REINSURANCE GROUP OF AMERICA INC
Form 10-Q
August 05, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2013

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	**43-1627032**
(State or other jurisdiction of incorporation or organization)	**(IRS employer identification number)**

1370 Timberlake Manor Parkway

Chesterfield, Missouri 63017

(Address of principal executive offices)

(636) 736-7000

(Registrant s telephone number, including area code)

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 _X_ 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 _X_ 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 _X_ 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 _X_

As of July 31, 2013, 70,984,449 shares of the registrant s common stock were outstanding.

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

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PART I - FINANCIAL INFORMATION

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	June 30, 2013	December 31, 2012
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $19,757,321 and $19,559,432)	$ 21,284,216	$ 22,291,614
Mortgage loans on real estate (net of allowances of $7,903 and $11,580)	2,377,246	2,300,587
Policy loans	1,245,252	1,278,175
Funds withheld at interest	5,777,395	5,594,182
Short-term investments	38,601	288,082
Other invested assets	1,035,809	1,159,543
Total investments	31,758,519	32,912,183
Cash and cash equivalents	973,619	1,259,892
Accrued investment income	233,153	201,344
Premiums receivable and other reinsurance balances	1,314,004	1,356,087
Reinsurance ceded receivables	585,555	620,901
Deferred policy acquisition costs	3,453,513	3,619,274
Other assets	472,258	390,757
Total assets	$ 38,790,621	$ 40,360,438
Liabilities and Stockholders Equity		
Future policy benefits	$ 11,491,692	$ 11,372,856
Interest-sensitive contract liabilities	12,991,981	13,353,502
Other policy claims and benefits	3,316,727	3,160,250
Other reinsurance balances	254,815	233,630
Deferred income taxes	1,839,909	2,120,501
Other liabilities	584,488	742,249
Short-term debt	120,000	
Long-term debt	1,815,533	1,815,253
Collateral finance facility	487,556	652,010
Total liabilities	32,902,701	33,450,251
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 June 30, 2013 and December 31, 2012	791	791
Additional paid-in-capital	1,772,811	1,755,421
Retained earnings	3,428,646	3,357,255
Treasury stock, at cost - 8,170,066 and 5,210,427 shares	(496,462)	(312,182)
Accumulated other comprehensive income	1,182,134	2,108,902
Total stockholders equity	5,887,920	6,910,187
Total liabilities and stockholders equity	$ 38,790,621	$ 40,360,438

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Revenues:	(Dollars in thousands, except per share data)			
Net premiums	$ 2,035,156	$ 1,950,661	$ 4,014,849	$ 3,814,143
Investment income, net of related expenses	444,234	328,334	869,365	669,274
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(9,803)	(1,959)	(10,005)	(9,566)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	(306)	162	(306)	(7,059)
Other investment related gains (losses), net	58,352	25,598	152,925	83,946
Total investment related gains (losses), net	48,243	23,801	142,614	67,321
Other revenues	63,009	72,957	164,916	117,990
Total revenues	2,590,642	2,375,753	5,191,744	4,668,728
Benefits and Expenses:				
Claims and other policy benefits	2,030,574	1,625,446	3,719,484	3,205,595
Interest credited	118,345	66,697	243,828	154,739
Policy acquisition costs and other insurance expenses	370,505	335,939	727,862	643,573
Other operating expenses	113,408	105,541	232,909	215,639
Interest expense	29,918	23,360	58,404	46,682
Collateral finance facility expense	2,650	2,878	5,188	5,845
Total benefits and expenses	2,665,400	2,159,861	4,987,675	4,272,073
Income (loss) before income taxes	(74,758)	215,892	204,069	396,655
Provision for income taxes	(25,146)	74,781	68,146	132,226
Net income (loss)	$ (49,612)	$ 141,111	$ 135,923	$ 264,429
Earnings per share:				
Basic earnings per share	$ (0.69)	$ 1.91	$ 1.86	$ 3.59
Diluted earnings per share	$ (0.69)	$ 1.91	$ 1.85	$ 3.57
Dividends declared per share	$ 0.24	$ 0.18	$ 0.48	$ 0.36

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

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Comprehensive income (loss)				
Net income (loss)	$ (49,612)	$ 141,111	$ 135,923	$ 264,429
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	(88,832)	(16,865)	(102,937)	7,215
Change in net unrealized gains and losses on investments	(706,848)	203,156	(826,181)	167,741
Change in other-than-temporary impairment losses on fixed maturity securities	199	(106)	650	4,588
Changes in pension and other postretirement plan adjustments	875	1,211	1,700	1,501
Total other comprehensive income (loss), net of tax	(794,606)	187,396	(926,768)	181,045
Total comprehensive income (loss)	$ (844,218)	$ 328,507	$ (790,845)	$ 445,474

See accompanying notes to condensed consolidated financial statements.

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six months ended June 30, 2013	Six months ended June 30, 2012
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$ 135,923	$ 264,429
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(35,457)	(38,182)
Premiums receivable and other reinsurance balances	(5,100)	(47,370)
Deferred policy acquisition costs	104,002	(63,690)
Reinsurance ceded receivable balances	64,814	(540)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	806,172	755,790
Deferred income taxes	69,071	(5,469)
Other assets and other liabilities, net	(165,129)	62,682
Amortization of net investment premiums, discounts and other	(43,662)	(69,347)
Investment related gains, net	(142,614)	(67,321)
Gain on repurchase of collateral finance facility securities	(46,506)	
Excess tax benefits from share-based payment arrangement	(2,420)	24
Other, net	66,027	27,251
Net cash provided by operating activities	805,121	818,257
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	1,898,833	1,759,932
Maturities of fixed maturity securities available-for-sale	62,734	104,008
Purchases of fixed maturity securities available-for-sale	(2,487,016)	(2,518,580)
Cash invested in mortgage loans	(244,939)	(225,005)
Cash invested in policy loans	(17)	(1,589)
Cash invested in funds withheld at interest	(60,156)	(60,145)
Principal payments on mortgage loans on real estate	150,098	46,313
Principal payments on policy loans	32,940	11,752
Change in short-term investments	241,136	35,989
Change in other invested assets	(1,591)	62,541
Net cash used in investing activities	(407,978)	(784,784)
Cash Flows from Financing Activities:		
Dividends to stockholders	(35,169)	(26,524)
Repurchase of collateral finance facility securities	(112,000)	
Net change in short-term debt	120,000	
Purchases of treasury stock	(234,690)	(6,924)
Excess tax benefits from share-based payment arrangement	2,420	(24)
Exercise of stock options, net	11,439	(651)
Change in cash collateral for derivatives and other arrangements	(31,858)	(15,096)
Deposits on universal life and other investment type policies and contracts	39,706	79,134
Withdrawals on universal life and other investment type policies and contracts	(397,033)	(70,753)
Net cash used in financing activities	(637,185)	(40,838)
Effect of exchange rate changes on cash	(46,231)	1,836
Change in cash and cash equivalents	(286,273)	(5,529)
Cash and cash equivalents, beginning of period	1,259,892	962,870
Cash and cash equivalents, end of period	$ 973,619	$ 957,341

Supplementary information:				
Cash paid for interest	$	58,387	$	49,094
Cash paid for income taxes, net of refunds	$	105,401	$	40,735

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. Organization 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 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 six months ended June 30, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. There were no subsequent events 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, all intercompany accounts and transactions have been eliminated. They should be read in conjunction with the Company s 2012 Annual Report on Form 10-K (2012 Annual Report) filed with the Securities and Exchange Commission (SEC) on March 1, 2013.

2. Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Earnings:				
Net income (loss) (numerator for basic and diluted calculations)	$ (49,612)	$ 141,111	$ 135,923	$ 264,429
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	72,350	73,718	73,089	73,646
Equivalent shares from outstanding stock options		336	484	402
Denominator for diluted calculation	72,350	74,054	73,573	74,048
Earnings per share:				
Basic	$ (0.69)	$ 1.91	$ 1.86	$ 3.59
Diluted	$ (0.69)	$ 1.91	$ 1.85	$ 3.57

As a result of the net loss for the three months ended June 30, 2013, the Company was required to use basic weighted average common shares outstanding in the calculation of diluted loss per share, since the inclusion of shares for outstanding stock options of 0.4 million would have been antidilutive to the earnings (loss) per share calculations. In the absence of the losses, weighted average common shares outstanding and dilutive potential common shares would have totaled 72.8 million.

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 June 30, 2013, no stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended June 30, 2012, approximately 1.8 million 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 six months ended June 30, 2013 and 2012 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, 2012	$ 267,475	$ 1,877,657	$ (36,230)	$ 2,108,902
Other comprehensive income (loss) before reclassifications	(102,937)	(819,019)	206	(921,750)
Amounts reclassified from AOCI		(6,512)	1,494	(5,018)
Net current-period other comprehensive income (loss)	(102,937)	(825,531)	1,700	(926,768)
Balance, June 30, 2013	$ 164,538	$ 1,052,126	$ (34,530)	$ 1,182,134

	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, 2011	$ 229,795	$ 1,419,318	$ (30,960)	$ 1,618,153
Change in component during the period	7,215	172,329	1,501	181,045
Balance, June 30, 2012	$ 237,010	$ 1,591,647	$ (29,459)	$ 1,799,198

(1) Includes cash flow hedges. See Note 5 - Derivative Instruments for additional information on cash flow hedges.

The following table presents the amounts reclassified out of AOCI for the three and six months ended June 30, 2013 (dollars in thousands):

	Amount Reclassified from AOCI		
Details about AOCI Components	Three months ended June 30, 2013	Six months ended June 30, 2013	Affected Line Item in Statement of Income
Unrealized gains and losses on available-for-sale securities	$ 13,510	$ 23,858	Investment related gains (losses), net
Gains and losses on cash flow hedge - interest rate swap	201	506	Investment income
Deferred policy acquisition costs attributed to unrealized gains and losses[1]	(13,283)	(14,831)	
	428	9,533	Total before tax
	(87)	(3,021)	Tax expense
	$ 341	$ 6,512	Net of tax
Amortization of unrealized pension and postretirement benefits:			
Prior service cost[2]	$ (213)	$ (307)	
Actuarial gains/(losses)[2]	(968)	(1,991)	
	(1,181)	(2,298)	Total before tax

		413		804	Tax benefit
	$	(768)	$	(1,494)	Net of tax
Total reclassifications for the period	$	(427)	$	5,018	Net of tax

(1) This AOCI component is included in the computation of the deferred policy acquisition cost. See Note 8 Deferred Policy Acquisition Costs of the 2012 Annual Report for additional details.
(2) These AOCI components are included in the computation of the net periodic pension cost. See Note 9 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 June 30, 2013 and December 31, 2012 (dollars in thousands):

June 30, 2013:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than-temporary impairments in AOCI
Available-for-sale:						
Corporate securities	$ 11,346,144	$ 648,955	$ 191,618	$ 11,803,481	55.4%	$
Canadian and Canadian provincial governments	2,633,388	901,567	9,162	3,525,793	16.6	
Residential mortgage-backed securities	1,015,155	53,581	13,768	1,054,968	5.0	(241)
Asset-backed securities	789,849	18,998	18,537	790,310	3.7	(2,259)
Commercial mortgage-backed securities	1,564,924	110,294	36,586	1,638,632	7.7	(5,125)
U.S. government and agencies	394,026	21,417	2,453	412,990	1.9	
State and political subdivisions	278,148	25,513	11,850	291,811	1.4	
Other foreign government, supranational and foreign government-sponsored enterprises	1,735,687	51,165	20,621	1,766,231	8.3	
Total fixed maturity securities	$ 19,757,321	$ 1,831,490	$ 304,595	$ 21,284,216	100.0%	$ (7,625)
Non-redeemable preferred stock	$ 85,483	$ 6,722	$ 1,747	$ 90,458	56.4%	
Other equity securities	74,273		4,392	69,881	43.6	
Total equity securities	$ 159,756	$ 6,722	$ 6,139	$ 160,339	100.0%	

December 31, 2012:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than-temporary impairments in AOCI
Available-for-sale:						
Corporate securities	$ 11,333,431	$ 1,085,973	$ 39,333	$ 12,380,071	55.5%	$
Canadian and Canadian provincial governments	2,676,777	1,372,731	174	4,049,334	18.2	
Residential mortgage-backed securities	969,267	76,520	3,723	1,042,064	4.7	(241)
Asset-backed securities	700,455	19,898	28,798	691,555	3.1	(2,259)
Commercial mortgage-backed securities	1,608,376	142,369	51,842	1,698,903	7.6	(6,125)
U.S. government and agencies	231,256	33,958	24	265,190	1.2	
State and political subdivisions	270,086	38,058	5,646	302,498	1.4	
Other foreign government, supranational and foreign government-sponsored enterprises	1,769,784	94,929	2,714	1,861,999	8.3	
Total fixed maturity securities	$ 19,559,432	$ 2,864,436	$ 132,254	$ 22,291,614	100.0%	$ (8,625)
Non-redeemable preferred stock	$ 68,469	$ 6,542	$ 170	$ 74,841	33.6%	
Other equity securities	148,577	416	1,134	147,859	66.4	
Total equity securities	$ 217,046	$ 6,958	$ 1,304	$ 222,700	100.0%	

The Company enters into various collateral arrangements that require both the pledging and acceptance of fixed maturity securities as collateral. The Company pledged fixed maturity securities as collateral to derivative and reinsurance counterparties with an amortized cost of $32.9 million and $16.9 million, and an estimated fair value of $33.9 million and $17.0 million, as of June 30, 2013 and December 31, 2012 respectively. The pledged fixed maturity securities are included in fixed maturity securities, available-for-sale in the condensed consolidated balance sheets as of June 30, 2013, and are included in other invested assets in the condensed consolidated balance sheets as of December 31, 2012. Securities with an amortized cost of $8,046.9 million and $7,549.0 million, and an estimated fair value of $8,377.6 million and $7,913.8 million, as of June 30, 2013 and December 31, 2012, respectively, were held in trust to satisfy collateral requirements under certain third-party reinsurance treaties.

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The Company received fixed maturity securities as collateral from derivative and reinsurance counterparties with an estimated fair value of $91.5 million and $95.6 million, as of June 30, 2013 and December 31, 2012, respectively. The collateral is held in separate custodial accounts and is 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 this collateral; however, as of June 30, 2013 and December 31, 2012, none of the collateral had been sold or re-pledged.

As of June 30, 2013, the Company held securities with a fair value of $1,231.6 million that were guaranteed or issued by the Canadian province of Ontario and $1,516.3 million that were guaranteed or issued by the Canadian province of Quebec, both of which exceeded 10% of total stockholders equity. As of December 31, 2012, the Company held securities with a fair value of $1,400.0 million that were guaranteed or issued by the Canadian province of Ontario and $1,785.0 million that were guaranteed or issued by the Canadian province of Quebec, both of which exceeded 10% of total stockholders equity.

The amortized cost and estimated fair value of fixed maturity securities available-for-sale at June 30, 2013 are shown by contractual maturity in the table below. 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. At June 30, 2013, the contractual maturities of investments in fixed maturity securities were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 426,022	$ 432,495
Due after one year through five years	3,613,328	3,773,306
Due after five years through ten years	6,893,971	7,127,743
Due after ten years	5,454,072	6,466,762
Asset and mortgage-backed securities	3,369,928	3,483,910
Total	$ 19,757,321	$ 21,284,216

The tables below show the major industry types of the Company s corporate fixed maturity holdings as of June 30, 2013 and December 31, 2012 (dollars in thousands):

June 30, 2013:	Amortized Cost	Estimated Fair Value	% of Total
Finance	$ 3,636,121	$ 3,770,773	32.0%
Industrial	5,914,051	6,138,234	52.0
Utility	1,768,696	1,867,151	15.8
Other	27,276	27,323	0.2
Total	$ 11,346,144	$ 11,803,481	100.0%

December 31, 2012:	Amortized Cost	Estimated Fair Value	% of Total
Finance	$ 3,619,455	$ 3,900,152	31.5%
Industrial	5,881,967	6,443,846	52.0
Utility	1,799,658	2,002,611	16.2
Other	32,351	33,462	0.3
Total	$ 11,333,431	$ 12,380,071	100.0%

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Other-Than-Temporary Impairments

As discussed in Note 2 Summary of Significant Accounting Policies of the 2012 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 earnings (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 June 30, 2013	Three months ended June 30, 2012
Balance, beginning of period	$ 14,773	$ 62,236
Initial impairments - credit loss OTTI recognized on securities not previously impaired		60
Additional impairments - credit loss OTTI recognized on securities previously impaired		161
Credit loss OTTI previously recognized on securities impaired to fair value during the period	(1,449)	(8,288)
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period		(8,266)
Balance, end of period	$ 13,324	$ 45,903

	Six months ended June 30, 2013	Six months ended June 30, 2012
Balance, beginning of period	$ 16,675	$ 63,947
Initial impairments -credit loss OTTI recognized on securities not previously impaired		1,962
Additional impairments - credit loss OTTI recognized on securities previously impaired		8,881
Credit loss OTTI previously recognized on securities impaired to fair value during the period	(1,449)	(19,669)
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,902)	(9,218)
Balance, end of period	$ 13,324	$ 45,903

Purchased Credit Impaired Fixed Maturity Securities Available-for-Sale

In the third quarter of 2012, the Company began purchasing certain structured securities that had experienced deterioration in credit quality since their issuance. Securities acquired with evidence of credit quality deterioration since origination and for which it is probable at the acquisition date that the Company will be unable to collect all contractually required payments are classified as purchased credit impaired securities. For each security, the excess of the cash flows expected to be collected as of the acquisition date over its acquisition date fair value is referred to as the accretable yield and is recognized as net investment income on an effective yield basis. At the date of acquisition, the timing and amount of the cash flows expected to be collected was determined based on a best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. If subsequently, based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected to be collected, the accretable yield is adjusted prospectively. The excess of the contractually required payments (including interest) as of the acquisition date over the cash flows expected to be collected as of the acquisition date is referred to as the nonaccretable difference, and this amount is not expected to be realized as net investment income. Decreases in cash flows expected to be collected can result in OTTI.

The following tables present information on the Company s purchased credit impaired securities, which are included in fixed maturity securities available-for-sale (dollars in thousands):

	June 30, 2013	December 31, 2012
Outstanding principal and interest balance(1)	$ 178,911	$ 108,831
Carrying value, including accrued interest(2)	$ 132,985	$ 84,765

(1) Represents the contractually required payments which is the sum of contractual principal, whether or not currently due, and accrued interest.
(2) Estimated fair value plus accrued interest.

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The following table presents information about purchased credit impaired investments acquired during the six months ended June 30, 2013 (dollars in thousands).

	At Date of Acquisition
Contractually required payments (including interest)	$ 109,931
Cash flows expected to be collected[(1)]	88,422
Fair value of investments acquired	58,471

(1) Represents undiscounted principal and interest cash flow expectations at the date of acquisition.

The following table presents activity for the accretable yield on purchased credit impaired securities for the three and six months ended June 30, 2013 (dollars in thousands):

	Three months ended June 30, 2013	Six months ended June 30, 2013
Balance, beginning of period	$ 59,915	$ 39,239
Investments purchased	7,885	29,951
Accretion	(1,879)	(3,822)
Disposals	(832)	(832)
Reclassification from nonaccretable difference	1,180	1,733
Balance, end of period	$ 66,269	$ 66,269

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

The following table presents the total gross unrealized losses for the 1,394 and 567 fixed maturity and equity securities as of June 30, 2013 and December 31, 2012, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total
Less than 20%	$ 267,765	86.2%	$ 54,951	41.2%
20% or more for less than six months	5,629	1.8	734	0.5
20% or more for six months or greater	37,340	12.0	77,873	58.3
Total	$ 310,734	100.0%	$ 133,558	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. The Company continues to consider declines in value as a potential indicator of credit deterioration. However, the Company believes that due to fluctuating market conditions and an extended period of economic uncertainty, the extent and duration of a decline in value have become less indicative of when there has been credit deterioration with respect to a fixed maturity security since it may not have an impact on the ability of the issuer to service all scheduled payments and the Company s evaluation of the recoverability of all contractual cash flows or the ability to recover an amount at least equal to amortized cost. 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 1,394 and 567 fixed maturity and equity securities that have estimated fair values below amortized cost as of June 30, 2013 and December 31, 2012, 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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June 30, 2013:	Less than 12 months Estimated Fair Value	Less than 12 months Gross Unrealized Losses	12 months or greater Estimated Fair Value	12 months or greater Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$ 3,229,715	$ 161,032	$ 89,098	$ 12,531	$ 3,318,813	$ 173,563
Canadian and Canadian provincial governments	138,843	9,162			138,843	9,162
Residential mortgage-backed securities	210,336	9,553	14,822	2,643	225,158	12,196
Asset-backed securities	220,912	4,719	51,673	5,567	272,585	10,286
Commercial mortgage-backed securities	227,712	9,172	18,893	6,455	246,605	15,627
U.S. government and agencies	191,973	2,344	4,037	109	196,010	2,453
State and political subdivisions	97,877	6,351	11,402	5,499	109,279	11,850
Other foreign government, supranational and foreign government-sponsored enterprises	657,957	19,787	5,698	721	663,655	20,508
Total investment grade securities	4,975,325	222,120	195,623	33,525	5,170,948	255,645
Non-investment grade securities:						
Corporate securities	366,159	11,452	40,425	6,603	406,584	18,055
Residential mortgage-backed securities	53,715	1,007	2,359	565	56,074	1,572
Asset-backed securities	25,233	376	30,434	7,875	55,667	8,251
Commercial mortgage-backed securities	19,324	198	43,879	20,761	63,203	20,959
Other foreign government, supranational and foreign government-sponsored enterprises	952	113			952	113
Total non-investment grade securities	465,383	13,146	117,097	35,804	582,480	48,950
Total fixed maturity securities	$ 5,440,708	$ 235,266	$ 312,720	$ 69,329	$ 5,753,428	$ 304,595
Non-redeemable preferred stock	$ 30,787	$ 1,745	$ 1	$ 2	$ 30,788	$ 1,747
Other equity securities	69,881	4,392			69,881	4,392
Total equity securities	$ 100,668	$ 6,137	$ 1	$ 2	$ 100,669	$ 6,139

December 31, 2012:	Less than 12 months Estimated Fair Value	Less than 12 months Gross Unrealized Losses	12 months or greater Estimated Fair Value	12 months or greater Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$ 786,203	$ 13,276	$ 108,187	$ 17,386	$ 894,390	$ 30,662
Canadian and Canadian provincial governments	12,349	174			12,349	174
Residential mortgage-backed securities	22,288	97	19,394	3,199	41,682	3,296
Asset-backed securities	59,119	449	96,179	9,508	155,298	9,957
Commercial mortgage-backed securities	89,507	797	29,181	7,974	118,688	8,771
U.S. government and agencies	7,272	24			7,272	24
State and political subdivisions	20,602	1,514	11,736	4,132	32,338	5,646
Other foreign government, supranational and foreign government-sponsored enterprises	244,817	1,953	7,435	761	252,252	2,714
Total investment grade securities	1,242,157	18,284	272,112	42,960	1,514,269	61,244
Non-investment grade securities:						
Corporate securities	181,168	3,170	39,123	5,501	220,291	8,671
Residential mortgage-backed securities	15,199	80	2,633	347	17,832	427
Asset-backed securities	3,421	26	31,938	18,815	35,359	18,841
Commercial mortgage-backed securities	3,317	764	68,405	42,307	71,722	43,071
Total non-investment grade securities	203,105	4,040	142,099	66,970	345,204	71,010

Total fixed maturity securities	$	1,445,262	$	22,324	$	414,211	$	109,930	$	1,859,473	$	132,254
Non-redeemable preferred stock	$	5,577	$	52	$	5,679	$	118	$	11,256	$	170
Other equity securities		85,374		1,134						85,374		1,134
Total equity securities	$	90,951	$	1,186	$	5,679	$	118	$	96,630	$	1,304

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As of June 30, 2013, 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 June 30, 2013, 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 are principally related to asset and mortgage-backed securities and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations. As of June 30, 2013 and December 31, 2012, approximately $29.2 million and $61.5 million, respectively, of gross unrealized losses greater than 12 months was associated with non-investment grade asset and mortgage-backed securities. This class of securities was evaluated based on actual and projected collateral losses relative to the securities positions in the respective securitization trusts and security specific expectations of cash flows. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, and (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread.

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 June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Fixed maturity securities available-for-sale	$ 240,590	$ 193,388	$ 479,834	$ 384,806
Mortgage loans on real estate	28,362	16,000	56,605	30,966
Policy loans	15,450	16,334	33,360	33,117
Funds withheld at interest	159,212	62,992	296,471	178,006
Short-term investments	422	781	1,235	1,769
Investment receivable		36,752		36,752
Other invested assets	13,379	11,356	27,301	22,679
Investment revenue	457,415	337,603	894,806	688,095
Investment expense	(13,181)	(9,269)	(25,441)	(18,821)
Investment income, net of related expenses	$ 444,234	$ 328,334	$ 869,365	$ 669,274

Investment Related Gains (Losses), Net

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

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Fixed maturities and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturities	$ (9,803)	$ (1,959)	$ (10,005)	$ (9,566)
Portion of loss recognized in accumulated other comprehensive income (before taxes)	(306)	162	(306)	(7,059)
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(10,109)	(1,797)	(10,311)	(16,625)
Impairment losses on equity securities		(2,186)		(3,025)
Gain on investment activity	26,845	26,593	48,525	48,905
Loss on investment activity	(6,760)	(8,918)	(17,972)	(16,422)
Other impairment losses and change in mortgage loan provision	125	1,762	(1,501)	(4,081)
Derivatives and other, net	38,142	8,347	123,873	58,569

Total investment related gains (losses), net	$ 48,243	$ 23,801	$ 142,614	$ 67,321

The net other-than-temporary impairment losses on fixed maturity securities recognized in earnings were $10.1 million and $1.8 million for the three months ended June 30, 2013 and 2012, and $10.3 million and $16.6 million for the first six months of 2013 and 2012, respectively. The other-than-temporary impairment losses on fixed maturity securities in the second quarter and first six months of 2013 were primarily due to the decision to sell certain subordinated commercial mortgage-backed securities. The other-than-temporary impairments in the first six months of 2012 were primarily due to a decline in value of structured securities with exposure to commercial mortgages and general credit deterioration in select corporate and foreign securities. The increase in derivatives and other in 2013 is primarily due to an increase in the fair value of embedded derivatives.

During the three months ended June 30, 2013 and 2012, the Company sold fixed maturity and equity securities with fair values of $257.6 million and $153.5 million at losses of $6.8 million and $8.9 million, respectively. During the six months ended June 30, 2013 and 2012, the Company sold fixed maturity and equity securities with fair values of $461.9 million and $401.6 million at losses of $18.0 million and $16.4 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 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 had borrowed securities with an amortized cost of $87.5 million as of June 30, 2013 and December 31, 2012, which was equal to the fair value in both periods. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction.

The Company also 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. As of June 30, 2013 the Company had pledged securities with an amortized cost of $292.1 million and an estimated fair value of $307.7 million, and in return the Company received securities with an estimated fair value of $338.0 million. As of December 31, 2012 the Company had pledged securities with an amortized cost of $290.2 million and an estimated fair value of $305.9 million, and in return the Company received securities with an estimated fair value of $342.0 million.

Mortgage Loans on Real Estate

Mortgage loans represented approximately 7.5% and 7.0% of the Company s total investments as of June 30, 2013 and December 31, 2012. The Company makes mortgage loans on income producing properties, such as apartments, retail and office buildings, and light industrial facilities. 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 June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Recorded Investment	% of Total	Recorded Investment	% of Total
Apartment	$ 220,117	9.2%	$ 229,266	9.9%
Retail	747,282	31.3	669,958	29.0
Office building	841,842	35.3	825,406	35.7
Industrial	450,140	18.9	455,682	19.7
Other commercial	125,768	5.3	131,855	5.7
Total	$ 2,385,149	100.0%	$ 2,312,167	100.0%

As of June 30, 2013 and December 31, 2012, the Company s mortgage loans, gross of valuation allowances, were distributed throughout the United States as follows (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Recorded Investment	% of Total	Recorded Investment	% of Total
Pacific	$ 636,084	26.7%	$ 593,589	25.7%
South Atlantic	507,010	21.3	477,068	20.5
Mountain	257,130	10.8	233,174	10.1
Middle Atlantic	276,799	11.6	300,475	13.0
West North Central	174,764	7.3	168,063	7.3
East North Central	222,991	9.2	224,122	9.7
West South Central	158,666	6.7	161,451	7.0
East South Central	61,966	2.6	62,789	2.7
New England	89,739	3.8	91,436	4.0
Total	$ 2,385,149	100.0%	$ 2,312,167	100.0%

The maturities of the mortgage loans, gross of valuation allowances, as of June 30, 2013 and December 31, 2012 are as follows (dollars in thousands):

	June 30, 2013		December 31, 2012	
	Recorded Investment	% of Total	Recorded Investment	% of Total
Due within five years	$ 1,066,678	44.7%	$ 1,187,387	51.3%
Due after five years through ten years	875,596	36.7	776,655	33.6
Due after ten years	442,875	18.6	348,125	15.1
Total	$ 2,385,149	100.0%	$ 2,312,167	100.0%

Information regarding the Company s credit quality indicators for its recorded investment in mortgage loans, gross of valuation allowances, as of June 30, 2013 and December 31, 2012 is as follows (dollars in thousands):

	June 30, 2013		December 31, 2012	
Internal credit risk grade:	Recorded Investment	% of Total	Recorded Investment	% of Total
High investment grade	$ 1,475,089	61.8%	$ 1,235,605	53.5%
Investment grade	694,476	29.1	834,494	36.1
Average	127,967	5.4	132,607	5.7
Watch list	53,831	2.3	76,463	3.3
In or near default	33,786	1.4	32,998	1.4
Total	$ 2,385,149	100.0%	$ 2,312,167	100.0%

The age analysis of the Company s past due recorded investment in mortgage loans, gross of valuation allowances, as of June 30, 2013 and December 31, 2012 is as follows (dollars in thousands):

	June 30, 2013	December 31, 2012
31-60 days past due	$ 20,563	$ 7,504
61-90 days past due		

Greater than 90 days	7,930	16,886
Total past due	28,493	24,390
Current	2,356,656	2,287,777
Total	$ 2,385,149	$ 2,312,167

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The following table presents the recorded investment in mortgage loans, by method of evaluation of credit loss, and the related valuation allowances, by type of credit loss, at (dollars in thousands):

	June 30, 2013	December 31, 2012
Mortgage loans:		
Evaluated individually for credit losses	$ 37,617	$ 39,956
Evaluated collectively for credit losses	2,347,532	2,272,211
Mortgage loans, gross of valuation allowances	2,385,149	2,312,167
Valuation allowances:		
Specific for credit losses	4,738	6,980
Non-specifically identified credit losses	3,165	4,600
Total valuation allowances	7,903	11,580
Mortgage loans, net of valuation allowances	$ 2,377,246	$ 2,300,587

Information regarding the Company s loan valuation allowances for mortgage loans for the three and six months ended June 30, 2013 and 2012 is as follows (dollars in thousands):

	Three months ended June 30,	
	2013	2012
Balance, beginning of period	$ 9,924	$ 14,650
Charge-offs	(1,296)	(1,876)
Provision (release)	(725)	(1,763)
Balance, end of period	$ 7,903	$ 11,011

	Six months ended June 30,	
	2013	2012
Balance, beginning of period	$ 11,580	$ 11,793
Charge-offs	(2,148)	(4,069)
Provision (release)	(1,529)	3,287
Balance, end of period	$ 7,903	$ 11,011

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Information regarding the portion of the Company s mortgage loans that were impaired as of June 30, 2013 and December 31, 2012 is as follows (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Carrying Value
June 30, 2013:				
Impaired mortgage loans with no valuation allowance recorded	$ 16,714	$ 16,104	$	$ 16,104
Impaired mortgage loans with valuation allowance recorded	21,582	21,513	4,738	16,775
Total impaired mortgage loans	$ 38,296	$ 37,617	$ 4,738	$ 32,879
December 31, 2012:				
Impaired mortgage loans with no valuation allowance recorded	$ 13,039	$ 12,496	$	$ 12,496
Impaired mortgage loans with valuation allowance recorded	27,527	27,460	6,980	20,480
Total impaired mortgage loans	$ 40,566	$ 39,956	$ 6,980	$ 32,976

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 June 30, 2013		2012	
	Average Investment(1)	Interest Income	Average Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$ 15,181	$ 49	$ 10,585	$ 28
Impaired mortgage loans with valuation allowance recorded	24,211	294	41,747	410
Total	$ 39,392	$ 343	$ 52,332	$ 438

	Six months ended June 30, 2013		2012	
	Average Investment(1)	Interest Income	Average Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$ 14,286	$ 184	$ 17,555	$ 197
Impaired mortgage loans with valuation allowance recorded	25,294	534	37,634	718
Total	$ 39,580	$ 718	$ 55,189	$ 915

(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 six months ended June 30, 2013 and 2012. The Company had $7.9 million and $16.9 million of mortgage loans, gross of valuation allowances, that were on nonaccrual status at June 30, 2013 and December 31, 2012, respectively.

Policy Loans

Policy loans comprised approximately 3.9% of the Company s total investments as of both June 30, 2013 and December 31, 2012, 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.

Funds Withheld at Interest

Funds withheld at interest comprised approximately 18.2% and 17.0% of the Company s total investments as of June 30, 2013 and December 31, 2012, respectively. As of June 30, 2013 and December 31, 2012, approximately 70.8% and 69.7%, respectively, of the Company s funds withheld at interest balance, net of embedded derivatives, was 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.

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Other Invested Assets

Other invested assets include equity securities, limited partnership interests, real estate joint ventures, structured loans, derivative contracts, Federal Home Loan Bank of Des Moines (FHLB) common stock (included in other), and real estate held-for-investment (included in other). Other invested assets represented approximately 3.3% and 3.5% of the Company s total investments as of June 30, 2013 and December 31, 2012, respectively. Carrying values of these assets as of June 30, 2013 and December 31, 2012 are as follows (dollars in thousands):

	June 30, 2013	December 31, 2012
Equity securities	$ 160,339	$ 222,700
Limited partnerships and real estate joint ventures	423,790	356,419
Structured loans	245,734	306,497
Derivatives	118,791	168,208
Other	87,155	105,719
Total other invested assets	$ 1,035,809	$ 1,159,543

5. Derivative Instruments

Derivatives, except embedded derivatives, are carried on the Company s condensed consolidated balance sheets in other invested 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. Embedded derivative assets are included on the condensed consolidated balance sheets in reinsurance ceded receivables. 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 June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013			December 31, 2012		
	Notional	Carrying Value/Fair Value		Notional	Carrying Value/Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives not designated as hedging instruments:						
Interest rate swaps	$ 1,531,811	$ 54,742	$ 16,971	$ 2,195,059	$ 123,085	$ 17,867
Interest rate options	240,000	8,073				
Financial futures	110,328			127,877		
Foreign currency forwards	83,387	148	9,484	74,400	1,017	2,105
Consumer price index swaps	74,840	234	257	85,135	1,446	
Credit default swaps	709,700	3,975	6,632	714,000	2,228	5,922
Equity options	727,641	61,102		696,776	62,514	
Synthetic guaranteed investment contracts	3,469,027			2,018,073		
Embedded derivatives in:						
Modified coinsurance or funds withheld arrangements			108,473			243,177
Indexed annuity products			793,586			740,256
Variable annuity products			84,982			172,105
Total non-hedging derivatives	6,946,734	128,274	1,020,385	5,911,320	190,290	1,181,432
Derivatives designated as hedging instruments:						
Interest rate swaps	50,349		5,058	57,275	344	786
Foreign currency swaps	729,890	18,298	2,498	629,512		27,398
Total hedging derivatives	780,239	18,298	7,556	686,787	344	28,184
Total derivatives	$ 7,726,973	$ 146,572	$ 1,027,941	$ 6,598,107	$ 190,634	$ 1,209,616

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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.

The following table provides information relating to the Company s derivative instruments as of June 30, 2013 and December 31, 2012 (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	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged/ Received	Net Amount
June 30, 2013:						
Derivative assets	$ 146,572	$ (27,781)	$ 118,791	$ (17,010)	$ (89,829)	$ 11,952
Derivative liabilities	40,900	(27,781)	13,119	(2,722)	(6,950)	3,447
December 31, 2012:						
Derivative assets	$ 190,634	$ (22,426)	$ 168,208	$ (22,458)	$ (136,414)	$ 9,336
Derivative liabilities	54,078	(22,426)	31,652	(1,565)	(27,867)	2,220

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 June 30, 2013 and December 31, 2012, the Company held interest rate swaps that were designated and qualified as cash flow hedges of interest rate risk. As of June 30, 2013 and December 31, 2012, the Company held foreign currency swaps that were designated and qualified as hedges of a portion of its net investment in its foreign operations. As of June 30, 2013 and December 31, 2012, the Company also had derivative instruments that were not designated as hedging instruments. See Note 2 Summary of Significant Accounting Policies of the Company s 2012 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*.

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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 six months ended June 30, 2013 and 2012 (dollars in thousands):

	Three months ended June 30, 2013	Three months ended June 30, 2012
Accumulated other comprehensive income (loss), balance beginning of period	$ 1,961	$ (862)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(6,797)	464
Amounts reclassified to investment income	(201)	(321)
Accumulated other comprehensive income (loss), balance end of period	$ (5,037)	$ (719)

	Six months ended June 30, 2013	Six months ended June 30, 2012
Accumulated other comprehensive income (loss), balance beginning of period	$ 403	$ (828)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(4,934)	787
Amounts reclassified to investment income	(506)	(678)
Accumulated other comprehensive income (loss), balance end of period	$ (5,037)	$ (719)

As of June 30, 2013, 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 $0.7 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 six months ended June 30, 2013 and 2012.

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 six months ended June 30, 2013 and 2012 (dollars in thousands):

Derivatives in Cash Flow Hedging Relationships	Amount of Gains (Losses) Deferred in AOCI on Derivatives (Effective Portion)	Amount and Location of Gains (Losses) Reclassified from AOCI into Income (Loss) (Effective Portion)		Amount and Location of Gains (Losses) Recognized in Income (Loss) on Derivatives (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 June 30, 2013:					
Interest rate swaps	$ (6,797)	$	$ 201	$ 31	$
For the three months ended June 30, 2012:					
Interest rate swaps	$ 464	$	$ 321	$ 27	$
For the six months ended June 30, 2013:					
Interest rate swaps	$ (4,934)	$	$ 506	$ 14	$
For the six months ended June 30, 2012:					

Interest rate swaps	$	787	$		$	678	$ 3	$

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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 six months ended June 30, 2013 and 2012 (dollars in thousands):

	Derivative Gains (Losses) Deferred in AOCI			
	For the three months ended June 30,		For the six months ended June 30,	
Type of NIFO Hedge (1) (2)	2013	2012	2013	2012
Foreign currency swaps	$ 23,913	$ 6,642	$ 34,835	$ (4,003)

(1) There were no sales or substantial liquidations of net investments in foreign operations that would have required 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 (loss) recorded in AOCI related to these hedges was $18.4 million and $(16.4) million at June 30, 2013 and December 31, 2012, 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 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. The Company recognized investment related gains (losses) of $52.4 million and $82.1 million, for the three months, and $(112.8) million and $(11.3) million for the six months ended June 30, 2013 and 2012, respectively, related to derivatives (not including embedded derivatives) that do not qualify or have not been qualified for hedge accounting.

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A summary of the effect of non-hedging derivatives, including embedded derivatives, on the Company s income statement for the three and six months ended June 30, 2013 and 2012 is as follows (dollars in thousands):

Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the Three Months Ended June 30, 2013	2012
Interest rate swaps	Investment related gains (losses), net	$ (38,415)	$ 73,342
Interest rate options	Investment related gains (losses), net	(7,981)	
Financial futures	Investment related gains (losses), net	714	11,074
Foreign currency forwards	Investment related gains (losses), net	(2,958)	516
CPI swaps	Investment related gains (losses), net	(1,117)	(1,431)
Credit default swaps	Investment related gains (losses), net	2,427	(4,795)
Equity options	Investment related gains (losses), net	(5,049)	3,367
Embedded derivatives in:			
Modco or funds withheld arrangements	Investment related gains (losses), net	47,717	(4,453)
Indexed annuity products	Policy acquisition costs and other insurance expenses		859
Indexed annuity products	Interest credited	(28,019)	26,279
Variable annuity products	Investment related gains (losses), net	35,809	(74,929)
Total non-hedging derivatives		$ 3,128	$ 29,829

Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the Six Months Ended June 30, 2013	2012
Interest rate swaps	Investment related gains (losses), net	$ (60,679)	$ 25,990
Interest rate options	Investment related gains (losses), net	(5,998)	
Financial futures	Investment related gains (losses), net	(6,167)	(6,335)
Foreign currency forwards	Investment related gains (losses), net	(8,617)	(1,093)
CPI swaps	Investment related gains (losses), net	(1,988)	(2,233)
Credit default swaps	Investment related gains (losses), net	6,332	7,019
Equity options	Investment related gains (losses), net	(35,672)	(34,616)
Embedded derivatives in:			
Modco or funds withheld arrangements	Investment related gains (losses), net	137,974	(13,881)
Indexed annuity products	Policy acquisition costs and other insurance expenses		(139)
Indexed annuity products	Interest credited	(61,015)	7,538
Variable annuity products	Investment related gains (losses), net	87,123	71,446
Total non-hedging derivatives		$ 51,293	$ 53,696

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 equity futures are used primarily to economically hedge liabilities embedded in certain variable annuity products. With exchange-traded equity futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the relevant stock 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 equity 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.

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 for credit default swaps, the Company is typically required to pay the protection holder the full notional value less a recovery rate determined at auction.

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 June 30, 2013 and December 31, 2012 (dollars in thousands):

	June 30, 2013			December 31, 2012		
Rating Agency Designation of Referenced Credit Obligations[1]	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	$ (1,149)	$ 122,500	5.4	$ (2,077)	$ 124,500	5.9
Credit default swaps referencing indices						
Subtotal	(1,149)	122,500	5.4	(2,077)	124,500	5.9
BBB+/BBB/BBB-						
Single name credit default swaps	(3,821)	133,200	5.6	(2,345)	135,500	5.5
Credit default swaps referencing indices	2,551	430,000	4.5	937	430,000	5.0
Subtotal	(1,270)	563,200	4.7	(1,408)	565,500	5.1
BB+						
Single name credit default swaps	(101)	6,000	4.0	(222)	6,000	4.5
Credit default swaps referencing indices						
Subtotal	(101)	6,000	4.0	(222)	6,000	4.5
Total	$ (2,520)	$ 691,700	4.8	$ (3,707)	$ 696,000	5.2

(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.

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 accounted for 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 $(0.4) million and $6.3 million for the three months, and $(2.1) million and $(57.2) million for the six months ended June 30, 2013 and 2012, 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 $(0.2) million and $14.6 million for the three months, and $(4.9) million and $51.6 millionfor the six months ended June 30, 2013 and 2012, 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 six months ended June 30, 2013 and 2012 are reflected in the following table (dollars in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
Embedded derivatives in modco or funds withheld arrangements included in investment related gains	$ 47,717	$ (4,453)	$ 137,974	$ (13,881)
After the associated amortization of DAC and taxes, the related amounts included in net income	13,911	(2,598)	35,535	(665)
Embedded derivatives in variable annuity contracts included in investment related gains	35,809	(74,929)	87,123	71,446
After the associated amortization of DAC and taxes, the related amounts included in net income	29,082	(16,175)	41,274	(1,093)
Amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses	(28,019)	27,138	(61,015)	7,399
After the associated amortization of DAC and taxes, the related amounts included in net income	(30,845)	15,378	(60,395)	29,248

Credit Risk

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

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.

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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. Information regarding the Company s credit exposure related to its over-the-counter derivative contracts and margin account for exchange-traded futures at June 30, 2013 and December 31, 2012 are reflected in the following table (dollars in thousands):

	June 30, 2013	December 31, 2012
Estimated fair value of derivatives in net asset position	$ 105,672	$ 136,558
Cash provided as collateral(1)	6,950	27,867
Securities pledged to counterparties as collateral(2)	2,722	1,565
Cash pledged from counterparties as collateral(3)	(89,829)	(136,414)
Securities pledged from counterparties as collateral(4)	(17,010)	(22,458)
Net credit exposure	$ 8,505	$ 7,118
Margin account related to exchange-traded futures(5)	$ 5,251	$ 5,605

(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 and liabilities 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 services 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 financial instruments 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 those with exposure to subprime mortgages), and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Prices are determined using 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

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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).

Assets and Liabilities by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2013 and December 31, 2012 are summarized below (dollars in thousands):

June 30, 2013:		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities available-for-sale:				
Corporate securities	$ 11,803,481	$ 63,568	$ 10,147,908	$ 1,592,005
Canadian and Canadian provincial governments	3,525,793		3,525,793	
Residential mortgage-backed securities	1,054,968		914,914	140,054
Asset-backed securities	790,310		437,704	352,606
Commercial mortgage-backed securities	1,638,632		1,457,650	180,982
U.S. government and agencies securities	412,990	354,097	58,893	
State and political subdivision securities	291,811		250,536	41,275
Other foreign government supranational and foreign government-sponsored enterprises	1,766,231	290,708	1,448,693	26,830
Total fixed maturity securities available-for-sale	21,284,216	708,373	18,242,091	2,333,752
Funds withheld at interest embedded derivatives	(108,473)			(108,473)
Cash equivalents	347,823	347,823		
Short-term investments	21,092	19,169	1,923	
Other invested assets:				
Non-redeemable preferred stock	90,458	87,728	2,730	
Other equity securities	69,881	69,881		
Derivatives:				
Interest rate swaps	36,853		36,853	
Interest rate options	8,073		8,073	
Foreign currency forwards	148		148	
CPI swaps	(23)		(23)	
Credit default swaps	(2,775)		(2,775)	
Equity options	60,715		60,715	
Foreign currency swaps	15,800		15,800	
Other	14,759	14,759		
Total other invested assets	293,889	172,368	121,521	
Total	$ 21,838,547	$ 1,247,733	$ 18,365,535	$ 2,225,279
Liabilities:				
Interest sensitive contract liabilities embedded derivatives	$ 878,568	$	$	$ 878,568
Other liabilities:				
Derivatives:				
Interest rate swaps	4,140		4,140	
Foreign currency forwards	9,484		9,484	
Credit default swaps	(118)		(118)	

Equity options	(387)		(387)	
Total	$ 891,687	$	$ 13,119	$ 878,568

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December 31, 2012:		Fair Value Measurements Using:	
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities available-for-sale:				
Corporate securities	$ 12,380,071	$ 43,544	$ 10,667,964	$ 1,668,563
Canadian and Canadian provincial governments	4,049,334		4,049,334	
Residential mortgage-backed securities	1,042,064		948,133	93,931
Asset-backed securities	691,555		459,164	232,391
Commercial mortgage-backed securities	1,698,903		1,531,897	167,006
U.S. government and agencies securities	265,190	192,780	67,872	4,538
State and political subdivision securities	302,498		259,286	43,212
Other foreign government, supranational and foreign government-sponsored enterprises	1,861,999	297,025	1,536,694	28,280
Total fixed maturity securities available-for-sale	22,291,614	533,349	19,520,344	2,237,921
Funds withheld at interest embedded derivatives	(243,177)			(243,177)
Cash equivalents	575,864	575,864		
Short-term investments	239,131	178,923	38,177	22,031
Other invested assets:				
Non-redeemable preferred stock	74,841	64,268	10,573	
Other equity securities	147,859	147,859		
Derivatives:				
Interest rate swaps	104,972		104,972	
Foreign currency forwards	1,017		1,017	
CPI swaps	1,446		1,446	
Credit default swaps	(1,741)		(1,741)	
Equity options	62,514		62,514	
Collateral	17,002	1,323	15,679	
Other	11,951	11,951		
Total other invested assets	419,861	225,401	194,460	
Total	$ 23,283,293	$ 1,513,537	$ 19,752,981	$ 2,016,775
Liabilities:				
Interest sensitive contract liabilities embedded derivatives	$ 912,361	$	$	$ 912,361
Other liabilities:				
Derivatives:				
Interest rate swaps	196		196	
Foreign currency forwards	2,105		2,105	
Credit default swaps	1,953		1,953	
Foreign currency swaps	27,398		27,398	
Total	$ 944,013	$	$ 31,652	$ 912,361

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 financial instruments, 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 quarters ended June 30, 2013 and 2012, 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 then 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.

Derivative Assets and Derivative Liabilities All of the derivative instruments utilized by the Company 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, non-option-based, 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, non-option-based, 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 included in Level 3 measurement.

Level 3 Measurements and Transfers

As of June 30, 2013 and December 31, 2012, respectively, the Company classified approximately 11.0% and 10.0% 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, other political subdivision and short-term 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 following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements developed by the Company, which does not include unobservable Level 3 asset and liability measurements provided by third parties, as of June 30, 2013 and December 31, 2012 (dollars in thousands):

June 30, 2013:	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
State and political subdivision securities	$ 5,139	Market comparable securities	Liquidity premium	1%
Corporate securities	403,894	Market comparable securities	Liquidity premium	0-2%(1%)
Funds withheld at interest- embedded derivatives	(108,473)	Total return swap	Mortality	0-100% (1%)
			Lapse	0-35% (6%)
			Withdrawal	0-5% (3%)
			Own Credit	0-1% (1%)
			Crediting rate	2-4% (3%)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	793,586	Discounted cash flow	Mortality	0-100% (1%)
			Lapse	0-35% (6%)
			Withdrawal	0-5% (3%)
			Option budget projection	2-4% (3%)
Interest sensitive contract liabilities- embedded derivatives- variable annuities	84,982	Discounted cash flow	Mortality	0-100%(2%)
			Lapse	0-25%(5%)
			Withdrawal	0-7%(3%)
			Own Credit	0-1%(1%)
			Long-term volatility	0-27%(13%)

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December 31, 2012:	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
State and political subdivision securities	$ 5,451	Market comparable securities	Liquidity premium	1%
Corporate securities	450,177	Market comparable securities	Liquidity premium	0-2%(1%)
Short-term investments	22,031	Market comparable securities	Liquidity premium	1%
Funds withheld at interest- embedded derivatives	(243,177)	Total return swap	Mortality	0-100%(1%)
			Lapse	0-35%(6%)
			Withdrawal	0-5%(3%)
			Own Credit	0-1%(1%)
			Crediting Rate	2-4%(3%)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	740,256	Discounted cash flow	Mortality	0-100%(1%)
			Lapse	0-35%(6%)
			Withdrawal	0-5%(3%)
			Option budget projection	2-4%(3%)
Interest sensitive contract liabilities- embedded derivatives- variable annuities	172,105	Discounted cash flow	Mortality	0-100%(2%)
			Lapse	0-25%(5%)
			Withdrawal	0-7%(3%)
			Own Credit	0-1%(1%)
			Long-term volatility	0-27%(14%)

The Company recognizes transfers of financial instruments 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. Financial instruments transferred into Level 3 are due to a lack of observable market transactions and price information. Financial instruments 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 financial instrument, 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 financial instruments, without the need for adjustment based on the Company s own assumptions regarding the characteristics of a specific financial instrument 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 financial instruments.

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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 six months ended June 30, 2013 and 2012 (dollars in thousands):

	Three months ended June 30,			
	2013		2012	
	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	$	$	$ 2,996	$
U.S. government and agencies securities				11,152
State and political subdivision securities			12,794	
Other foreign government, supranational and foreign government-sponsored enterprises			1,059	
Total fixed maturity securities	$	$	$ 16,849	$ 11,152

	Six months ended June 30,			
	2013		2012	
	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	$	$ 14,012	$ 2,996	$ 4
U.S. government and agencies securities				11,152
State and political subdivision securities			12,794	
Other foreign government, supranational and foreign government-sponsored enterprises			1,059	
Total fixed maturity securities	$	$ 14,012	$ 16,849	$ 11,156

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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 six months ended June 30, 2013, as well as the portion of gains or losses included in income for the three and six months ended June 30, 2013 attributable to unrealized gains or losses related to those assets and liabilities still held at June 30, 2013 (dollars in thousands):

For the three months ended June 30, 2013:	Fixed maturity securities - available-for-sale			
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities
Fair value, beginning of period	$ 1,646,903	$ 140,717	$ 288,231	$ 175,294
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	(2,313)	(111)	1,526	581
Investment related gains (losses), net	350	198	226	(8,992)
Claims & other policy benefits				
Interest credited				
Policy acquisition costs and other insurance expenses				
Included in other comprehensive income	(37,672)	(2,714)	2,601	15,445
Purchases[1]	100,690	11,383	72,542	
Sales[1]	(39,793)	(1,018)	(7,995)	(1,118)
Settlements[1]	(80,533)	(7,367)	(5,559)	(228)
Transfers into Level 3	4,373	4,306	5,340	
Transfers out of Level 3		(5,340)	(4,306)	
Fair value, end of period	$ 1,592,005	$ 140,054	$ 352,606	$ 180,982
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	$ (2,191)	$ (112)	$ 1,515	$ 580
Investment related gains (losses), net				(10,109)
Claims & other policy benefits				
Interest credited				
Policy acquisition costs and other insurance expenses				

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For the three months ended June 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 derivative	Short-term investments	Interest sensitive contract liabilities embedded derivatives
Fair value, beginning of period	$ 42,639	$ 27,865	$ (156,189)	$ 22,001	$ (890,476)
Total gains/losses (realized/unrealized)					
Included in earnings, net:					
Investment income, net of related expenses	9	(76)			
Investment related gains (losses), net	(4)		47,716		35,809
Claims & other policy benefits					
Interest credited					(28,020)
Policy acquisition costs and other insurance expenses					
Included in other comprehensive income	(1,087)	(959)		(1)	
Purchases[1]					(14,764)
Sales[1]					
Settlements[1]	(282)			(22,000)	18,883
Transfers into Level 3					
Transfers out of Level 3					
Fair value, end of period	$ 41,275	$ 26,830	$ (108,473)	$	$ (878,568)
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	$ (76)	$	$	$
Investment related gains (losses), net			47,717		34,788
Claims & other policy benefits					
Interest credited					(46,902)
Policy acquisition costs and other insurance expenses					

For the six months ended June 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
Fair value, beginning of period	$ 1,668,563	$ 93,931	$ 232,391	$ 167,006	$ 4,538
Total gains/losses (realized/unrealized)					
Included in earnings, net:					
Investment income, net of related expenses	(4,339)	(6)	2,405	1,083	
Investment related gains (losses), net	(913)	25	(1,521)	(9,862)	
Claims & other policy benefits					
Interest credited					
Policy acquisition costs and other insurance expenses					
Included in other comprehensive income	(36,710)	(200)	14,638	27,945	
Purchases[1]	175,362	51,920	128,423		
Sales[1]	(56,071)	(2,617)	(16,293)	(2,722)	
Settlements[1]	(145,899)	(12,289)	(11,436)	(2,468)	
Transfers into Level 3	8,146	14,630	8,305		
Transfers out of Level 3	(16,134)	(5,340)	(4,306)		(4,538)
Fair value, end of period	$ 1,592,005	$ 140,054	$ 352,606	$ 180,982	$

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For the six months ended June 30, 2013 (continued):	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
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	$ (4,218)	$ (7)	$ 2,397	$ 1,081	$
Investment related gains (losses), net	(202)			(10,109)	
Claims & other policy benefits					
Interest credited					
Policy acquisition costs and other insurance expenses					

For the six months ended June 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 derivative	Short-term investments	Interest sensitive contract liabilities embedded derivatives
Fair value, beginning of period	$ 43,212	$ 28,280	$ (243,177)	$ 22,031	$ (912,361)
Total gains/losses (realized/unrealized)					
Included in earnings, net:					
Investment income, net of related expenses	18	(150)		(3)	
Investment related gains (losses), net	(8)		134,704		87,123
Claims & other policy benefits					
Interest credited					(61,016)
Policy acquisition costs and other insurance expenses					
Included in other comprehensive income	(1,639)	(1,300)		(28)	
Purchases[(1)]					(28,624)
Sales[(1)]					
Settlements[(1)]	(308)			(22,000)	36,310
Transfers into Level 3					
Transfers out of Level 3					
Fair value, end of period	$ 41,275	$ 26,830	$ (108,473)	$	$ (878,568)
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	$ 18	$ (150)	$	$ (4)	$
Investment related gains (losses), net			134,705		84,911
Claims & other policy benefits					
Interest credited					(97,326)
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 six months ended June 30, 2012, as well as the portion of gains or losses included in income for the three and six months ended June 30, 2012 attributable to unrealized gains or losses related to those assets and liabilities still held at June 30, 2012 (dollars in thousands):

For the three months ended June 30, 2012:	Fixed maturity securities - available-for-sale				
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	State. and political subdivision securities
Fair value, beginning of period	$ 977,671	$ 54,435	$ 146,362	$ 118,678	$ 5,239
Total gains/losses (realized/unrealized)					
Included in earnings, net:					