	923,647	1,259,892	
Cash and cash equivalents, end of period	\$1,118,745	\$1,423,235	
Supplementary information:			
Cash paid for interest	\$93,698	\$75,003	
Cash paid for income taxes, net of refunds	\$37,833	\$100,429	

Business purchase information - see Note 14 - "Financing and Other Activities"

Non-cash supplementary information - see "Investments Transferred to the Company" in Note 4 - "Investments"

See accompanying notes to condensed consolidated financial statements (unaudited).

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business and Basis of Presentation

Reinsurance Group of America, Incorporated ("RGA") is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the "Company") have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Results for the nine months ended September 30, 2014 are not necessarily indicative of the results that may be expected for the year ending December 31, 2014. There were no subsequent events, other than as disclosed in Note 16 - "Subsequent Event", that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, and all intercompany accounts and transactions have been eliminated. The Company has reclassified the presentation of certain prior-period information to conform to the current presentation. These condensed consolidated statements should be read in conjunction with the Company's 2013 Annual Report on Form 10-K filed with the Securities and Exchange Commission ("SEC") on February 27, 2014, as updated by the Company's Current Report on Form 8-K filed with the SEC on May 13, 2014 (the "2013 Annual Report").

Effective January 1, 2014 (and as filed with the SEC in the Current Report on Form 8-K referenced above), the Company realigned certain operations and management responsibilities to better fit within its geographic-based segments. Operations in Mexico and Latin America have been moved from Europe & South Africa to the U.S. segment, which has been renamed U.S. and Latin America. Operations in India have been moved from Europe & South Africa to the Asia Pacific segment. The Europe & South Africa segment has been renamed Europe, Middle East and Africa.

2. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share on net income (in thousands, except per share information):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Earnings:				
Net income (numerator for basic and diluted calculations)	\$ 157,996	\$ 137,955	\$ 492,956	\$ 273,878
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	68,643	70,865	69,426	72,342
Equivalent shares from outstanding stock options	692	526	675	498
Denominator for diluted calculation	69,335	71,391	70,101	72,840
Earnings per share:				
Basic	\$ 2.30	\$ 1.95	\$ 7.10	\$ 3.79
Diluted	\$ 2.28	\$ 1.93	\$ 7.03	\$ 3.76

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three

months ended September 30, 2014, no stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. For the three months ended September 30, 2013, no stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. Year-to-date amounts for equivalent shares from outstanding stock options and performance contingent shares are the weighted average of the individual quarterly amounts.

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3. Accumulated Other Comprehensive Income

The balance of and changes in each component of accumulated other comprehensive income (loss) (“AOCI”) for the nine months ended September 30, 2014 and 2013 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments ⁽¹⁾	Pension and Postretirement Benefits	Total
Balance, December 31, 2013	\$207,083	\$ 820,245	\$(21,721)	\$ 1,005,607
Other comprehensive income (loss) before reclassifications	(75,147)	591,373	(277)	515,949
Amounts reclassified to (from) AOCI	—	(23,661)	1,712	(21,949)
Net current-period other comprehensive income (loss)	(75,147)	567,712	1,435	494,000
Balance, September 30, 2014	\$131,936	\$ 1,387,957	\$(20,286)	\$ 1,499,607
	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments ⁽¹⁾	Pension and Postretirement Benefits	Total
Balance, December 31, 2012	\$267,475	\$ 1,877,657	\$(36,230)	\$ 2,108,902
Other comprehensive income (loss) before reclassifications	(75,798)	(936,847)	(82)	(1,012,727)
Amounts reclassified to (from) AOCI	—	1,527	2,299	3,826
Net current-period other comprehensive income (loss)	(75,798)	(935,320)	2,217	(1,008,901)
Balance, September 30, 2013	\$191,677	\$ 942,337	\$(34,013)	\$ 1,100,001

(1) Includes cash flow hedges. See Note 5 - “Derivative Instruments” for additional information on cash flow hedges. The following table presents the amounts of AOCI reclassifications for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI				Affected Line Item in Statement of Income
	Three months ended September 30,		Nine months ended September 30,		
	2014	2013	2014	2013	
Unrealized gains and losses on available-for-sale securities	\$2,218	\$(12,736)	\$30,549	\$11,122	Investment related gains (losses), net
Gains and losses on cash flow hedge - interest rate swap	393	291	932	796	Investment income
Deferred policy acquisition costs	(4,237)	(602)	4,554	(15,433)	

attributed to unrealized gains and losses ⁽¹⁾				
Total	(1,626)	(13,047)	36,035	(3,515)
Provision for income taxes	588	5,009	(12,374)	1,988
Net unrealized gains (losses), net of tax	\$(1,038)	\$(8,038)	\$23,661	\$(1,527)
Amortization of unrealized pension and postretirement benefits:				
Prior service cost ⁽²⁾	\$(214)	\$(152)	\$(432)	\$(459)
Actuarial gains/(losses) ⁽²⁾	(850)	(1,087)	(2,202)	(3,078)
Total	(1,064)	(1,239)	(2,634)	(3,537)
Provision for income taxes	372	434	922	1,238
Amortization of unrealized pension and postretirement benefits, net of tax	\$(692)	\$(805)	\$(1,712)	\$(2,299)
Total reclassifications, net of tax	\$(1,730)	\$(8,843)	\$21,949	\$(3,826)

(1) This AOCI component is included in the computation of the deferred policy acquisition cost. See Note 8 – “Deferred Policy Acquisition Costs” of the 2013 Annual Report for additional details.

(2) These AOCI components are included in the computation of the net periodic pension cost. See Note 10 – “Employee Benefit Plans” for additional details.

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4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities by sector as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$13,413,102	\$849,695	\$72,341	\$14,190,456	58.0	% \$—
Canadian and Canadian provincial governments	2,726,064	989,925	1,651	3,714,338	15.2	—
Residential mortgage-backed securities	964,436	46,453	10,172	1,000,717	4.1	(300)
Asset-backed securities	993,028	22,054	9,034	1,006,048	4.1	354
Commercial mortgage-backed securities	1,404,648	85,609	8,435	1,481,822	6.0	(1,609)
U.S. government and agencies	462,675	19,063	1,752	479,986	1.9	—
State and political subdivisions	369,631	45,211	4,778	410,064	1.7	—
Other foreign government, supranational and foreign government-sponsored enterprises	2,119,357	82,424	9,761	2,192,020	9.0	—
Total fixed maturity securities	\$22,452,941	\$2,140,434	\$117,924	\$24,475,451	100.0	% \$(1,555)
Non-redeemable preferred stock	\$82,236	\$7,051	\$1,698	\$87,589	54.1	%
Other equity securities	74,726	866	1,230	74,362	45.9	
Total equity securities	\$156,962	\$7,917	\$2,928	\$161,951	100.0	%
December 31, 2013:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$11,697,394	\$616,147	\$202,786	\$12,110,755	56.4	% \$—
Canadian and Canadian provincial governments	2,728,111	669,762	16,848	3,381,025	15.7	—
Residential mortgage-backed securities	970,434	38,126	18,917	989,643	4.6	(300)
Asset-backed securities	891,751	18,893	15,812	894,832	4.2	(2,259)
Commercial mortgage-backed securities	1,314,782	91,651	17,487	1,388,946	6.5	(1,609)
U.S. government and agencies	489,631	16,468	4,748	501,351	2.3	—
State and political subdivisions	313,252	21,907	14,339	320,820	1.5	—
Other foreign government, supranational and foreign government-sponsored enterprises	1,865,379	45,347	23,962	1,886,764	8.8	—
Total fixed maturity securities	\$20,270,734	\$1,518,301	\$314,899	\$21,474,136	100.0	% \$(4,168)
Non-redeemable preferred stock	\$81,993	\$5,342	\$5,481	\$81,854	20.2	%

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Other equity securities	327,479	618	4,220	323,877	79.8	
Total equity securities	\$409,472	\$5,960	\$9,701	\$405,731	100.0	%

The Company enters into various collateral arrangements that require both the pledging and acceptance of fixed maturity securities as collateral with derivative and reinsurance counterparties. Pledged fixed maturity securities are included in fixed maturity securities, available-for-sale in the condensed consolidated balance sheets. Fixed maturity securities received as collateral are held in separate custodial accounts and are not recorded on the Company's condensed consolidated balance sheets. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge collateral it receives; however, as of September 30, 2014 and December 31, 2013, none of the collateral received had been sold or re-pledged. The Company also holds securities in trust to satisfy collateral requirements under certain third-party reinsurance treaties. The following table includes fixed maturity securities pledged and received as collateral, and assets in trust held to satisfy collateral requirements under certain third-party reinsurance treaties as of September 30, 2014 and December 31, 2013 (dollars in millions):

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	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities pledged as collateral	\$72	\$74	57	58
Fixed maturity securities received as collateral	n/a	126	n/a	94
Securities held in trust	9,350	9,917	7,843	8,125

The Company monitors its concentrations of financial instruments on an on-going basis, and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer. The Company's exposure to concentrations of credit risk of single issuers greater than 10% of the Company's stockholders' equity as of September 30, 2014 and December 31, 2013 is as follows (dollars in millions).

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities guaranteed or issued by:				
Canadian province of Ontario	\$996	\$1,312	\$1,023	\$1,222
Canadian province of Quebec	1,030	1,521	1,041	1,389

The amortized cost and estimated fair value of fixed maturity securities available-for-sale at September 30, 2014 are shown by contractual maturity in the table below (dollars in thousands). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date.

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	\$593,119	\$599,642
Due after one year through five years	4,100,619	4,325,143
Due after five years through ten years	7,604,908	7,972,837
Due after ten years	6,792,183	8,089,242
Asset and mortgage-backed securities	3,362,112	3,488,587
Total	\$22,452,941	\$24,475,451

Corporate Fixed Maturity Securities

The tables below show the major industry types of the Company's corporate fixed maturity holdings as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014:	Estimated		% of Total	
	Amortized Cost	Fair Value		
Finance	\$ 4,592,728	\$4,827,880	34.0	%
Industrial	7,310,121	7,740,313	54.6	
Utility	1,510,253	1,622,263	11.4	
Total	\$ 13,413,102	\$ 14,190,456	100.0	%

December 31, 2013:	Estimated		% of Total	
	Amortized Cost	Fair Value		
Finance	\$ 3,838,716	\$3,983,623	32.9	%
Industrial	6,607,100	6,824,063	56.3	
Utility	1,240,353	1,292,305	10.7	
Other	11,225	10,764	0.1	

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Total	\$ 11,697,394	\$12,110,755	100.0	%
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Other-Than-Temporary Impairments - Fixed Maturity and Equity Securities

As discussed in Note 2 – “Summary of Significant Accounting Policies” of the 2013 Annual Report, a portion of certain other-than-temporary impairment (“OTTI”) losses on fixed maturity securities are recognized in AOCI. For these securities the net amount recognized in the condensed consolidated statements of income (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts (dollars in thousands):

	Three months ended September 30,	
	2014	2013
Balance, beginning of period	\$7,284	\$13,324
Additional impairments - credit loss OTTI recognized on securities previously impaired	—	134
Credit loss OTTI previously recognized on securities impaired to fair value during the period	—	—
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	—	(1,762)
Balance, end of period	\$7,284	\$11,696
	Nine months ended September 30,	
	2014	2013
Balance, beginning of period	\$11,696	\$16,675
Additional impairments - credit loss OTTI recognized on securities previously impaired	—	134
Credit loss OTTI previously recognized on securities impaired to fair value during the period	—	(1,449)
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	(4,412)	(3,664)
Balance, end of period	\$7,284	\$11,696

Unrealized Losses for Fixed Maturity and Equity Securities Available-for-Sale

The following table presents the total gross unrealized losses for the 1,030 and 1,396 fixed maturity and equity securities as of September 30, 2014 and December 31, 2013, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	September 30, 2014		December 31, 2013		
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total	
Less than 20%	\$110,657	91.5	% \$296,731	91.4	%
20% or more for less than six months	683	0.6	6,444	2.0	
20% or more for six months or greater	9,512	7.9	21,425	6.6	
Total	\$120,852	100.0	% \$324,600	100.0	%

The Company’s determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company’s credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that

the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. In the Company's impairment review process, the duration and severity of an unrealized loss position for equity securities are given greater weight and consideration given the lack of contractual cash flows or deferability features.

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for 1,030 and 1,396 fixed maturity and equity securities that have estimated fair values below amortized cost as of September 30, 2014 and December 31, 2013, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related fair value has remained below amortized cost.

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	Less than 12 months		12 months or greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
September 30, 2014:						
Investment grade securities:						
Corporate securities	\$1,381,925	\$20,285	\$787,728	\$41,002	\$2,169,653	\$61,287
Canadian and Canadian provincial governments	53,864	427	27,870	1,224	81,734	1,651
Residential mortgage-backed securities	91,041	1,139	148,006	8,672	239,047	9,811
Asset-backed securities	234,958	2,074	121,589	4,656	356,547	6,730
Commercial mortgage-backed securities	103,327	922	40,865	2,950	144,192	3,872
U.S. government and agencies	40,941	70	71,551	1,682	112,492	1,752
State and political subdivisions	40,692	124	45,205	4,654	85,897	4,778
Other foreign government, supranational and foreign government-sponsored enterprises	147,718	3,160	156,858	5,746	304,576	8,906
Total investment grade securities	2,094,466	28,201	1,399,672	70,586	3,494,138	98,787
Non-investment grade securities:						
Corporate securities	428,285	8,710	31,577	2,344	459,862	11,054
Residential mortgage-backed securities	19,548	206	3,477	155	23,025	361
Asset-backed securities	9,642	161	9,514	2,143	19,156	2,304
Commercial mortgage-backed securities	—	—	6,446	4,563	6,446	4,563
Other foreign government, supranational and foreign government-sponsored enterprises	15,973	855	—	—	15,973	855
Total non-investment grade securities	473,448	9,932	51,014	9,205	524,462	19,137
Total fixed maturity securities	\$2,567,914	\$38,133	\$1,450,686	\$79,791	\$4,018,600	\$117,924
Non-redeemable preferred stock	\$3,765	\$287	\$17,149	\$1,411	\$20,914	\$1,698
Other equity securities	24,552	90	28,561	1,140	53,113	1,230
Total equity securities	\$28,317	\$377	\$45,710	\$2,551	\$74,027	\$2,928
December 31, 2013:						
Investment grade securities:						
Corporate securities	\$3,141,179	\$148,895	\$301,303	\$40,548	\$3,442,482	\$189,443
Canadian and Canadian provincial governments	188,491	14,419	12,029	2,429	200,520	16,848
Residential mortgage-backed securities	283,967	15,900	23,068	1,688	307,035	17,588
Asset-backed securities	255,656	4,916	56,668	4,983	312,324	9,899
Commercial mortgage-backed securities	219,110	3,725	20,068	5,745	239,178	9,470
U.S. government and agencies	133,697	4,469	4,406	279	138,103	4,748
State and political subdivisions	120,193	9,723	15,202	4,616	135,395	14,339
Other foreign government, supranational and foreign government-sponsored enterprises	665,313	21,075	36,212	2,847	701,525	23,922
Total investment grade securities	5,007,606	223,122	468,956	63,135	5,476,562	286,257

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Non-investment grade securities:						
Corporate securities	283,603	9,451	38,256	3,892	321,859	13,343
Residential mortgage-backed securities	62,146	1,075	3,945	254	66,091	1,329
Asset-backed securities	28,670	415	32,392	5,498	61,062	5,913
Commercial mortgage-backed securities	15,762	81	10,980	7,936	26,742	8,017
Other foreign government, supranational and foreign government-sponsored enterprises	9,403	40	—	—	9,403	40
Total non-investment grade securities	399,584	11,062	85,573	17,580	485,157	28,642
Total fixed maturity securities	\$5,407,190	\$234,184	\$554,529	\$80,715	\$5,961,719	\$314,899
Non-redeemable preferred stock	\$51,386	\$5,479	\$1	\$2	\$51,387	\$5,481
Other equity securities	218,834	1,748	32,550	2,472	251,384	4,220
Total equity securities	\$270,220	\$7,227	\$32,551	\$2,474	\$302,771	\$9,701

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As of September 30, 2014, the Company does not intend to sell these fixed maturity securities and does not believe it is more likely than not that it will be required to sell these fixed maturity securities before the recovery of the fair value up to the current amortized cost of the investment, which may be maturity. As of September 30, 2014, the Company has the ability and intent to hold the equity securities until the recovery of the fair value up to the current cost of the investment. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality, asset-liability management and liquidity guidelines.

Unrealized losses on non-investment grade securities as of September 30, 2014 are primarily related to high-yield corporate securities and commercial mortgage-backed securities. Unrealized losses decreased across all security types as interest rates decreased during the first nine months of 2014.

Investment Income, Net of Related Expenses

Major categories of investment income, net of related expenses, consist of the following (dollars in thousands):

	Three months ended September		Nine months ended September	
	30, 2014	2013	30, 2014	2013
Fixed maturity securities available-for-sale	\$269,346	\$243,938	\$766,764	\$723,772
Mortgage loans on real estate	39,070	33,013	102,535	89,618
Policy loans	13,825	15,743	41,014	49,103
Funds withheld at interest	124,685	80,024	345,484	376,495
Short-term investments	462	374	1,507	1,609
Other invested assets	15,416	9,411	48,937	36,712
Investment income	462,804	382,503	1,306,241	1,277,309
Investment expense	(15,698)	(13,137)	(44,153)	(38,578)
Investment income, net of related expenses	\$447,106	\$369,366	\$1,262,088	\$1,238,731

Investment Related Gains (Losses), Net

Investment related gains (losses), net consist of the following (dollars in thousands):

	Three months ended		Nine months ended	
	September 30, 2014	2013	September 30, 2014	2013
Fixed maturities and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturity securities recognized in earnings	\$(246)	\$(332)	\$(1,419)	\$(10,643)
Impairment losses on equity securities	—	—	—	—
Gain on investment activity	8,819	21,560	51,773	70,085
Loss on investment activity	(6,355)	(30,434)	(19,815)	(48,406)
Other impairment losses and change in mortgage loan provision	(2,041)	233	(5,686)	(1,268)
Derivatives and other, net	22,141	(67,492)	200,563	56,381
Total investment related gains (losses), net	\$22,318	\$(76,465)	\$225,416	\$66,149

During the three months ended September 30, 2014 and 2013, the Company sold fixed maturity and equity securities with fair values of \$225.6 million and \$410.4 million at losses of \$6.4 million and \$30.4 million, respectively. During the nine months ended September 30, 2014 and 2013, the Company sold fixed maturity and equity securities with fair values of \$683.5 million and \$872.2 million at losses of \$19.8 million and \$48.4 million, respectively. The Company generally does not engage in short-term buying and selling of securities.

Securities Borrowing and Other

The Company participates in a securities borrowing program whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from a third party. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction. The Company is required to maintain a minimum of 100% of the fair value of the borrowed securities as collateral, which consists of rights to reinsurance treaty cash flows.

The Company also participates in a repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives cash from the third party, which is

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reflected as a payable to the third party, included in other liabilities on the condensed consolidated balance sheets. The Company is required to maintain a minimum collateral balance with a fair value of 105% of the cash received. Additionally, the Company participates in a repurchase/reverse repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives securities from the third party with an estimated fair value equal to a minimum of 100% of the securities pledged. The securities received are not reflected on the Company's condensed consolidated balance sheets. The following table includes the amount of borrowed securities, repurchased securities pledged and repurchased/reverse repurchased securities pledged and received as of September 30, 2014 and December 31, 2013 (dollars in millions).

	September 30, 2014		December 31, 2013	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Borrowed securities	\$204	\$211	\$93	\$93
Repurchase program securities pledged	90	104	—	—
Repurchase program/reverse repurchase program:				
Securities pledged	298	310	300	311
Securities received	n/a	341	n/a	344

Mortgage Loans on Real Estate

Mortgage loans represented approximately 7.4% and 7.7% of the Company's total investments as of September 30, 2014 and December 31, 2013. The Company makes mortgage loans on income producing properties that are geographically diversified throughout the U.S. with the largest concentration being in California, which accounted for 19.6% and 23.3% of mortgage loans on real estate as of September 30, 2014 and December 31, 2013, respectively. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans, gross of valuation allowances, by property type is as follows as of September 30, 2014 and December 31, 2013 (dollars in thousands):

	September 30, 2014		December 31, 2013		
	Recorded Investment	% of Total	Recorded Investment	% of Total	
Apartment	\$371,209	14.1	% \$289,394	11.6	%
Retail	792,978	30.2	748,731	30.0	
Office building	859,402	32.8	917,284	36.7	
Industrial	457,945	17.5	439,890	17.6	
Other commercial	142,399	5.4	101,487	4.1	
Total	\$2,623,933	100.0	% \$2,496,786	100.0	%

The maturities of the mortgage loans, gross of valuation allowances, as of September 30, 2014 and December 31, 2013 are as follows (dollars in thousands):

	September 30, 2014		December 31, 2013		
	Recorded Investment	% of Total	Recorded Investment	% of Total	
Due within five years	\$874,003	33.3	% \$987,109	39.5	%
Due after five years through ten years	1,155,740	44.0	984,289	39.4	
Due after ten years	594,190	22.7	525,388	21.1	
Total	\$2,623,933	100.0	% \$2,496,786	100.0	%

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Information regarding the Company's credit quality indicators, as determined by the Company's internal evaluation methodology for its recorded investment in mortgage loans, gross of valuation allowances, as of September 30, 2014 and December 31, 2013 is as follows (dollars in thousands):

Internal credit quality grade:	September 30, 2014		December 31, 2013		
	Recorded Investment	% of Total	Recorded Investment	% of Total	
High investment grade	\$1,347,805	51.4	% \$1,437,244	57.5	%
Investment grade	1,114,920	42.5	827,993	33.2	
Average	112,183	4.3	155,914	6.2	
Watch list	29,511	1.1	49,404	2.0	
In or near default	19,514	0.7	26,231	1.1	
Total	\$2,623,933	100.0	% \$2,496,786	100.0	%

None of the payments due to the Company on its recorded investment in mortgage loans were delinquent as of September 30, 2014 and December 31, 2013.

The following table presents the recorded investment in mortgage loans, by method of measuring impairment, and the related valuation allowances as of September 30, 2014 and December 31, 2013 (dollars in thousands):

	September 30, 2014	December 31, 2013
Mortgage loans:		
Individually measured for impairment	\$19,514	\$37,841
Collectively measured for impairment	2,604,419	2,458,945
Mortgage loans, gross of valuation allowances	2,623,933	2,496,786
Valuation allowances:		
Individually measured for impairment	786	3,211
Collectively measured for impairment	6,056	6,895
Total valuation allowances	6,842	10,106
Mortgage loans, net of valuation allowances	\$2,617,091	\$2,486,680

Information regarding the Company's loan valuation allowances for mortgage loans for the three and nine months ended September 30, 2014 and 2013 is as follows (dollars in thousands):

	Three months ended September 30,	
	2014	2013
Balance, beginning of period	\$9,692	\$7,903
Recoveries	97	—
Charge-offs	(2,854) —
Provision (release)	(93	) (234
Balance, end of period	\$6,842	\$7,669
	Nine months ended September 30,	
	2014	2013
Balance, beginning of period	\$10,106	\$11,580
Recoveries	121	—
Charge-offs	(2,854) (2,148
Provision (release)	(531) (1,763
Balance, end of period	\$6,842	\$7,669

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Information regarding the portion of the Company's mortgage loans that were impaired as of September 30, 2014 and December 31, 2013 is as follows (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Carrying Value
September 30, 2014:				
Impaired mortgage loans with no valuation allowance recorded	\$9,750	\$9,148	\$—	\$9,148
Impaired mortgage loans with valuation allowance recorded	10,329	10,366	786	9,580
Total impaired mortgage loans	\$20,079	\$19,514	\$786	\$18,728
December 31, 2013:				
Impaired mortgage loans with no valuation allowance recorded	\$21,698	\$21,100	\$—	\$21,100
Impaired mortgage loans with valuation allowance recorded	16,772	16,741	3,211	13,530
Total impaired mortgage loans	\$38,470	\$37,841	\$3,211	\$34,630

The Company's average investment in impaired mortgage loans and the related interest income are reflected in the table below for the periods indicated (dollars in thousands):

	Three months ended September 30, 2014		2013	
	Average Recorded Investment ⁽¹⁾	Interest Income	Average Recorded Investment ⁽¹⁾	Interest Income
Impaired mortgage loans with no valuation allowance recorded	\$9,159	\$225	\$13,631	\$349
Impaired mortgage loans with valuation allowance recorded	14,870	26	21,490	266
Total	\$24,029	\$251	\$35,121	\$615

	Nine months ended September 30, 2014		2013	
	Average Recorded Investment ⁽¹⁾	Interest Income	Average Recorded Investment ⁽¹⁾	Interest Income
Impaired mortgage loans with no valuation allowance recorded	\$14,856	\$614	\$13,504	\$533
Impaired mortgage loans with valuation allowance recorded	14,705	478	24,337	801
Total	\$29,561	\$1,092	\$37,841	\$1,334

(1) Average recorded investment represents the average loan balances as of the beginning of period and all subsequent quarterly end of period balances.

The Company did not acquire any impaired mortgage loans during the nine months ended September 30, 2014 and 2013. The Company had no mortgage loans that were on nonaccrual status at September 30, 2014 and December 31,

2013.

Policy Loans

Policy loans comprised approximately 3.5% and 3.8% of the Company's total investments as of September 30, 2014 and December 31, 2013, respectively, substantially all of which are associated with one client. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due to the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. As policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

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Funds Withheld at Interest

Funds withheld at interest comprised approximately 16.8% and 17.8% of the Company's total investments as of September 30, 2014 and December 31, 2013, respectively. Of the \$6.0 billion funds withheld at interest balance, net of embedded derivatives, as of September 30, 2014, \$4.3 billion of the balance is associated with one client. For reinsurance agreements written on a modified coinsurance basis and certain agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned and managed by the ceding company and are reflected as funds withheld at interest on the Company's condensed consolidated balance sheets. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. The Company is subject to the investment performance on the withheld assets, although it does not directly control them. These assets are primarily fixed maturity investment securities and pose risks similar to the fixed maturity securities the Company owns. To mitigate this risk, the Company helps set the investment guidelines followed by the ceding company and monitors compliance.

Other Invested Assets

Other invested assets include equity securities, limited partnership interests, real estate joint ventures, structured loans, derivative contracts, fair value option ("FVO") contractholder-directed unit-linked investments, Federal Home Loan Bank of Des Moines ("FHLB") common stock (included in other in the table below), and real estate held-for-investment (included in other in the table below). The fair value option was elected for contractholder-directed investments supporting unit-linked variable annuity type liabilities which do not qualify for presentation and reporting as separate accounts. Other invested assets represented approximately 3.3% and 4.1% of the Company's total investments as of September 30, 2014 and December 31, 2013, respectively. Carrying values of these assets as of September 30, 2014 and December 31, 2013 are as follows (dollars in thousands):

	September 30, 2014	December 31, 2013
Equity securities	\$ 161,950	\$ 405,731
Limited partnerships and real estate joint ventures	439,695	411,456
Structured loans	182,977	223,549
Derivatives	163,554	75,227
FVO contractholder-directed unit-linked investments	142,125	138,892
Other	74,720	70,105
Total other invested assets	\$ 1,165,021	\$ 1,324,960

Investments Transferred to the Company

During the nine months ended September 30, 2014 the Company executed reinsurance transactions that resulted in the transfer of securities with an estimated fair value of \$1,580.1 million at the date of transfer. There were no securities transferred to the Company for the nine months ended September 30, 2013. Securities transferred to the Company are considered non-cash transactions in the condensed consolidated statement of cash flows.

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5. Derivative Instruments

Derivatives, except longevity and mortality swaps, and embedded derivatives, are carried on the Company's condensed consolidated balance sheets in other invested assets or other liabilities, at fair value. Longevity and mortality swaps are included on the condensed consolidated balance sheets in other assets or other liabilities, at fair value. Embedded derivative liabilities on modified coinsurance or funds withheld arrangements are included on the condensed consolidated balance sheets with the host contract in funds withheld at interest, at fair value. Embedded derivative liabilities on indexed annuity and variable annuity products are included on the condensed consolidated balance sheets with the host contract in interest-sensitive contract liabilities, at fair value. The following table presents the notional amounts and gross fair value of derivative instruments prior to taking into account the netting effects of master netting agreements as of September 30, 2014 and December 31, 2013 (dollars in thousands):

	September 30, 2014			December 31, 2013		
	Notional	Carrying Value/Fair		Notional	Carrying Value/Fair	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$ 1,135,243	\$64,064	\$4,933	\$ 1,592,943	\$32,555	\$21,873
Interest rate options	240,000	6,705	—	240,000	2,554	—
Financial futures	215,732	—	—	123,780	—	—
Foreign currency forwards	40,000	—	10,408	79,618	—	12,772
Consumer price index swaps	58,780	32	133	59,922	—	309
Credit default swaps	763,700	10,384	2,881	682,700	10,438	2,156
Equity options	571,236	40,966	—	757,352	33,902	—
Longevity swaps	350,000	4,407	—	—	—	—
Mortality swaps	50,000	—	320	—	—	—
Synthetic guaranteed investment contracts	5,651,263	—	—	4,629,859	—	—
Embedded derivatives in:						
Modified coinsurance or funds withheld arrangements	—	36,617	—	—	—	176,270
Indexed annuity products	—	—	911,549	—	—	838,670
Variable annuity products	—	—	106,378	—	—	30,055
Total non-hedging derivatives	9,075,954	163,175	1,036,602	8,166,174	79,449	1,082,105
Derivatives designated as hedging instruments:						
Interest rate swaps	120,000	—	10,634	49,131	—	4,606
Foreign currency swaps	682,206	52,236	—	728,674	21,903	620
Total hedging derivatives	802,206	52,236	10,634	777,805	21,903	5,226
Total derivatives	\$9,878,160	\$215,411	\$1,047,236	\$8,943,979	\$101,352	\$1,087,331

Netting Arrangements

Certain of the Company's derivatives are subject to enforceable master netting arrangements and reported as a net asset or liability in the condensed consolidated balance sheets. The Company nets all derivatives that are subject to such arrangements.

The Company has elected to include all derivatives, except embedded derivatives, in the tables below, irrespective of whether they are subject to an enforceable master netting arrangement or a similar agreement. See Note 4 – "Investments" for information regarding the Company's securities borrowing and repurchase/reverse repurchase programs. See "Embedded Derivatives" below for information regarding the Company's bifurcated embedded derivatives.

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The following table provides information relating to the Company's derivative instruments as of September 30, 2014 and December 31, 2013 (dollars in thousands):

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet Financial Instruments	Cash Collateral Pledged/ Received	Net Amount
September 30, 2014:						
Derivative assets	\$ 178,794	\$ (10,833)	\$ 167,961	\$(31,421)	\$ (117,525)	\$ 19,015
Derivative liabilities	29,309	(10,833)	18,476	(31,334)	(941)	(13,799)
December 31, 2013:						
Derivative assets	\$ 101,352	\$ (26,125)	\$ 75,227	\$(11,095)	\$ (51,006)	\$ 13,126
Derivative liabilities	42,336	(26,125)	16,211	(18,081)	(8,033)	(9,903)

Accounting for Derivative Instruments and Hedging Activities

The Company does not enter into derivative instruments for speculative purposes. As discussed below under "Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging," the Company uses various derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. As of September 30, 2014 and December 31, 2013, the Company held interest rate swaps that were designated and qualified as cash flow hedges of interest rate risk, held foreign currency swaps that were designated and qualified as hedges of a portion of its net investment in its foreign operations and had derivative instruments that were not designated as hedging instruments. See Note 2 – "Summary of Significant Accounting Policies" of the Company's 2013 Annual Report for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. Derivative instruments are carried at fair value and generally require an insignificant amount of cash at inception of the contracts.

Cash Flow Hedges

The Company designates and accounts for certain interest rate swaps, in which the cash flows are denominated in different currencies, commonly referred to as cross-currency swaps, as cash flow hedges when they meet the requirements of the general accounting principles for Derivatives and Hedging.

The following table presents the components of AOCI, before income tax, and the condensed consolidated income statement classification where the gain or loss is recognized related to cash flow hedges for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Three months ended September 30,	
	2014	2013
Accumulated other comprehensive income (loss), balance beginning of period	\$457	\$(5,037)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(10,679)	2,583
Amounts reclassified to investment income	(393)	(291)
Accumulated other comprehensive income (loss), balance end of period	\$(10,615)	\$(2,745)

	Nine months ended September 30,	
	2014	2013
Accumulated other comprehensive income (loss), balance beginning of period	\$(4,578)	\$403
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(5,105)	(2,352)
Amounts reclassified to investment income	(932)	(796)
Accumulated other comprehensive income (loss), balance end of period	\$(10,615)	\$(2,745)

As of September 30, 2014, the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are \$1.1 million. This expectation is based on

the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to investment income over the term of the investment cash flows. There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments on existing financial instruments, for the three and nine months ended September 30, 2014 and 2013.

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The following table presents the effects of derivatives in cash flow hedging relationships on the condensed consolidated statements of income and AOCI for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Deferred in AOCI on Derivatives		Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives		Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives	
	(Effective Portion)		(Effective Portion)		(Ineffective Portion and Amounts Excluded from Effectiveness Testing)	
			Investment Related Gains (Losses)	Investment Income	Investment Related Gains (Losses)	Investment Income
For the three months ended September 30, 2014:						
Interest rate swaps	\$ (10,679	) \$ —	\$ 393		\$ 8	\$ —
For the three months ended September 30, 2013:						
Interest rate swaps	\$ 2,583	\$ —	\$ 291		\$ (3) \$ —
For the nine months ended September 30, 2014:						
Interest rate swaps	\$ (5,105	) \$ —	\$ 932		\$ 9	\$ —
For the nine months ended September 30, 2013:						
Interest rate swaps	\$ (2,352	) \$ —	\$ 796		\$ 11	\$ —

Hedges of Net Investments in Foreign Operations

The Company uses foreign currency swaps to hedge a portion of its net investment in certain foreign operations against adverse movements in exchange rates. The following table illustrates the Company's net investments in foreign operations ("NIFO") hedges for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

Type of NIFO Hedge ⁽¹⁾ ⁽²⁾	Derivative Gains (Losses) Deferred in AOCI				
	For the three months ended September 30,		For the nine months ended September 30,		
	2014	2013	2014	2013	
Foreign currency swaps	\$27,931	\$(14,600)	\$28,675	\$20,235

There were no sales or substantial liquidations of net investments in foreign operations that would have required (1) the reclassification of gains or losses from accumulated other comprehensive income (loss) into investment income during the periods presented.

(2) There was no ineffectiveness recognized for the Company's hedges of net investments in foreign operations.

The cumulative foreign currency translation gain recorded in AOCI related to these hedges was \$52.6 million and \$23.9 million at September 30, 2014 and December 31, 2013, respectively. If a foreign operation was sold or substantially liquidated, the amounts in AOCI would be reclassified to the condensed consolidated statements of income. A pro rata portion would be reclassified upon partial sale of a foreign operation.

Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging

The Company uses various other derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in

the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. The gain or loss related to the change in fair value for these derivative instruments is recognized in investment related gains (losses), in the condensed consolidated statements of income, except where otherwise noted.

A summary of the effect of non-hedging derivatives, including embedded derivatives, on the Company's income statement for the three and nine months ended September 30, 2014 and 2013 is as follows (dollars in thousands):

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Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the three months ended September 30,	
		2014	2013
Interest rate swaps	Investment related gains (losses), net	\$ 9,121	\$ (8,221)
Interest rate options	Investment related gains (losses), net	865	(2,374)
Financial futures	Investment related gains (losses), net	6,446	(1,140)
Foreign currency forwards	Investment related gains (losses), net	(5,277)	629
CPI swaps	Investment related gains (losses), net	(274)	(39)
Credit default swaps	Investment related gains (losses), net	(1,389)	10,807
Equity options	Investment related gains (losses), net	1,018	(24,113)
Longevity swaps	Other revenues	4,499	—
Mortality swaps	Other revenues	(320)	—
Subtotal		14,689	(24,451)
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	56,811	(67,461)
Indexed annuity products	Interest credited	(35,650)	28,379
Variable annuity products	Investment related gains (losses), net	(47,479)	19,829
Total non-hedging derivatives		\$ (11,629)	\$ (43,704)

Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the nine months ended September 30,	
		2014	2013
Interest rate swaps	Investment related gains (losses), net	\$ 61,025	\$ (68,900)
Interest rate options	Investment related gains (losses), net	4,151	(8,373)
Financial futures	Investment related gains (losses), net	(2,822)	(7,306)
Foreign currency forwards	Investment related gains (losses), net	(2,945)	(7,988)
CPI swaps	Investment related gains (losses), net	193	(2,027)
Credit default swaps	Investment related gains (losses), net	1,280	17,138
Equity options	Investment related gains (losses), net	(16,748)	(59,784)
Longevity swaps	Other revenues	4,499	—
Mortality swaps	Other revenues	(320)	—
Subtotal		48,313	(137,240)
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	212,887	70,514
Indexed annuity products	Interest credited	(86,775)	(32,637)
Variable annuity products	Investment related gains (losses), net	(76,323)	106,952
Total non-hedging derivatives		\$ 98,102	\$ 7,589

Types of Derivatives Used by the Company

Interest Rate Swaps

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). With an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between two rates, which can be either fixed-rate or floating-rate interest amounts, tied to an agreed-upon notional principal amount. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments at each due date.

Interest Rate Options

Interest rate options, commonly referred to as swaptions, are used by the Company primarily to hedge living benefit guarantees embedded in certain variable annuity products. A swaption, used to hedge against adverse changes in interest rates, is an option to enter into a swap with a forward starting effective date. The Company pays an upfront premium for the right to exercise this option in the future.

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Financial Futures

Exchange-traded futures are used primarily to economically hedge liabilities embedded in certain variable annuity products. With exchange-traded futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the relevant indices, and to post variation margin on a daily basis in an amount equal to the difference between the daily estimated fair values of those contracts. The Company enters into exchange-traded futures with regulated futures commission merchants that are members of the exchange.

Equity Options

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products. To hedge against adverse changes in equity indices volatility, the Company buys put options. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

Consumer Price Index Swaps

Consumer price index ("CPI") swaps are used by the Company primarily to economically hedge liabilities embedded in certain insurance products where value is directly affected by changes in a designated benchmark consumer price index. With a CPI swap transaction, the Company agrees with another party to exchange the actual amount of inflation realized over a specified period of time for a fixed amount of inflation determined at inception. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments to be made by the counterparty at each due date. Most of these swaps will require a single payment to be made by one counterparty at the maturity date of the swap.

Foreign Currency Swaps

Foreign currency swaps are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. With a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the termination of the currency swap by each party. The Company uses foreign currency swaps to hedge a portion of its net investment in certain foreign operations against adverse movements in exchange rates.

Foreign Currency Forwards

Foreign currency forwards are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. With a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency at the specified future date.

Credit Default Swaps

The Company sells protection under single name credit default swaps and credit default swap index tranches to diversify its credit risk exposure in certain portfolios and, in combination with purchasing securities, to replicate characteristics of similar investments based on the credit quality and term of the credit default swap. Credit default triggers for indexed reference entities and single name reference entities are defined in the contracts. The Company's maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default of a referencing entity, the Company is typically required to pay the protection holder the full notional value less a recovery amount determined at auction.

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The following table presents the estimated fair value, maximum amount of future payments and weighted average years to maturity of credit default swaps sold by the Company at September 30, 2014 and December 31, 2013 (dollars in thousands):

Rating Agency Designation of Referenced Credit Obligations ⁽¹⁾	September 30, 2014			December 31, 2013		
	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps ⁽²⁾	Weighted Average Years to Maturity ⁽³⁾	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps ⁽²⁾	Weighted Average Years to Maturity ⁽³⁾
AAA/AA-/A+/A/A-						
Single name credit default swaps	\$1,356	\$ 140,500	4.8	\$614	\$ 117,500	5.1
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	1,356	140,500	4.8	614	117,500	5.1
BBB+/BBB/BBB-						
Single name credit default swaps	(161)	212,200	5.2	656	142,200	4.9
Credit default swaps referencing indices	6,515	406,000	4.7	7,295	405,000	5.0
Subtotal	6,354	618,200	4.9	7,951	547,200	5.0
BB+						
Single name credit default swaps	(207)	5,000	4.7	—	—	—
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	(207)	5,000	4.7	—	—	—
Total	\$7,503	\$ 763,700	4.9	\$8,565	\$ 664,700	4.4

(1) The rating agency designations are based on ratings from Standard and Poor's ("S&P").

(2) Assumes the value of the referenced credit obligations is zero.

(3) The weighted average years to maturity of the credit default swaps is calculated based on weighted average notional amounts.

The Company also purchases credit default swaps to reduce its risk against a drop in bond prices due to credit concerns of certain bond issuers. If a credit event, as defined by the contract, occurs, the Company is able to put the bond back to the counterparty at par.

Longevity Swaps

The Company enters into longevity swaps in the form of out-of-the-money options, which provide protection against changes in mortality improvement to retirement plans and insurers of such plans. With a longevity swap transaction, the Company agrees with another party to exchange a proportion of a notional value. The proportion is determined by the difference between a predefined benefit, and the realized benefit plus the future expected benefit, calculated by reference to a population index for a fixed premium.

Mortality Swaps

Mortality swaps are used by the Company to hedge risk from changes in mortality experience associated with its reinsurance of life insurance risk. The Company agrees with another party to exchange, at specified intervals, a proportion of a notional value determined by the difference between a predefined expected and realized claim amount on a designated population index, for a fixed percentage (premium) each term.

Synthetic Guaranteed Investment Contracts

The Company sells fee-based synthetic guaranteed investment contracts which include investment-only, stable value contracts, to retirement plans. The assets are owned by the trustees of such plans, who invest the assets under the terms of investment guidelines agreed to with the Company. The contracts contain a guarantee of a minimum rate of return on participant balances supported by the underlying assets, and a guarantee of liquidity to meet certain participant-initiated plan cash flow requirements. These contracts are reported as derivatives, recorded at fair value and classified as interest rate derivatives.

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Embedded Derivatives

The Company has certain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. Host contracts include reinsurance treaties structured on a modified coinsurance ("modco") or funds withheld basis. Changes in fair values of embedded derivatives on modco or funds withheld treaties are net of an increase (decrease) in investment related gains (losses), net of \$(0.5) million and \$1.0 million for the three months, and \$(1.8) million and \$(1.0) million for the nine months ended September 30, 2014 and 2013, respectively, associated with the Company's own credit risk. Changes in fair values of embedded derivatives on variable annuity contracts are net of an increase (decrease) in investment related gains (losses), net of \$1.0 million and \$(3.7) million for the three months, and \$1.6 million and \$(8.6) million for the nine months ended September 30, 2014 and 2013, respectively, associated with the Company's own credit risk. Additionally, the Company reinsures equity-indexed annuity and variable annuity contracts with benefits that are considered embedded derivatives, including guaranteed minimum withdrawal benefits, guaranteed minimum accumulation benefits, and guaranteed minimum income benefits. The related gains (losses) and the effect on net income after amortization of deferred acquisition costs ("DAC") and income taxes for the three and nine months ended September 30, 2014 and 2013 are reflected in the following table (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Embedded derivatives in modco or funds withheld arrangements included in investment related gains	\$56,812	\$(67,461)	\$212,888	\$70,514
After the associated amortization of DAC and taxes, the related amounts included in net income	13,353	(15,693)	49,394	19,842
Embedded derivatives in variable annuity contracts included in investment related gains	(47,479)	19,829	(76,323)	106,954
After the associated amortization of DAC and taxes, the related amounts included in net income	26,542	11,052	6,388	52,326
Amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses	(35,650)	28,379	(86,775)	(32,637)
After the associated amortization of DAC and taxes, the related amounts included in net income	(23,920)	6,622	(57,896)	(53,772)

Credit Risk

The Company manages its credit risk related to over-the-counter ("OTC") derivatives by entering into transactions with creditworthy counterparties, maintaining collateral arrangements and through the use of master netting agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination.

The credit exposure of the Company's OTC derivative transactions is represented by the contracts with a positive fair value (market value) at the reporting date. To reduce credit exposures, the Company seeks to (i) enter into OTC derivative transactions pursuant to master netting agreements that provide for a netting of payments and receipts with a single counterparty, and (ii) enter into agreements that allow the use of credit support annexes, which are bilateral rating-sensitive agreements that require collateral postings at established threshold levels. Certain of the Company's OTC derivatives are cleared derivatives, which are bilateral transactions between the Company and a counterparty where the transactions are cleared through a clearinghouse, such that each derivative counterparty is only exposed to the default of the clearinghouse. These cleared transactions require initial and daily variation margin collateral postings and include certain interest rate swaps and credit default swaps entered into on or after June 10, 2013, related to new guidelines implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act. Also, the Company enters into exchange-traded futures through regulated exchanges and these transactions are settled on a daily basis, thereby reducing credit risk exposure in the event of non-performance by counterparties to such financial instruments.

The Company enters into various collateral arrangements, which require both the posting and accepting of collateral in connection with its derivative instruments. Collateral agreements contain attachment thresholds that may vary depending on the posting party's ratings. Additionally, a decline in the Company's or the counterparty's credit ratings to specified levels could result in potential settlement of the derivative positions under the Company's agreements with its counterparties. The Company also has exchange-traded futures, which require the maintenance of a margin account. As exchange-traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties.

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The Company's credit exposure related to derivative contracts is generally limited to the fair value at the reporting date plus or minus any collateral posted or held by the Company. The Company's credit exposure to non-investment swaps is minimal, as mortality swaps are fully collateralized by a counterparty and longevity swaps would require posting of collateral only upon the occurrence of certain agreed upon events. Information regarding the Company's credit exposure related to its over-the-counter derivative contracts, centrally cleared derivative contracts and margin account for exchange-traded futures, excluding longevity and mortality swaps, at September 30, 2014 and December 31, 2013 are reflected in the following table (dollars in thousands):

	September 30, 2014	December 31, 2013
Estimated fair value of derivatives in net asset position	\$ 145,398	\$ 59,016
Cash provided as collateral ⁽¹⁾	941	8,033
Securities pledged to counterparties as collateral ⁽²⁾	31,334	18,081
Cash pledged from counterparties as collateral ⁽³⁾	(117,525	) (51,006
Securities pledged from counterparties as collateral ⁽⁴⁾	(31,421	) (11,095
Initial margin for cleared derivatives	(14,289	) (13,350
Net credit exposure	\$ 14,438	\$ 9,679
Margin account related to exchange-traded futures ⁽⁵⁾	\$ 6,555	\$ 2,566

(1) Consists of receivable from counterparty, included in other assets.

(2) Included in other invested assets, primarily consists of U.S. Treasury securities.

(3) Included in cash and cash equivalents, with obligation to return cash collateral recorded in other liabilities.

(4) Consists of U.S. Treasury securities.

(5) Included in cash and cash equivalents.

6. Fair Value of Assets and Liabilities

Fair Value Measurement

General accounting principles for Fair Value Measurements and Disclosures define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available. The Company's Level 1 assets include investment securities that are traded in exchange markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation techniques and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company's Level 2 assets and liabilities include investment securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose values are determined using market standard valuation techniques. This category primarily includes corporate securities, Canadian and Canadian provincial government securities, and residential and commercial mortgage-backed securities, among others. Level 2 valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from servicers are validated through analytical reviews and assessment of current market activity.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, this category generally includes corporate securities (primarily private placements and bank loans), asset-backed securities (including collateralized debt obligations and those with exposure to subprime mortgages), and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Prices are determined using

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valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities. Additionally, the Company's embedded derivatives, all of which are associated with reinsurance treaties, are classified in Level 3 since their values include significant unobservable inputs.

When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such assets and liabilities categorized within Level 3 may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

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Assets and Liabilities by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2014 and December 31, 2013 are summarized below (dollars in thousands):

September 30, 2014:

	Total	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities – available-for-sale:				
Corporate securities	\$ 14,190,456	\$ 115,707	\$ 12,697,745	\$ 1,377,004
Canadian and Canadian provincial governments	3,714,338	—	3,714,338	—
Residential mortgage-backed securities	1,000,717	—	813,215	187,502
Asset-backed securities	1,006,048	—	461,416	544,632
Commercial mortgage-backed securities	1,481,822	—	1,386,303	95,519
U.S. government and agencies securities	479,986	389,358	60,240	30,388
State and political subdivision securities	410,064	—	367,559	42,505
Other foreign government supranational and foreign government-sponsored enterprises	2,192,020	279,826	1,901,682	10,512
Total fixed maturity securities – available-for-sale	24,475,451	784,891	21,402,498	2,288,062
Funds withheld at interest – embedded derivatives	36,617	—	—	36,617
Cash equivalents	425,636	425,636	—	—
Short-term investments	16,219	8,414	7,805	—
Other invested assets:				
Non-redeemable preferred stock	87,589	87,589	—	—
Other equity securities	74,361	74,361	—	—
Derivatives:				
Interest rate swaps	56,092	—	56,092	—
Interest rate options	6,705	—	6,705	—
CPI swaps	(101)	—	(101)	—
Credit default swaps	7,656	—	7,656	—
Equity options	40,966	—	40,966	—
Foreign currency swaps	52,236	—	52,236	—
FVO contractholder-directed unit-linked investments	142,125	136,450	5,675	—
Other	9,591	9,591	—	—
Total other invested assets	477,220	307,991	169,229	—
Other assets – longevity swaps	4,407	—	—	4,407
Total	\$ 25,435,550	\$ 1,526,932	\$ 21,579,532	\$ 2,329,086
Liabilities:				
Interest sensitive contract liabilities – embedded derivatives	\$ 1,017,927	\$—	\$—	\$ 1,017,927
Other liabilities:				
Derivatives:				
Interest rate swaps	7,595	—	7,595	—
Foreign currency forwards	10,408	—	10,408	—
Credit default swaps	153	—	153	—
Mortality swaps	320	—	—	320
Total	\$ 1,036,403	\$—	\$ 18,156	\$ 1,018,247

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December 31, 2013:	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities – available-for-sale:				
Corporate securities	\$ 12,110,755	\$ 68,934	\$ 10,696,532	\$ 1,345,289
Canadian and Canadian provincial governments	3,381,025	—	3,381,025	—
Residential mortgage-backed securities	989,643	—	836,138	153,505
Asset-backed securities	894,832	—	422,984	471,848
Commercial mortgage-backed securities	1,388,946	—	1,287,161	101,785
U.S. government and agencies securities	501,351	396,092	64,340	40,919
State and political subdivision securities	320,820	—	277,044	43,776
Other foreign government, supranational and foreign government-sponsored enterprises	1,886,764	304,487	1,544,280	37,997
Total fixed maturity securities – available-for-sale	21,474,136	769,513	18,509,504	2,195,119
Funds withheld at interest – embedded derivatives	(176,270	) —	—	(176,270
Cash equivalents	371,345	371,345	—	—
Short-term investments	111,572	105,649	5,923	—
Other invested assets:				
Non-redeemable preferred stock	81,854	74,220	2,672	4,962
Other equity securities	323,877	323,877	—	—
Derivatives:				
Interest rate swaps	9,904	—	9,904	—
Interest rate options	2,554	—	2,554	—
CPI swaps	(309	) —	(309) —
Credit default swaps	7,926	—	7,926	—
Equity options	33,869	—	33,869	—
Foreign currency swaps	21,283	—	21,283	—
FVO contractholder-directed unit-linked investments	138,892	132,643	6,249	—
Other	9,142	9,142	—	—
Total other invested assets	628,992	539,882	84,148	4,962
Total	\$ 22,409,775	\$ 1,786,389	\$ 18,599,575	\$ 2,023,811
Liabilities:				
Interest sensitive contract liabilities – embedded derivatives	\$ 868,725	\$ —	\$ —	\$ 868,725
Other liabilities:				
Derivatives:				
Interest rate swaps	3,828	—	3,828	—
Foreign currency forwards	12,772	—	12,772	—
Credit default swaps	(356	) —	(356) —
Equity options	(33	) —	(33) —
Total	\$ 884,936	\$ —	\$ 16,211	\$ 868,725

The Company may utilize information from third parties, such as pricing services and brokers, to assist in determining the fair value for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's condensed consolidated financial statements. This includes responsibility for monitoring the fair value process, ensuring objective and reliable valuation practices and pricing of assets and liabilities, and

approving changes to valuation methodologies and pricing sources. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

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The Company performs initial and ongoing analysis and review of the various techniques utilized in determining fair value to ensure that the valuation approaches utilized are appropriate and consistently applied, and that the various assumptions are reasonable. The Company also performs ongoing analysis and review of the information and prices received from third parties to ensure that the prices represent a reasonable estimate of the fair value and to monitor controls around pricing, which includes quantitative and qualitative analysis and is overseen by the Company's investment and accounting personnel. Examples of procedures performed include, but are not limited to, review of pricing trends, comparison of a sample of executed prices of securities sold to the fair value estimates, comparison of fair value estimates to management's knowledge of the current market, and ongoing confirmation that third party pricing services use, wherever possible, market-based parameters for valuation. In addition, the Company utilizes both internal and external cash flow models to analyze the reasonableness of fair values utilizing credit spread and other market assumptions, where appropriate. As a result of the analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly. The Company also determines if the inputs used in estimated fair values received from pricing services are observable by assessing whether these inputs can be corroborated by observable market data.

The fair value of embedded derivative liabilities, including those calculated by third parties, are monitored through the use of attribution reports to quantify the effect of underlying sources of fair value change, including capital market inputs based on policyholder account values, interest rates and short-term and long-term implied volatilities, from period to period. Actuarial assumptions are based on experience studies performed internally in combination with available industry information and are reviewed on a periodic basis, at least annually.

For assets and liabilities reported at fair value, the Company utilizes, when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. Generally, these are very liquid investments and the valuation does not require management judgment. When quoted prices in active markets are not available, fair value is based on market valuation techniques, market comparable pricing and the income approach. The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings. For the periods presented, the application of market standard valuation techniques applied to similar assets and liabilities has been consistent.

The methods and assumptions the Company uses to estimate the fair value of assets and liabilities measured at fair value on a recurring basis are summarized below.

Fixed Maturity Securities – The fair values of the Company's publicly-traded fixed maturity securities are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company generally receives prices from multiple pricing services for each security, but ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. To validate reasonableness, prices are periodically reviewed as explained above. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service.

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information from the pricing service or broker with an internally developed valuation; however, this occurs infrequently. Internally developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company's assumptions about the inputs that market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service overrides, internally developed valuations and non-binding broker quotes are generally based on significant unobservable inputs and are reflected as Level 3 in the valuation hierarchy.

The inputs used in the valuation of corporate and government securities include, but are not limited to standard market observable inputs which are derived from, or corroborated by, market observable data including market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer. For structured securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance and vintage of loans.

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When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

The fair values of private placement securities are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 3. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

Embedded Derivatives – For embedded derivative liabilities associated with the underlying products in reinsurance treaties, primarily equity-indexed and variable annuity treaties, the Company utilizes a discounted cash flow model, which includes an estimate of future equity option purchases and an adjustment for the Company's own credit risk. The variable annuity embedded derivative calculations are performed by third parties based on methodology and input assumptions provided by the Company. To validate the reasonableness of the resulting fair value, the Company's internal actuaries perform reviews and analytical procedures on the results. The capital market inputs to the model, such as equity indexes, short-term equity volatility and interest rates, are generally observable. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy, see "Level 3 Measurements and Transfers" below for a description.

The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap technique with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld at interest asset with an adjustment for the Company's own credit risk. The fair value of the underlying assets is generally based on market observable inputs using industry standard valuation techniques. The valuation also requires certain significant inputs, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy, see "Level 3 Measurements and Transfers" below for a description.

Company's Own Credit Risk – The Company uses a structural default risk model to estimate its own credit risk. The input assumptions are a combination of externally derived and published values (default threshold and uncertainty), market inputs (interest rate, Company equity price per share, Company debt per share, Company equity price volatility) and insurance industry data (Loss Given Default), adjusted for market recoverability.

Cash Equivalents and Short-Term Investments – Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The fair value of certain other short-term investments, such as floating rate notes and bonds with original maturities less than twelve months, are based upon other market observable data and are typically classified as Level 2. However, certain short-term investments may incorporate significant unobservable inputs resulting in a Level 3 classification. Various time deposits carried as cash equivalents or short-term investments are not measured at estimated fair value and therefore are excluded from the tables presented.

Equity Securities – Equity securities consist principally of exchange-traded funds and preferred stock of publicly and privately traded companies. The fair values of publicly traded equity securities are primarily based on quoted market prices in active markets and are classified within Level 1 in the fair value hierarchy. The fair values of preferred equity securities, for which quoted market prices are not readily available, are based on prices obtained from independent pricing services and these securities are generally classified within Level 2 in the fair value hierarchy.

Non-binding broker quotes for equity securities are generally based on significant unobservable inputs and are

reflected as Level 3 in the fair value hierarchy.

FVO Contractholder-Directed Unit-Linked Investments - FVO contractholder-directed investments supporting unit-linked variable annuity type liabilities primarily consist of exchange-traded funds and, to a lesser extent, fixed maturity securities and cash and cash equivalents. The fair values of the exchange-traded securities are primarily based on quoted market prices in active markets and are classified within Level 1 of the hierarchy. The fair value of the fixed maturity contractholder-directed securities is determined on a basis consistent with the methodologies described above for fixed maturity securities and are classified within Level 2 of the hierarchy.

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Derivative Assets and Derivative Liabilities – All of the derivative instruments utilized by the Company, except for longevity and mortality swaps, are classified within Level 2 on the fair value hierarchy. These derivatives are principally valued using an income approach. Valuations of interest rate contracts are based on present value techniques, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, and repurchase rates. Valuations of foreign currency contracts, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, currency spot rates, and cross currency basis curves. Valuations of credit contracts are based on present value techniques, which utilize significant inputs that may include the swap yield curve, credit curves, and recovery rates. Valuations of equity market contracts, non-option-based, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, spot equity index levels, and dividend yield curves. Valuations of equity market contracts, option-based, are based on option pricing models, which utilize significant inputs that may include the swap yield curve, spot equity index levels, dividend yield curves, and equity volatility. The Company does not currently have derivatives, except for longevity and mortality swaps, included in Level 3 measurement.

Longevity and Mortality Swaps – The Company utilizes a discounted cash flow model to estimate the fair value of longevity and mortality swaps. The fair value of these swaps includes an accrual for premiums payable. Some inputs to the valuation model are generally observable, such as interest rates and actual population mortality experience. The valuation also requires significant inputs that are generally not observable and, accordingly, the valuation is considered Level 3 in the fair value hierarchy.

Level 3 Measurements and Transfers

As of September 30, 2014 and December 31, 2013, respectively, the Company classified approximately 9.3% and 10.2% of its fixed maturity securities in the Level 3 category. These securities primarily consist of private placement corporate securities and bank loans with inactive trading markets. Additionally, the Company has included asset-backed securities with subprime exposure and mortgage-backed securities with below investment grade ratings in the Level 3 category due to market uncertainty associated with these securities and the Company's utilization of unobservable information from third parties for the valuation of these securities.

The significant unobservable inputs used in the fair value measurement of the Company's corporate, sovereign, government-backed, and other political subdivision investments are probability of default, liquidity premium and subordination premium. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumptions used for the liquidity premium and subordination premium. For securities with a fair value derived using the market comparable pricing valuation technique, liquidity premium is the only significant unobservable input.

The significant unobservable inputs used in the fair value measurement of the Company's asset and mortgage-backed securities are prepayment rates, probability of default, liquidity premium and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for the liquidity premium and loss severity and a directionally opposite change in the assumption used for prepayment rates.

The actuarial assumptions used in the fair value of embedded derivatives which include assumptions related to lapses, withdrawals, and mortality, are based on experience studies performed by the Company in combination with available industry information and are reviewed on a periodic basis, at least annually. The significant unobservable inputs used in the fair value measurement of embedded derivatives are assumptions associated with policyholder experience and selected capital market assumptions for equity-indexed and variable annuities. The selected capital market assumptions, which include long-term implied volatilities, are projections based on short-term historical information. Changes in interest rates, equity indices, equity volatility, the Company's own credit risk, and actuarial assumptions regarding policyholder experience may result in significant fluctuations in the value of embedded derivatives. Fair value measurements associated with funds withheld reinsurance treaties are generally not materially sensitive to changes in unobservable inputs associated with policyholder experience. The primary drivers of change in these fair

values are related to movements of credit spreads, which are generally observable. Increases (decreases) in market credit spreads tend to decrease (increase) the fair value of embedded derivatives. Increases (decreases) in the own credit assumption tend to decrease (increase) the magnitude of the fair value of embedded derivatives.

Fair value measurements associated with variable annuity treaties are sensitive to both capital markets inputs and policyholder experience inputs. Increases (decreases) in lapse rates tend to decrease (increase) the value of the embedded derivatives associated with variable annuity treaties. Increases (decreases) in the long-term volatility assumption tend to increase (decrease) the fair value of embedded derivatives. Increases (decreases) in the own credit assumption tend to decrease (increase) the magnitude of the fair value of embedded derivatives.

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The actuarial assumptions used in the fair value of longevity and mortality swaps include assumptions related to the level and volatility of mortality. The assumptions are based on studies performed by the Company in combination with available industry information and are reviewed on a periodic basis, at least annually.

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements that are developed by the Company, which does not include unobservable Level 3 asset and liability measurements provided by third parties, as of September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
State and political subdivision securities	\$4,948	Market comparable securities	Liquidity premium	1 %
Corporate securities	248,352	Market comparable securities	Liquidity premium	0-2% (1%)
U.S. government and agencies	30,388	Market comparable securities	Liquidity premium	0-1% (1%)
Funds withheld at interest- embedded derivatives	36,617	Total return swap	Mortality	0-100% (2%)
			Lapse	0-35% (7%)
			Withdrawal	0-5% (3%)
			Own Credit	0-5% (1%)
			Crediting rate	2-4% (3%)
Longevity swaps	4,407	Discounted cash flow	Mortality	0-100% (2%)
			Mortality improvement	(10%)-10% (3%)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	911,549	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-35% (7%)
			Withdrawal	0-5% (3%)
			Option budget projection	2-4% (3%)
Interest sensitive contract liabilities- embedded derivatives- variable annuities	106,378	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-25% (8%)
			Withdrawal	0-7% (2%)
			Own Credit	0-5% (1%)
			Long-term volatility	0-27% (15%)
Mortality swaps	320	Discounted cash flow	Mortality	0-100% (1%)

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December 31, 2013:	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
State and political subdivision securities	\$29,024	Market comparable securities	Liquidity premium	1 %
Corporate securities	312,887	Market comparable securities	Liquidity premium	0-2% (1%)
U.S. government and agencies	37,539	Market comparable securities	Liquidity premium	0-1% (1%)
Funds withheld at interest- embedded derivatives	(176,270)	Total return swap	Mortality Lapse Withdrawal Own Credit Crediting Rate	0-100% (2%) 0-35% (7%) 0-5% (3%) 0-1% (1%) 2-4% (3%)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	838,670	Discounted cash flow	Mortality Lapse Withdrawal Option budget projection	0-100% (2%) 0-35% (7%) 0-5% (3%) 2-4% (3%)
Interest sensitive contract liabilities- embedded derivatives- variable annuities	30,055	Discounted cash flow	Mortality Lapse Withdrawal Own Credit Long-term volatility	0-100% (2%) 0-25% (6%) 0-7% (3%) 0-1% (1%) 0-27% (10%)

The Company recognizes transfers of assets and liabilities into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Assets and liabilities transferred into Level 3 are due to a lack of observable market transactions and price information. Assets and liabilities are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset or liability, a specific event, one or more significant input(s) becoming observable. Transfers out of Level 3 were primarily the result of the Company using observable pricing information or a third party pricing quotation that appropriately reflects the fair value of those assets and liabilities, without the need for adjustment based on the Company's own assumptions regarding the characteristics of specific assets and liabilities or the current liquidity in the market. In addition, certain transfers out of Level 3 were also due to increased observations of market transactions and price information for those assets and liabilities.

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Transfers from Level 1 to Level 2 are due to the lack of observable market data when pricing these securities, while transfers from Level 2 to Level 1 are due to an increase in the availability of market observable data in an active market. The following tables present the transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Three months ended September 30,			
	2014		2013	
	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1
Fixed maturity securities - available-for-sale:				
Corporate securities	\$—	\$ 5,888	\$—	\$—
Total fixed maturity securities - available-for-sale	\$—	\$ 5,888	\$—	\$—

	Nine months ended September 30,			
	2014		2013	
	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1	Transfers from Level 1 to Level 2	Transfers from Level 2 to Level 1
Fixed maturity securities - available-for-sale:				
Corporate securities	\$—	\$ 15,946	\$—	\$ 14,012
Total fixed maturity securities - available-for-sale	\$—	\$ 15,946	\$—	\$ 14,012

The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2014, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2014 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2014 (dollars in thousands):

For the three months ended
September 30, 2014:

	Fixed maturity securities - available-for-sale						
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	U.S. Government and agencies securities	State and political subdivision securities	
Fair value, beginning of period	\$ 1,287,940	\$ 185,547	\$ 556,160	\$ 97,914	\$ 32,994	\$ 45,767	
Total gains/losses (realized/unrealized)							
Included in earnings, net:							
Investment income, net of related expenses	(1,332)	(122)	1,919	523	(134)	9	
Investment related gains (losses), net	(107)	37	740	7	(63)	(4)	
Claims & other policy benefits	—	—	—	—	—	—	
Interest credited	—	—	—	—	—	—	
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—	
Included in other comprehensive income	(13,424)	(462)	(1,116)	(2,248)	(115)	431	
Purchases ⁽¹⁾	180,319	16,395	24,152	6,180	167	—	

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Sales ⁽¹⁾	(590) —	(2,053) —	—	—
Settlements ⁽¹⁾	(76,968) (16,104) (30,104) (1,315) (2,461) (66
Transfers into Level 3	3,327	2,211	—	—	—	—
Transfers out of Level 3	(2,161	) —	(5,066	) (5,542	) —	(3,632
Fair value, end of period	\$1,377,004	\$187,502	\$544,632	\$95,519	\$30,388	\$42,505
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period Included in earnings, net:						
Investment income, net of related expenses	\$(1,335	) \$(121	) \$1,689	\$523	\$(134	) \$9
Investment related gains (losses), net	—	—	—	—	—	—
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—

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For the three months ended September 30, 2014 (continued):	Fixed maturity securities available-for-sale	Other foreign government, supranational and foreign government-sponsored enterprises	Funds withheld at interest-embedded derivative	Other assets longevity swaps	Interest sensitive contract liabilities embedded derivatives	Other liabilities mortality swaps
Fair value, beginning of period	\$ 10,888		\$ (20,194)	\$—	\$ (940,236)	\$—
Total gains/losses (realized/unrealized)						
Included in earnings, net:						
Investment income, net of related expenses	—		—	—	—	—
Investment related gains (losses), net	—		56,811	—	(47,479)	—
Claims & other policy benefits	—		—	—	—	—
Interest credited	—		—	—	(35,651)	—
Policy acquisition costs and other insurance expenses	—		—	—	—	—
Included in other comprehensive income	(72)		—	(92)	—	—
Other revenues	—		—	4,499	—	(320)
Purchases ⁽¹⁾	—		—	—	(11,912)	—
Sales ⁽¹⁾	—		—	—	—	—
Settlements ⁽¹⁾	(304)		—	—	17,351	—
Transfers into Level 3	—		—	—	—	—
Transfers out of Level 3	—		—	—	—	—
Fair value, end of period	\$ 10,512		\$ 36,617	\$ 4,407	\$ (1,017,927)	\$ (320)
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period						
Included in earnings, net:						
Investment income, net of related expenses	\$ —		\$ —	\$ —	\$ —	\$ —
Investment related gains (losses), net	—		56,811	—	(48,677)	—
Other revenues	—		—	4,499	—	(320)
Claims & other policy benefits	—		—	—	—	—
Interest credited	—		—	—	(53,001)	—
Policy acquisition costs and other insurance expenses	—		—	—	—	—
For the nine months ended September 30, 2014:		Fixed maturity securities - available-for-sale				
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	U.S. Government and agencies securities	State and political subdivision securities
Fair value, beginning of period	\$ 1,345,289	\$ 153,505	\$ 471,848	\$ 101,785	\$ 40,919	\$ 43,776

Total gains/losses (realized/unrealized)						
Included in earnings, net:						
Investment income, net of related expenses	(3,718	) (24	) 6,031	1,342	(416	) 31
Investment related gains (losses), net	(101	) 174	1,987	99	(313	) (12
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—
Included in other comprehensive income	(4,888	) 2,793	4,898	2,426	762	2,875
Purchases ⁽¹⁾	312,380	48,543	148,260	6,180	460	—
Sales ⁽¹⁾	(48,266	) (744	) (22,923	) (14,626) —	—
Settlements ⁽¹⁾	(177,914	) (28,676	) (42,737	) (1,858	) (11,024	) (532
Transfers into Level 3	10,257	13,675	11,614	5,712	—	—
Transfers out of Level 3	(56,035	) (1,744	) (34,346	) (5,541	) —	(3,633
Fair value, end of period	\$ 1,377,004	\$ 187,502	\$ 544,632	\$ 95,519	\$ 30,388	\$ 42,505
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period						
Included in earnings, net:						
Investment income, net of related expenses	\$(3,671	) \$(28	) \$ 3,694	\$ 1,398	\$ (416	) \$ 31
Investment related gains (losses), net	—	—	—	—	—	—
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—

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For the nine months ended September 30, 2014 (continued):	Fixed maturity securities available-for-sale	Other foreign government, supranational and foreign government-sponsored enterprises	Funds withheld at interest- embedded derivative	Other invested assets- non-redeemable preferred stock	Other assets longevity swaps	Interest sensitive contract liabilities embedded derivatives	Other liabilities mortality swaps
Fair value, beginning of period	\$ 37,997	\$ (176,270)	\$ 4,962	\$—	\$ (868,725)	\$—	
Total gains/losses (realized/unrealized)							
Included in earnings, net:							
Investment income, net of related expenses	—	—	—	—	—	—	—
Investment related gains (losses), net	—	212,887	—	—	(76,323)	—	
Claims & other policy benefits	—	—	—	—	—	—	—
Interest credited	—	—	—	—	(86,775)	—	
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—	—
Included in other comprehensive income	(40)	—	—	(92)	—	—	
Other revenues	—	—	—	4,499	—	(320)	
Purchases ⁽¹⁾	—	—	—	—	(41,321)	—	
Sales ⁽¹⁾	—	—	—	—	—	—	
Settlements ⁽¹⁾	(903)	—	—	—	55,217	—	
Transfers into Level 3	—	—	—	—	—	—	
Transfers out of Level 3	(26,542)	—	(4,962)	—	—	—	
Fair value, end of period	\$ 10,512	\$ 36,617	\$ —	\$ 4,407	\$ (1,017,927)	\$ (320)	
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period							
Included in earnings, net:							
Investment income, net of related expenses	\$ —	\$—	\$ —	\$—	\$—	\$—	\$—
Investment related gains (losses), net	—	212,887	—	—	(78,834)	—	
Other revenues	—	—	—	4,499	—	(320)	
Claims & other policy benefits	—	—	—	—	—	—	—
Interest credited	—	—	—	—	(141,992)	—	
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—	—

(1)The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances

during the period.

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The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2013, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2013 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2013 (dollars in thousands):

	Fixed maturity securities - available-for-sale				
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	U.S. Government and agencies securities
For the three months ended September 30, 2013:					
Fair value, beginning of period	\$1,592,005	\$ 140,054	\$352,606	\$ 180,982	\$—
Total gains/losses (realized/unrealized) Included in earnings, net:					
Investment income, net of related expenses	(2,254	) 24	2,314	466	—
Investment related gains (losses), net	(924	) (419	) 53	(6,864) —
Claims & other policy benefits	—	—	—	—	—
Interest credited	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—
Included in other comprehensive income	587	122	370	8,998	(40)
Purchases ⁽¹⁾	80,644	2,623	91,675	19,420	—
Sales ⁽¹⁾	(53,052	) (1,116	) (8,659	) (81,253) —
Settlements ⁽¹⁾	(90,493	) (8,017	) (4,812	) (233) —
Transfers into Level 3	2,760	—	—	3,425	3,462
Transfers out of Level 3	(8,977	) —	(5,467) —	—
Fair value, end of period	\$1,520,296	\$ 133,271	\$428,080	\$ 124,941	\$3,422
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period					
Included in earnings, net:					
Investment income, net of related expenses	\$(2,096	) \$ 24	\$2,314	\$ 301	\$—
Investment related gains (losses), net	—	—	—	(134) —
Claims & other policy benefits	—	—	—	—	—
Interest credited	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—

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For the three months ended September 30, 2013 (continued):	Fixed maturity securities - available-for-sale					
	State and political subdivision securities	Other foreign government, supranational and foreign government-sponsored enterprises	Funds withheld at interest-embedded derivatives	Other invested assets- non-redeemable preferred stock	Interest sensitive contract liabilities embedded derivatives	
Fair value, beginning of period	\$41,275	\$ 26,830	\$(108,473)	\$ —	\$(878,568)	
Total gains/losses (realized/unrealized)						
Included in earnings, net:						
Investment income, net of related expenses	9	(77)	—	—	—	
Investment related gains (losses), net	(4)	—	(67,460)	—	19,829	
Claims & other policy benefits	—	—	—	—	—	
Interest credited	—	—	—	—	28,378	
Policy acquisition costs and other insurance expenses	—	—	—	—	—	
Included in other comprehensive income	1,844	407	—	186	—	
Purchases ⁽¹⁾	—	—	—	—	(16,082)	
Sales ⁽¹⁾	—	—	—	—	—	
Settlements ⁽¹⁾	(62)	—	—	—	20,544	
Transfers into Level 3	979	—	—	4,639	—	
Transfers out of Level 3	—	—	—	—	—	
Fair value, end of period	\$44,041	\$ 27,160	\$(175,933)	\$ 4,825	\$(825,899)	
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period						
Included in earnings, net:						
Investment income, net of related expenses	\$9	\$ (77)	\$—	\$ —	\$—	
Investment related gains (losses), net	—	—	(67,460)	—	19,326	
Claims & other policy benefits	—	—	—	—	—	
Interest credited	—	—	—	—	7,834	
Policy acquisition costs and other insurance expenses	—	—	—	—	—	
For the nine months ended September 30, 2013:						
	Fixed maturity securities - available-for-sale					
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	U.S. Government and agencies securities	State and political subdivision securities
Fair value, beginning of period	\$1,668,563	\$ 93,931	\$ 232,391	\$ 167,006	\$ 4,538	\$ 43,212
Total gains/losses (realized/unrealized)						
Included in earnings, net:						
	(6,594)	18	4,719	1,548	—	27

Investment income, net of related expenses						
Investment related gains (losses), net	(1,837)	(394)	(1,468)	(16,726)	—	(12)
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—
Included in other comprehensive income	(36,123)	(78)	15,007	36,943	(40)	204
Purchases ⁽¹⁾	256,006	54,543	220,098	19,420	—	—
Sales ⁽¹⁾	(109,123)	(3,733)	(24,951)	(83,974)	—	—
Settlements ⁽¹⁾	(236,392)	(20,307)	(16,248)	(2,701)	—	(369)
Transfers into Level 3	10,906	14,631	8,305	3,425	3,462	979
Transfers out of Level 3	(25,110)	(5,340)	(9,773)	—	(4,538)	—
Fair value, end of period	\$1,520,296	\$ 133,271	\$ 428,080	\$ 124,941	\$ 3,422	\$ 44,041
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period						
Included in earnings, net:						
Investment income, net of related expenses	\$(6,313)	\$ 17	\$ 4,711	\$ 1,382	\$—	\$ 27
Investment related gains (losses), net	(202)	—	—	(10,243)	—	—
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—

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For the nine months ended September 30, 2013 (continued):	Fixed maturity securities - available-for-sale	Other foreign government, supranational and foreign government-sponsored enterprises	Funds withheld at interest-embedded derivatives	Short-term investments	Other invested assets- non-redeemable preferred stock	Interest sensitive contract liabilities embedded derivatives
Fair value, beginning of period	\$ 28,280		\$(243,177)	\$ 22,031	\$ —	\$(912,361)
Total gains/losses (realized/unrealized) Included in earnings, net:						
Investment income, net of related expenses	(227	)	—	(3)	—
Investment related gains (losses), net	—		67,244	—	—	106,952
Claims & other policy benefits	—		—	—	—	—
Interest credited	—		—	—	—	(32,637)
Policy acquisition costs and other insurance expenses	—		—	—	—	—
Included in other comprehensive income	(893	)	—	(28	)	186
Purchases ⁽¹⁾	—		—	—	—	(44,707)
Sales ⁽¹⁾	—		—	—	—	—
Settlements ⁽¹⁾	—		—	(22,000	)	56,854
Transfers into Level 3	—		—	—	4,639	—
Transfers out of Level 3	—		—	—	—	—
Fair value, end of period	\$ 27,160		\$(175,933)	\$ —	\$ 4,825	\$(825,899)
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period						
Included in earnings, net:						
Investment income, net of related expenses	\$ (227	)	\$—	\$ (4)	\$—
Investment related gains (losses), net	—		67,244	—	—	104,237
Claims & other policy benefits	—		—	—	—	—
Interest credited	—		—	—	—	(89,491)
Policy acquisition costs and other insurance expenses	—		—	—	—	—

The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items (1) purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances during the period.

Nonrecurring Fair Value Measurements

The following table presents information for assets measured at estimated fair value on a nonrecurring basis during the periods presented; that is, they are not measured at fair value on a recurring basis but are subject to fair value adjustments only in certain circumstances (for example, when there is evidence of impairment). The estimated fair values for these assets were determined using significant unobservable inputs (Level 3).

Net Investment Gains (Losses)

(dollars in thousands)	Carrying Value After Measurement		Three months ended		Nine months ended		
	At September 30,		September 30,		September 30,		
	2014	2013	2014	2013	2014	2013	
Mortgage loans ⁽¹⁾	\$9,580	\$13,575	\$2,206	\$47	\$550	\$139	
Limited partnership interests ⁽²⁾	19,282	9,161	(2,134) —	(6,305) (2,429)
Real estate investments ⁽³⁾	—	4,136	—	—	—	(600)

Mortgage loans — The impaired mortgage loans presented above were written down to their estimated fair values at the date the impairments were recognized and are reported as losses above. Subsequent improvements in estimated (1) fair value on previously impaired loans recorded through a reduction in the previously established valuation allowance are reported as gains above. Nonrecurring fair value adjustments on mortgage loans are based on the fair value of underlying collateral or discounted cash flows.

Limited partnership interests — The impaired limited partnership interests presented above were accounted for using (2) the cost method. Impairments on these cost method investments were recognized at estimated fair value determined using the net asset values of the Company's ownership interest as provided in the financial statements of the investees. The market for these investments has limited activity and price transparency.

Real estate investments — The impaired real estate investments presented above were written down to their estimated (3) fair value at the date of impairment and are reported as losses above. The impairments were based on third-party appraisal values obtained and reviewed by the Company.

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Fair Value of Financial Instruments

The Company is required by general accounting principles for Fair Value Measurements and Disclosures to disclose the fair value of certain financial instruments including those that are not carried at fair value. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments, which were not measured at fair value on a recurring basis, at September 30, 2014 and December 31, 2013 (dollars in thousands):

September 30, 2014:	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets:					
Mortgage loans on real estate	\$ 2,617,091	\$2,711,031	\$—	\$—	\$2,711,031
Policy loans	1,249,948	1,249,948	—	1,249,948	—
Funds withheld at interest ⁽¹⁾	5,930,102	6,389,736	—	—	6,389,736
Cash and cash equivalents ⁽²⁾	693,109	693,109	693,109	—	—
Short-term investments ⁽²⁾	28,218	28,218	28,218	—	—
Other invested assets ⁽²⁾	448,619	496,795	4,879	35,446	456,470
Accrued investment income	305,880	305,880	—	305,880	—
Liabilities:					
Interest-sensitive contract liabilities ⁽¹⁾	\$ 9,747,141	\$9,839,726	\$—	\$—	\$9,839,726
Long-term debt	2,314,693	2,529,192	—	—	2,529,192
Collateral finance facility	482,115	379,822	—	—	379,822
December 31, 2013:	Carrying Value	Estimated Fair Value	Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets:					
Mortgage loans on real estate	\$ 2,486,680	\$2,489,721	\$—	\$—	\$2,489,721
Policy loans	1,244,469	1,244,469	—	1,244,469	—
Funds withheld at interest ⁽¹⁾	5,948,374	6,207,342	—	—	6,207,342
Cash and cash equivalents ⁽²⁾	552,302	552,302	552,302	—	—
Short-term investments ⁽²⁾	27,823	27,823	27,823	—	—
Other invested assets ⁽²⁾	491,545	534,442	5,070	33,886	495,486
Accrued investment income	267,908	267,908	—	267,908	—
Liabilities:					
Interest-sensitive contract liabilities ⁽¹⁾	\$ 10,228,120	\$9,989,514	\$—	\$—	\$9,989,514
Long-term debt	2,214,350	2,333,023	—	—	2,333,023
Collateral finance facility	484,752	374,984	—	—	374,984

Carrying values presented herein differ from those presented in the condensed consolidated balance sheets because (1) certain items within the respective financial statement caption are embedded derivatives and are measured at fair value on a recurring basis.

(2) Carrying values presented herein differ from those presented in the condensed consolidated balance sheets because (2) certain items within the respective financial statement caption are measured at fair value on a recurring basis.

Mortgage Loans on Real Estate – The fair value of mortgage loans on real estate is estimated by discounting cash flows, both principal and interest, using current interest rates for mortgage loans with similar credit ratings and similar remaining maturities. As such, inputs include current treasury yields and spreads, which are based on the credit rating and average life of the loan, corresponding to the market spreads. The valuation of mortgage loans on real estate is considered Level 3 in the fair value hierarchy.

Policy Loans – Policy loans typically carry an interest rate that is adjusted annually based on an observable market index and therefore carrying value approximates fair value. The valuation of policy loans is considered Level 2 in the

fair value hierarchy.

Funds Withheld at Interest – The carrying value of funds withheld at interest approximates fair value except where the funds withheld are specifically identified in the agreement. When funds withheld are specifically identified in the agreement, the fair value is based on the fair value of the underlying assets which are held by the ceding company. Ceding companies use a variety of sources and pricing methodologies, which are not transparent to the Company and may include significant unobservable inputs, to value the securities that are held in distinct portfolios, therefore the valuation of these funds withheld assets are considered Level 3 in the fair value hierarchy.

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Cash and Cash Equivalents and Short-term Investments – The carrying values of cash and cash equivalents and short-term investments approximates fair values due to the short-term maturities of these instruments and are considered Level 1 in the fair value hierarchy.

Other Invested Assets – This primarily includes limited partnership interests accounted for using the cost method, structured loans, FHLB common stock and cash collateral. The fair value of limited partnerships and other investments accounted for using the cost method is determined using the net asset values of the Company's ownership interest as provided in the financial statements of the investees. The valuation of these investments is considered Level 3 in the fair value hierarchy due to the limited activity and price transparency inherent in the market for such investments. The fair value of structured loans is estimated based on a discounted cash flow analysis using discount rates applicable to each structured loan, this is considered Level 3 in the fair value hierarchy. The fair value of the Company's common stock investment in the FHLB is considered to be the carrying value and it is considered Level 2 in the fair value hierarchy. The fair value of the Company's cash collateral is considered to be the carrying value and considered to be Level 1 in the fair value hierarchy.

Accrued Investment Income – The carrying value for accrued investment income approximates fair value as there are no adjustments made to the carrying value. This is considered Level 2 in the fair value hierarchy.

Interest-Sensitive Contract Liabilities – The carrying and fair values of interest-sensitive contract liabilities reflected in the table above exclude contracts with significant mortality risk. The fair value of the Company's interest-sensitive contract liabilities utilizes a market standard technique with both capital market inputs and policyholder behavior assumptions, as well as cash values adjusted for recapture fees. The capital market inputs to the model, such as interest rates, are generally observable. Policyholder behavior assumptions are generally not observable and may require use of significant management judgment. The valuation of interest-sensitive contract liabilities is considered Level 3 in the fair value hierarchy.

Long-term Debt and Collateral Finance Facility – The fair value of the Company's long-term debt and collateral finance facility is generally estimated by discounting future cash flows using market rates currently available for debt with similar remaining maturities and reflecting the credit risk of the Company, including inputs when available, from actively traded debt of the Company or other companies with similar credit quality. The valuation of long-term debt and collateral finance facility are generally obtained from brokers and are considered Level 3 in the fair value hierarchy.

7. Segment Information

Effective January 1, 2014, the Company realigned certain operations and management responsibilities to better fit within its geographic-based segments. Operations in Mexico and Latin America have been moved from Europe & South Africa to the U.S. segment, which has been renamed U.S. and Latin America. Operations in India have been moved from Europe & South Africa to the Asia Pacific segment. The Europe & South Africa segment has been renamed Europe, Middle East and Africa. Prior-period amounts have been adjusted to conform to the new segment reporting structure.

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 2 of the consolidated financial statements accompanying the 2013 Annual Report. The Company measures segment performance primarily based on profit or loss from operations before income taxes. There are no intersegment reinsurance transactions and the Company does not have any material long-lived assets. Investment income is allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes.

The Company allocates capital to its segments based on an internally developed economic capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model considers the unique and specific nature of the risks inherent in the Company's businesses. As a result of the economic capital allocation process, a portion of investment income and investment related gains and losses are attributed to the segments based on the level of allocated capital. In addition, the segments are charged for excess capital utilized above the allocated economic capital basis. This charge is included in policy acquisition costs and other insurance expenses.

The Company's reportable segments are strategic business units that are primarily segregated by geographic region. Information related to revenues, income (loss) before income taxes and total assets of the Company for each reportable segment are summarized below (dollars in thousands).

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result and the amount of the probable loss is reasonably capable of being estimated.

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The Company has obtained bank letters of credit in favor of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits. Certain of these letters of credit contain financial covenant restrictions. At September 30, 2014 and December 31, 2013, there were approximately \$195.4 million and \$210.3 million, respectively, of undrawn outstanding bank letters of credit in favor of third parties. Additionally, the Company utilizes letters of credit primarily to secure reserve credits when it retrocedes business to its subsidiaries, including Parkway Reinsurance Company (“Parkway Re”), Rockwood Reinsurance Company (“Rockwood Re”), Timberlake Financial L.L.C. (“Timberlake Financial”), RGA Americas Reinsurance Company, Ltd. (“RGA Americas”), RGA Reinsurance Company (Barbados) Ltd. (“RGA Barbados”) and RGA Atlantic Reinsurance Company Ltd. (“RGA Atlantic”). The Company cedes business to its affiliates to help reduce the amount of regulatory capital required in certain jurisdictions such as the U.S. and the United Kingdom. The capital required to support the business in the affiliates reflects more realistic expectations than the original jurisdiction of the business, where capital requirements are often considered to be quite conservative. As of September 30, 2014 and December 31, 2013, \$1,216.3 million and \$995.5 million, respectively, in undrawn letters of credit from various banks were outstanding, primarily backing reinsurance between the various subsidiaries of the Company. The banks providing letters of credit to the Company are included on the National Association of Insurance Commissioners (“NAIC”) list of approved banks. The Company maintains nine credit facilities, a syndicated revolving credit facility with a capacity of \$850.0 million, and eight letter of credit facilities with a combined capacity of \$1,060.2 million. The Company may borrow cash and obtain letters of credit in multiple currencies under its syndicated revolving credit facility. The following table provides additional information on the Company’s credit facilities as of September 30, 2014 and December 31, 2013 (dollars in millions):

Facility Capacity	Maturity Date	Amount Utilized ⁽¹⁾		Basis of Fees
		September 30, 2014	December 31, 2013	
\$850	September 2019	\$ 178	\$ 68 ⁽³⁾	Senior unsecured long-term debt rating
200	September 2019	200	200	Fixed
120	May 2016	80	85	Fixed
270	November 2017	270	270	Fixed
100	June 2017	85	89	Fixed
79 ⁽²⁾	November 2014	79	58	Fixed
97 ⁽²⁾	March 2019	97	133	Fixed
150	June 2016	150	—	Fixed
44 ⁽²⁾	May 2016	—	—	Fixed

(1) Represents issued but undrawn letters of credit. There was no cash borrowed for the periods presented.

(2) Foreign currency facility, U.S. dollar amount may vary.

(3) Represents amount under expired syndicated credit facility.

RGA has issued guarantees to third parties on behalf of its subsidiaries for the payment of amounts due under certain reinsurance treaties, securities borrowing arrangements, financing arrangements and office lease obligations, whereby, if a subsidiary fails to meet an obligation, RGA or one of its other subsidiaries will make a payment to fulfill the obligation. In limited circumstances, treaty guarantees are granted to ceding companies in order to provide them additional security, particularly in cases where RGA’s subsidiary is relatively new, unrated, or not of a significant size, relative to the ceding company. Liabilities supported by the treaty guarantees, before consideration for any legally offsetting amounts due from the guaranteed party are reflected on the Company’s condensed consolidated balance sheets in future policy benefits. Potential guaranteed amounts of future payments will vary depending on production levels and underwriting results. Guarantees related to borrowed securities provide additional security to third parties should a subsidiary fail to return the borrowed securities when due. RGA’s guarantees issued as of September 30, 2014 and December 31, 2013 are reflected in the following table (dollars in millions):

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	September 30, 2014	December 31, 2013
Treaty guarantees	\$852	\$827
Treaty guarantees, net of assets in trust	678	648
Borrowed securities	204	93
Financing arrangements	100	—
Lease obligations	7	8

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Manor Reinsurance, Ltd. (“Manor Re”), a subsidiary of RGA, has obtained \$300.0 million of collateral financing through 2020 from an international bank which enabled Manor Re to deposit assets in trust to support statutory reserve credits for an affiliated reinsurance transaction. The bank has recourse to RGA should Manor Re fail to make payments or otherwise not perform its obligations under this financing.

RGA, through wholly-owned subsidiaries, has committed to provide statutory reserve support to third-parties, in exchange for a fee, by funding loans if certain defined events occur. Such statutory reserves are required under the U.S. Valuation of Life Policies Model Regulation (commonly referred to as Regulation XXX for term life insurance policies and Regulation A-XXX for universal life secondary guarantees). The third-parties have recourse to RGA should the subsidiary fail to provide the required funding, however, as of September 30, 2014, the Company does not believe that it will be required to provide any funding under these commitments as the occurrence of the defined events is considered remote. The following table presents information about these commitments (dollars in millions):

Commitment Period	Maximum Potential Obligation	
	September 30, 2014	December 31, 2013
2026	\$ 500	\$ 500
2033	1,850	1,350
2034	2,000	—
2036	1,250	1,250

In addition, the Company indemnifies its directors and officers as provided in its charters and by-laws. Since this indemnity generally is not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount due under this indemnity in the future.

9. Income Tax

Provision for income tax expense differed from the amounts computed by applying the U.S. federal income tax statutory rate of 35% to pre-tax income as a result of the following for the three and nine months ended September 30, 2014 and 2013 (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,		
	2014	2013	2014	2013	
Tax provision at U.S. statutory rate	\$81,135	\$70,593	\$256,126	\$142,017	
Increase (decrease) in income taxes resulting from:					
Foreign tax rate differing from U.S. tax rate	(3,645)	(4,562)	(11,715)	(6,603)	
Differences in tax basis in foreign jurisdictions	(413)	12,508	(3,727)	1,302	
Deferred tax valuation allowance	326	(9,850)	(322)	478	
Amounts related to tax audit contingencies	(2,083)	1,054	(527)	1,946	
Corporate rate changes	(26)	(925)	(386)	(645)	
Subpart F	4,426	(3,060)	10,555	3,226	
Foreign tax credits	(1,558)	3,344	(3,568)	(172)	
Return to provision adjustments	(4,794)	(5,265)	(8,031)	(9,377)	
Other, net	451	(97)	429	(286)	
Total provision for income taxes	\$73,819	\$63,740	\$238,834	\$131,886	
Effective tax rate	31.8	% 31.6	% 32.6	% 32.5	%

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10. Employee Benefit Plans

The components of net periodic benefit costs for the three and nine months ended September 30, 2014 and 2013 were as follows (dollars in thousands):

	Pension Benefits		Other Benefits	
	Three months ended September 30,		Three months ended September 30,	
	2014	2013	2014	2013
Service cost	\$2,195	\$2,000	\$826	\$590
Interest Cost	1,367	1,017	794	392
Expected return on plan assets	(1,118	) (933) —	—
Amortization of prior service cost	214	152	—	—
Amortization of prior actuarial loss	489	808	361	279
Net periodic benefit cost	\$3,147	\$3,044	\$1,981	\$1,261
	Pension Benefits		Other Benefits	
	Nine months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Service cost	\$6,185	\$6,012	\$1,766	\$1,411
Interest Cost	3,662	3,055	1,471	1,015
Expected return on plan assets	(3,353	) (2,800) —	—
Amortization of prior service cost	432	459	—	—
Amortization of prior actuarial loss	1,407	2,427	795	651
Net periodic benefit cost	\$8,333	\$9,153	\$4,032	\$3,077

The Company has made pension contributions of \$6.5 million during the first nine months of 2014, and does not expect to make any additional pension contributions in 2014.

11. Equity Based Compensation

Equity compensation expense was \$5.3 million and \$5.5 million in the third quarter of 2014 and 2013, respectively. In the first quarter of 2014, the Company granted 0.3 million stock appreciation rights at \$78.48 weighted average exercise price per share and 0.2 million performance contingent units to employees. Additionally, non-employee directors were granted a total of 15,925 shares of common stock. As of September 30, 2014, 1.8 million share options at \$51.03 weighted average per share were vested and exercisable with a remaining weighted average exercise period of 5.0 years. As of September 30, 2014, the total compensation cost of non-vested awards not yet recognized in the condensed consolidated financial statements was \$31.0 million. It is estimated that these costs will vest over a weighted average period of 2.0 years.

Effective with the 2014 grants, certain eligible associates were granted a greater portion of equity awards in performance contingent units, while others were granted a greater portion of awards settled in cash. This change increases the performance based nature of the awards while reducing share issuance.

12. Retrocession Arrangements and Reinsurance Ceded Receivables

The Company generally reports retrocession activity on a gross basis. Amounts paid or deemed to have been paid for reinsurance are reflected in reinsurance ceded receivables. The cost of reinsurance related to long-duration contracts is recognized over the terms of the reinsured policies on a basis consistent with the reporting of those policies.

Retrocession reinsurance treaties do not relieve the Company from its obligations to direct writing companies. Failure of retrocessionaires to honor their obligations could result in losses to the Company. Consequently, allowances would be established for amounts deemed uncollectible. At September 30, 2014 and December 31, 2013, no allowances were deemed necessary. The Company regularly evaluates the financial condition of the insurance companies from which it assumes and to which it cedes reinsurance.

Retrocessions are arranged through the Company's retrocession pools for amounts in excess of the Company's retention limit. As of September 30, 2014 and December 31, 2013, all rated retrocession pool participants followed by the A.M. Best Company were rated "A- (excellent)" or better. The Company verifies retrocession pool participants' ratings on a

quarterly basis. For a majority of the retrocessionaires that were not rated, security in the form of letters of credit or trust assets has been given as additional

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security. In addition, the Company performs annual financial reviews of its retrocessionaires to evaluate financial stability and performance. In addition to its third party retrocessionaires, various RGA reinsurance subsidiaries retrocede amounts in excess of their retention to RGA Reinsurance Company ("RGA Reinsurance"), Parkway Re, RGA Barbados, RGA Americas, Rockwood Re, Manor Re, RGA Worldwide Reinsurance Company, Ltd. ("RGA Worldwide") or RGA Atlantic.

At September 30, 2014, the Company had \$596.7 million of ceded reinsurance receivables, of which \$360.5 million, or 60.4%, were with the Company's four largest retrocessionaires. Included in the September 30, 2014 total ceded reinsurance receivables balance were \$155.4 million of claims recoverable, of which \$7.1 million were in excess of 90 days past due. At December 31, 2013, the Company had \$594.5 million of ceded reinsurance receivables, of which \$359.2 million, or 60.4%, were with the Company's four largest retrocessionaires. Included in the December 31, 2013 total ceded reinsurance receivables balance were \$134.1 million of claims recoverable, of which \$4.2 million were in excess of 90 days past due.

13. Stock Transactions

On February 20, 2014, RGA's board of directors authorized a share repurchase program for up to \$300.0 million of RGA's outstanding common stock. The authorization was effective immediately and does not have an expiration date. Repurchases are made in accordance with applicable securities laws through market transactions, block trades, privately negotiated transactions or other means or a combination of these methods, with the timing and number of shares repurchased dependent on a variety of factors, including share price, corporate and regulatory requirements and market and business conditions. Repurchases may be commenced or suspended from time to time without prior notice. In connection with this new authorization, the board of directors terminated the stock repurchase authority granted in 2013.

During the first quarter of 2014, RGA repurchased 1,449,293 shares of common stock under this program for \$112.6 million. During the second quarter of 2014, RGA repurchased 818,515 shares of common stock under this program for \$64.1 million. During the third quarter of 2014, RGA repurchased 262,800 shares of common stock under this program for \$20.9 million. The common shares repurchased have been placed into treasury to be used for general corporate purposes. As of September 30, 2014 there was \$102.3 million remaining under the share repurchase authorization.

14. Financing and Other Activities

On August 21, 2014, the Company, signed a promissory note due September 1, 2039 with a face amount of \$100.0 million, collateralized by the Company's new headquarters in Chesterfield, Missouri. Principal and interest are paid monthly on the promissory note, using an interest rate of 4.09%. The liability for the note is included in long-term debt in the condensed consolidated balance sheets.

On September 25, 2014, the Company entered into a new syndicated revolving credit facility with a five year term and an overall capacity of \$850.0 million, replacing its existing \$850.0 million syndicated revolving credit facility, which was scheduled to mature in December 2015. The Company may borrow cash and may obtain letters of credit in multiple currencies under this facility. See - Note 8 "Commitments and Contingent Liabilities" for information regarding the Company's credit facilities.

On August 13, 2013, the Company completed its acquisition of the Dutch life insurance company Leidsche Verzekeringen Maatschappij N.V. for a total purchase price of \$12.5 million. The purchase price was allocated to \$147.3 million of assets and \$134.8 million of liabilities at the date of acquisition. That company primarily sells term life and unit-linked variable annuity policies.

15. New Accounting Standards

Changes to the general accounting principles are established by the Financial Accounting Standards Board ("FASB") in the form of accounting standards updates to the FASB Accounting Standards Codification™. Accounting standards updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's condensed consolidated financial statements.

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Adoption of New Accounting Standards

Basis of Presentation

In December 2011, the FASB amended the general accounting principles for Balance Sheet as it relates to the disclosures about offsetting assets and liabilities. The amendment requires disclosures about the Company's rights of offset and related arrangements associated with its financial instruments and derivative instruments. This amendment also requires the disclosure of both gross and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. In January 2013, the FASB amended the general accounting principles for Balance Sheet as it relates to the disclosures about offsetting assets and liabilities. This amendment clarifies that the scope of the Balance Sheet amendment made in December 2011 applies only to derivatives, including bifurcated embedded derivatives, repurchase and reverse repurchase agreements, and securities borrowing and lending transactions that are either offset or subject to an enforceable master netting agreement or a similar agreement. These amendments are effective for interim and annual reporting periods beginning on or after January 1, 2013. The Company adopted these amendments and the required disclosures are provided in Note 5 — "Derivative Instruments".

Income Taxes

In July 2013, the FASB amended the general accounting principles for Income Taxes as it relates to the presentation of an unrecognized tax benefit when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This amendment clarifies that an unrecognized tax benefit should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. However, to the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available to settle any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and not combined with deferred tax assets. These amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

Comprehensive Income

In February 2013, the FASB amended the general accounting principles for Comprehensive Income as it relates to the reporting of amounts reclassified out of accumulated other comprehensive income. The amendment requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component. This amendment also requires entities to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. However, this is only necessary if the amount reclassified is required to be reclassified to net income in its entirety in the same reporting period. The amendment is effective for interim and annual reporting periods beginning after December 15, 2012. The Company adopted this amendment and the required disclosures are provided in Note 3 — "Accumulated Other Comprehensive Income."

Future Adoption of New Accounting Standards

Compensation

In June 2014, the FASB amended the general accounting principles for Compensation as it relates to the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This amendment requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendment further clarifies that the performance target should not be reflected in estimating the grant-date fair value of the award and that compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved. These amendments are effective for annual years, and interim periods within those years, beginning after December 15, 2015. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

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Transfers and Servicing

In June 2014, the FASB amended the general accounting principles for Transfers and Servicing as it relates to the accounting for repurchase-to-maturity transactions, repurchase financings, and disclosures. This amendment requires entities to account for repurchase-to-maturity transactions as secured borrowings, eliminates guidance on linked repurchase financing transactions, and expands disclosure requirements related to certain transfers of financial assets that are accounted for as sales and certain transfers accounted for as secured borrowings. These amendments are effective for annual years, and interim periods within those years, beginning after December 15, 2014. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

16. Subsequent Event

On October 21, 2014, the Company announced the execution of agreements under which the Company will acquire all of the stock of Aurora National Life Assurance Company (“Aurora”), a wholly owned life insurance subsidiary of Swiss Re. Aurora has approximately 82,000 policies in force and statutory policyholder liabilities of \$2.7 billion. The underlying business is comprised of annuities, primarily payout annuities, and interest-sensitive life products. The transaction is expected to close in early 2015 subject to customary regulatory approvals.

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

Forward-Looking and Cautionary Statements

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, among others, statements relating to projections of the strategies, earnings, revenues, income or loss, ratios, future financial performance, and growth potential of the Company. The words "intend," "expect," "project," "estimate," "predict," "anticipate," "should," "believe," and other similar expressions also are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements.

Numerous important factors could cause actual results and events to differ materially from those expressed or implied by forward-looking statements including, without limitation, (1) adverse capital and credit market conditions and their impact on the Company's liquidity, access to capital and cost of capital, (2) the impairment of other financial institutions and its effect on the Company's business, (3) requirements to post collateral or make payments due to declines in market value of assets subject to the Company's collateral arrangements, (4) the fact that the determination of allowances and impairments taken on the Company's investments is highly subjective, (5) adverse changes in mortality, morbidity, lapsation or claims experience, (6) changes in the Company's financial strength and credit ratings and the effect of such changes on the Company's future results of operations and financial condition, (7) inadequate risk analysis and underwriting, (8) general economic conditions or a prolonged economic downturn affecting the demand for insurance and reinsurance in the Company's current and planned markets, (9) the availability and cost of collateral necessary for regulatory reserves and capital, (10) market or economic conditions that adversely affect the value of the Company's investment securities or result in the impairment of all or a portion of the value of certain of the Company's investment securities, that in turn could affect regulatory capital, (11) market or economic conditions that adversely affect the Company's ability to make timely sales of investment securities, (12) risks inherent in the Company's risk management and investment strategy, including changes in investment portfolio yields due to interest rate or credit quality changes, (13) fluctuations in U.S. or foreign currency exchange rates, interest rates, or securities and real estate markets, (14) adverse litigation or arbitration results, (15) the adequacy of reserves, resources and accurate information relating to settlements, awards and terminated and discontinued lines of business, (16) the stability of and actions by governments and economies in the markets in which the Company operates, including ongoing uncertainties regarding the amount of United States sovereign debt and the credit ratings thereof, (17) competitive factors and competitors' responses to the Company's initiatives, (18) the success of the Company's clients, (19) successful execution of the Company's entry into new markets, (20) successful development and introduction of new products and distribution opportunities, (21) the Company's ability to successfully integrate and operate reinsurance business that the Company acquires, (22) action by regulators who have authority over the Company's reinsurance operations in the jurisdictions in which it operates, (23) the Company's dependence on third parties, including those insurance companies and reinsurers to which the Company cedes some reinsurance, third-party investment managers and others, (24) the threat of natural disasters, catastrophes, terrorist attacks, epidemics or pandemics anywhere in the world where the Company or its clients do business, (25) interruption or failure of the Company's telecommunication, information technology or other operational systems, or the Company's failure to maintain adequate security to protect the confidentiality or privacy of personal or sensitive data stored on such systems, (26) changes in laws, regulations, and accounting standards applicable to the Company, its subsidiaries, or its business, (27) the effect of the Company's status as an insurance holding company and regulatory restrictions on its ability to pay principal of and interest on its debt obligations, and (28) other risks and uncertainties described in this document and in the Company's other filings with the SEC.

Forward-looking statements should be evaluated together with the many risks and uncertainties that affect the Company's business, including those mentioned in this document and the cautionary statements described in the periodic reports the Company files with the SEC. These forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligations to update these forward-looking statements, even though the Company's situation may change in the future. The Company qualifies all of its forward-looking

statements by these cautionary statements. For a discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements, you are advised to see Item 1A – “Risk Factors” in the 2013 Annual Report.

Overview

RGA is an insurance holding company that was formed on December 31, 1992. The condensed consolidated financial statements include the assets, liabilities and results of operations of RGA, RGA Reinsurance, Reinsurance Company of Missouri, Incorporated, RGA Barbados, RGA Americas, RGA Atlantic, RGA Life Reinsurance Company of Canada (“RGA Canada”), RGA Reinsurance Company of Australia, Limited and RGA International Reinsurance Company Limited as well as other subsidiaries, which are primarily wholly owned (collectively, the Company).

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The Company is primarily engaged in the reinsurance of individual and group coverages for traditional life and health, longevity, disability, annuity and critical illness products, and financial reinsurance. RGA and its predecessor, the Reinsurance Division of General American Life Insurance Company, a Missouri life insurance company, have been engaged in the business of life reinsurance since 1973. The Company derives revenues primarily from renewal premiums from existing reinsurance treaties, new business premiums from existing or new reinsurance treaties and income earned on invested assets.

The Company's primary business is life and health reinsurance, which involves reinsuring life insurance policies that are often in force for the remaining lifetime of the underlying individuals insured, with premiums earned typically over a period of 10 to 30 years. Each year, however, a portion of the business under existing treaties terminates due to, among other things, lapses or voluntary surrenders of underlying policies, deaths of insureds, and the exercise of recapture options by ceding companies.

As is customary in the reinsurance business, clients continually update, refine, and revise reinsurance information provided to the Company. Such revised information is used by the Company in preparation of its condensed consolidated financial statements and the financial effects resulting from the incorporation of revised data are reflected in the current period.

The Company's long-term profitability primarily depends on the volume and amount of death and health-related claims incurred and the ability to adequately price the risks assumed. While death claims are reasonably predictable over a period of many years, claims become less predictable over shorter periods and are subject to significant fluctuation from quarter to quarter and year to year. The maximum amount of individual life coverage the Company retains per life varies by market and can be as high as \$8.0 million. In certain limited situations the Company has retained more than \$8.0 million per individual life. Exposures in excess of these retention amounts are typically retroceded to retrocessionaires; however, the Company remains fully liable to the ceding company for the entire amount of risk it assumes. The Company believes its sources of liquidity are sufficient to cover potential claims payments on both a short-term and long-term basis.

Effective January 1, 2014, the Company realigned certain operations and management responsibilities to better fit within its geographic-based segments. Operations in Mexico and Latin America have been moved from Europe & South Africa to the U.S. segment, which has been renamed U.S. and Latin America. Operations in India have been moved from Europe & South Africa to the Asia Pacific segment. The Europe & South Africa segment has been renamed Europe, Middle East and Africa. Prior-period amounts have been adjusted to conform to the new segment reporting structure.

The Company has five geographic-based or function-based operational segments, each of which is a distinct reportable segment: U.S. and Latin America; Canada; Europe, Middle East and Africa; Asia Pacific; and Corporate and Other. The U.S. and Latin America operations are further segmented into traditional and non-traditional businesses. The U.S. and Latin America operations provide individual life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The U.S. and Latin America operations non-traditional business also issues fee-based synthetic guaranteed investment contracts, which include investment-only, stable value contracts, to retirement plans. The Canada operations reinsure traditional life products as well as creditor reinsurance, group life and health reinsurance, non-guaranteed critical illness products and longevity reinsurance. Europe, Middle East and Africa operations include a variety of life and health products, critical illness and longevity business throughout Europe and in South Africa, in addition to other markets the Company is developing. The principle types of reinsurance in Asia Pacific include life, critical illness, health, disability, superannuation and financial reinsurance. Corporate and Other includes results from, among others, RGA Technology Partners, Inc. ("RTP"), a wholly-owned subsidiary that develops and markets technology solutions for the insurance industry, interest expense related to debt and the investment income and expense associated with the Company's collateral finance facility. The Company measures segment performance based on profit or loss from operations before income taxes.

The Company allocates capital to its segments based on an internally developed economic capital model, the purpose of which is to measure the risk in the business and to provide a consistent basis upon which capital is deployed. The economic capital model considers the unique and specific nature of the risks inherent in RGA's businesses. As a result of the economic capital allocation process, a portion of investment income and investment related gains and losses is

credited to the segments based on the level of allocated capital. In addition, the segments are charged for excess capital utilized above the allocated economic capital basis. This charge is included in policy acquisition costs and other insurance expenses.

Results of Operations

Consolidated

Consolidated income before income taxes increased \$30.1 million, or 14.9%, and \$326.0 million, or 80.3%, for the three and nine months ended September 30, 2014, as compared to the same periods in 2013. The increase in income before income taxes for the third quarter was primarily due to an increase in investment related gains, higher investment income and net premiums. The increase in investment related gains reflects a favorable change in the value of embedded derivatives on modco or funds withheld treaties within the U.S. segment due to the effect of tightening credit spreads. The increase in income before income taxes for the first nine months of 2014 was primarily due to the effects of a significant loss recognized in second quarter of 2013 in the Asia Pacific segment, partially offset by higher premiums, an increase in other revenues and increased investment related gains. The

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loss in the Asia Pacific segment in 2013 reflects an increase in Australian group claims liabilities related to total and permanent disability coverage and disability income benefits as well as poor claims experience in the Australian operation's individual lump sum and individual disability businesses. The increase in other revenues for the first nine months is primarily due to fee income on financial reinsurance transactions and a recapture fee of \$39.3 million recognized in the second quarter of 2014 in the Asia Pacific segment. This increase in other revenues for the first nine months is reduced somewhat by the recognition in other revenues of gains on the repurchase of collateral finance facility securities of \$46.5 million in 2013. Foreign currency fluctuations relative to the prior year unfavorably affected income before income taxes by approximately \$1.5 million and \$7.9 million for the third quarter of and first nine months of 2014, respectively, as compared to the same periods in 2013.

The Company recognizes in consolidated income, any changes in the value of embedded derivatives on modco or funds withheld treaties, equity-indexed annuity treaties ("EIAs") and variable annuity products. The combined changes in these three types of embedded derivatives, after adjustment for deferred acquisition costs and retrocession, resulted in an increase of approximately \$55.7 million and a reduction of approximately \$59.1 million in consolidated income before income taxes in the third quarter and first nine months of 2014, respectively, as compared to the same periods in 2013. These fluctuations do not affect current cash flows, crediting rates or spread performance on the underlying treaties. Therefore, management believes it is helpful to distinguish between the effects of changes in these embedded derivatives, net of related hedging activity, and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income, and interest credited. See "Non-Traditional - Asset-Intensive Reinsurance" under "U.S. and Latin America Operations" below for more information on embedded derivatives. The individual effect on income before income taxes for these three types of embedded derivatives is as follows:

The change in the value of embedded derivatives related to reinsurance treaties written on a modco or funds withheld basis are subject to the general accounting principles for derivatives and hedging related to embedded derivatives. The unrealized gains and losses associated with these embedded derivatives, after adjustment for deferred acquisition costs, increased income before income taxes by \$44.7 million and \$45.5 million in the third quarter and first nine months of 2014, respectively, as compared to the same periods in 2013.

Changes in risk-free rates used in the fair value estimates of embedded derivatives associated with EIAs affect the amount of unrealized gains and losses the Company recognizes. The unrealized gains and losses associated with EIAs, after adjustment for deferred acquisition costs and retrocession, reduced income before income taxes by \$12.8 million and \$33.9 million in the third quarter and first nine months of 2014, respectively, as compared to the same periods in 2013.

The change in the Company's liability for variable annuities associated with guaranteed minimum living benefits affects the amount of unrealized gains and losses the Company recognizes. The unrealized gains and losses associated with guaranteed minimum living benefits, after adjustment for deferred acquisition costs, resulted in an increase of approximately \$23.8 million and a reduction of approximately \$70.7 million in income before income taxes in the third quarter and first nine months of 2014, respectively, as compared to the same periods in 2013.

Consolidated net premiums increased \$142.1 million, or 7.0%, and \$411.1 million, or 6.8%, for the three and nine months ended September 30, 2014, as compared to the same periods in 2013, primarily due to growth in life reinsurance. In addition, the increase in net premiums for the first nine months is partially offset by foreign currency fluctuations. Foreign currency fluctuations affected net premiums favorably by approximately \$5.8 million and unfavorably by approximately \$49.7 million for the three and nine months ended September 30, 2014, as compared to the same periods in 2013. Consolidated assumed insurance in force increased to \$2,923.5 billion as of September 30, 2014 from \$2,903.8 billion as of September 30, 2013 due to new business production. Foreign currency fluctuations offset the increase in assumed life insurance in force from September 30, 2013 by \$73.9 million. The Company added new business production, measured by face amount of insurance in force, of \$71.8 billion and \$91.6 billion during the third quarter of 2014 and 2013, respectively, and \$289.1 billion and \$291.5 billion during the first nine months of 2014 and 2013, respectively. Management believes industry consolidation and the established practice of reinsuring mortality risks should continue to provide opportunities for growth, albeit at rates less than historically experienced in some markets.

Consolidated investment income, net of related expenses, increased \$77.7 million, or 21.0%, and \$23.4 million, or 1.9%, for the three and nine months ended September 30, 2014, as compared to the same periods in 2013. The increases are primarily due to a larger average invested asset base, excluding spread business. Also contributing to the increase in investment income for the third quarter was a \$35.9 million increase in market value changes related to the Company's funds withheld at interest investment associated with the reinsurance of certain EIAs and a slight increase in the average investment yield. Offsetting the increase in investment income for the first nine months was a \$29.8 million decrease from market value changes related to the Company's funds withheld at interest investment associated with the reinsurance of certain EIAs. The effect on investment income of the EIAs market value changes is substantially offset by a corresponding change in interest credited to policyholder account balances resulting in an insignificant effect on net income. Average invested assets at amortized cost, excluding spread business, for the nine months ended September 30, 2014 totaled \$19.9 billion, an 10.9% increase over September 30, 2013. The average yield earned on investments, excluding funds withheld and other spread business, was 4.80% and 4.75% for the third quarter of 2014 and 2013, respectively, and 4.78% for both the nine months ended September 30, 2014 and 2013. The average yield will vary from quarter to quarter and year to year depending on a number of variables, including the prevailing interest rate and credit spread

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environment, changes in the mix of the underlying investments and cash balances, and the timing of dividends and distributions on certain investments. Any continued low interest rate environment, particularly in the U.S. and Canada, would be expected to continue to put downward pressure on this yield.

Total investment related gains (losses), net increased by \$98.8 million and \$159.3 million for the three and nine months ended September 30, 2014, as compared to the same periods in 2013. The increases are primarily due to an increase in the fair value of derivatives used to hedge the embedded derivative liabilities associated with guaranteed minimum living benefits of \$51.9 million and \$183.5 million, and a favorable change in the embedded derivatives related to reinsurance treaties written on a modco or funds withheld basis of \$124.3 million and \$142.4 million, in the third quarter and first nine months of 2014, respectively. Offsetting these increases was an unfavorable change in the embedded derivatives related to guaranteed minimum living benefits of \$67.3 million and \$183.3 million in the third quarter and first nine months of 2014, respectively. See Note 4 - "Investments" and Note 5 - "Derivative Instruments" in the Notes to Condensed Consolidated Financial Statements for additional information on the impairment losses and derivatives. Investment income and investment related gains and losses are allocated to the operating segments based upon average assets and related capital levels deemed appropriate to support the segment operations.

The effective tax rate on a consolidated basis was 31.8% and 31.6% for the third quarter of 2014 and 2013, respectively, and 32.6% and 32.5% for the first nine months of 2014 and 2013, respectively. The third quarter and first nine months of 2014 effective tax rates were lower than the U.S. Statutory rate of 35.0% primarily as a result of income in non-U.S. jurisdictions with lower tax rates than the U.S., the release of a valuation allowance in the first quarter on tax benefits associated with claims experience on certain treaties, and an adjustment to reconcile the 2013 income tax provision to the 2013 federal income tax return, which was filed in the current quarter. These adjustments were partially offset by a tax accrual related to the Active Financing Exception business extender provision that the U.S. Congress did not pass prior to the end of the quarter. The 2013 effective tax rate was lower than the U.S. Statutory rate of 35.0% primarily as a result of income in non-U.S. jurisdictions with lower tax rates than the U.S., differences in tax basis in foreign jurisdictions and an adjustment to reconcile the 2012 income tax provision to the 2012 federal income tax return, which was filed in the third quarter. These adjustments were partially offset with the establishment of a valuation allowance on a portion of Australia's deferred tax asset.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires the application of accounting policies that often involve a significant degree of judgment. Management, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, results of operations and financial position as reported in the condensed consolidated financial statements could change significantly.

Management believes the critical accounting policies relating to the following areas are most dependent on the application of estimates and assumptions:

Premiums receivable;

Deferred acquisition costs;

Liabilities for future policy benefits and incurred but not reported claims;

Valuation of investments and other-than-temporary impairments to specific investments;

Valuation of embedded derivatives; and

Income taxes.

A discussion of each of the critical accounting policies may be found in the Company's 2013 Annual Report under "Management's Discussion and Analysis of Financial Condition and Results of Operations – Critical Accounting Policies."

Further discussion and analysis of the results for 2014 compared to 2013 are presented by segment.

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U.S. and Latin America Operations

U.S. and Latin America operations consist of two segments: Traditional and Non-Traditional. The Traditional segment primarily specializes in individual mortality-risk reinsurance and to a lesser extent, group, health and long-term care reinsurance. The Non-Traditional segment consists of Asset-Intensive and Financial Reinsurance. Asset-Intensive within the Non-Traditional segment also issues fee-based synthetic guaranteed investment contracts which include investment-only, stable value contracts, to retirement plans.

For the three months ended September 30, 2014:

(dollars in thousands)

	Traditional	Non-Traditional Asset-Intensive	Financial Reinsurance	Total U.S. and Latin America
Revenues:				
Net premiums	\$1,171,916	\$5,168	\$—	\$1,177,084
Investment income, net of related expenses	139,272	175,522	1,003	315,797
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(196)	—	—	(196)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	—	—	—	—
Other investment related gains (losses), net	(896)	27,010	(100)	26,014
Total investment related gains (losses), net	(1,092)	27,010	(100)	25,818
Other revenues	783	28,944	23,581	53,308
Total revenues	1,310,879	236,644	24,484	1,572,007
Benefits and expenses:				
Claims and other policy benefits	1,030,525	5,586	—	1,036,111
Interest credited	12,993	104,570	—	117,563
Policy acquisition costs and other insurance expenses	161,120	58,481	8,458	228,059
Other operating expenses	28,408	4,211	2,322	34,941
Total benefits and expenses	1,233,046	172,848	10,780	1,416,674
Income before income taxes	\$77,833	\$63,796	\$13,704	\$155,333

For the three months ended September 30, 2013:

(dollars in thousands)

	Traditional	Non-Traditional Asset-Intensive	Financial Reinsurance	Total U.S. and Latin America
Revenues:				
Net premiums	\$1,124,183	\$3,800	\$—	\$1,127,983
Investment income, net of related expenses	138,464	124,808	1,160	264,432
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	—	—	—	—
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	—	—	—	—
Other investment related gains (losses), net	(5,249)	(82,064)	(321)	(87,634)
Total investment related gains (losses), net	(5,249)	(82,064)	(321)	(87,634)
Other revenues	880	28,519	15,599	44,998
Total revenues	1,258,278	75,063	16,438	1,349,779

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Benefits and expenses:				
Claims and other policy benefits	972,786	8,899	—	981,685
Interest credited	13,659	45,805	—	59,464
Policy acquisition costs and other insurance expenses	162,710	6,312	3,228	172,250
Other operating expenses	24,085	4,198	2,008	30,291
Total benefits and expenses	1,173,240	65,214	5,236	1,243,690
Income before income taxes	\$85,038	\$9,849	\$11,202	\$106,089

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For the nine months ended September 30, 2014:

(dollars in thousands)

	Traditional	Non-Traditional Asset-Intensive	Financial Reinsurance	Total U.S. and Latin America
Revenues:				
Net premiums	\$3,503,643	\$15,332	\$—	\$3,518,975
Investment income, net of related expenses	410,052	483,083	3,336	896,471
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(1,114)	—	—	(1,114)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	—	—	—	—
Other investment related gains (losses), net	7,825	190,343	51	198,219
Total investment related gains (losses), net	6,711	190,343	51	197,105
Other revenues	2,192	86,596	64,456	153,244
Total revenues	3,922,598	775,354	67,843	4,765,795
Benefits and expenses:				
Claims and other policy benefits	3,109,262	14,559	—	3,123,821
Interest credited	38,083	296,607	—	334,690
Policy acquisition costs and other insurance expenses	473,390	235,862	21,144	730,396
Other operating expenses	79,070	12,118	6,809	97,997
Total benefits and expenses	3,699,805	559,146	27,953	4,286,904
Income before income taxes	\$222,793	\$216,208	\$39,890	\$478,891

For the nine months ended September 30, 2013:

(dollars in thousands)

	Traditional	Non-Traditional Asset-Intensive	Financial Reinsurance	Total U.S. and Latin America
Revenues:				
Net premiums	\$3,317,353	\$18,767	\$—	\$3,336,120
Investment income, net of related expenses	404,543	505,014	2,576	912,133
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(8,247)	—	—	(8,247)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	(253)	—	—	(253)
Other investment related gains (losses), net	14,271	49,583	(387)	