REINSURANCE GROUP OF AMERICA INC
Form 10-Q
November 06, 2012
Table of Contents

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 September 30, 2012

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 October 31, 2012, 73,853,716 shares of the registrant s common stock were outstanding.

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	September 30, 2012	December 31, 2011
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $18,905,283 and $14,182,880 at September 30, 2012 and December 31, 2011, respectively)	$ 21,658,414	$ 16,200,950
Mortgage loans on real estate (net of allowances of $13,333 and $11,793 at September 30, 2012 and December 31, 2011, respectively)	2,256,881	991,731
Policy loans	1,243,498	1,260,400
Funds withheld at interest	5,608,640	5,410,424
Short-term investments	90,789	88,566
Other invested assets	1,236,616	1,012,541
Total investments	32,094,838	24,964,612
Cash and cash equivalents	1,603,730	962,870
Accrued investment income	250,048	144,334
Premiums receivable and other reinsurance balances	1,179,687	1,059,572
Reinsurance ceded receivables	623,954	626,194
Deferred policy acquisition costs	3,630,877	3,543,925
Other assets	540,879	332,466
Total assets	$ 39,924,013	$ 31,633,973
Liabilities and Stockholders Equity		
Future policy benefits	$ 11,093,483	$ 9,903,886
Interest-sensitive contract liabilities	13,254,859	8,394,468
Other policy claims and benefits	3,132,526	2,841,373
Other reinsurance balances	218,057	118,219
Deferred income taxes	1,806,186	1,679,834
Other liabilities	1,217,788	810,775
Long-term debt	1,815,111	1,414,688
Collateral finance facility	651,968	652,032
Total liabilities	33,189,978	25,815,275
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; shares issued: 79,137,758 at September 30, 2012 and December 31, 2011)	791	791
Additional paid-in-capital	1,743,822	1,727,774
Retained earnings	3,154,317	2,818,429
Treasury stock, at cost; 5,285,409 and 5,770,024 shares at September 30, 2012 and December 31, 2011, respectively	(316,542)	(346,449)
Accumulated other comprehensive income	2,151,647	1,618,153
Total stockholders equity	6,734,035	5,818,698
Total liabilities and stockholders equity	$ 39,924,013	$ 31,633,973

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

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	(Dollars in thousands, except per share data)			
Revenues:				
Net premiums	$ 1,912,746	$ 1,776,165	$ 5,726,889	$ 5,300,971
Investment income, net of related expenses	396,781	268,210	1,066,055	976,686
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(1,996)	(11,911)	(11,562)	(19,049)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	(559)	3,089	(7,618)	3,381
Other investment related gains (losses), net	78,608	(130,778)	162,554	27,076
Total investment related gains (losses), net	76,053	(139,600)	143,374	11,408
Other revenues	63,501	90,132	181,491	192,254
Total revenues	2,449,081	1,994,907	7,117,809	6,481,319
Benefits and Expenses:				
Claims and other policy benefits	1,662,625	1,514,765	4,868,220	4,504,227
Interest credited	130,341	35,251	285,080	237,510
Policy acquisition costs and other insurance expenses	318,106	164,372	961,679	785,138
Other operating expenses	103,786	94,029	319,425	297,340
Interest expense	29,749	27,025	76,431	77,412
Collateral finance facility expense	2,995	3,069	8,840	9,372
Total benefits and expenses	2,247,602	1,838,511	6,519,675	5,910,999
Income before income taxes	201,479	156,396	598,134	570,320
Provision for income taxes	57,004	21,794	189,230	162,854
Net income	$ 144,475	$ 134,602	$ 408,904	$ 407,466
Earnings per share:				
Basic earnings per share	$ 1.96	$ 1.82	$ 5.55	$ 5.53
Diluted earnings per share	$ 1.95	$ 1.81	$ 5.52	$ 5.49
Dividends declared per share	$ 0.24	$ 0.18	$ 0.60	$ 0.42

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

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Comprehensive income:				
Net income	$ 144,475	$ 134,602	$ 408,904	$ 407,466
Other comprehensive income, net of income tax:				
Change in foreign currency translation adjustments	36,248	(101,842)	43,463	(65,948)
Change in net unrealized gain on investments	315,501	354,709	483,242	470,473
Change in other-than-temporary impairment losses on fixed maturity securities	364	(2,008)	4,952	(2,198)
Changes in pension and other postretirement plan adjustments	336	708	1,837	1,280
Total other comprehensive income	352,449	251,567	533,494	403,607
Total comprehensive income, net of income tax	$ 496,924	$ 386,169	$ 942,398	$ 811,073

See accompanying notes to condensed consolidated financial statements.

Table of Contents

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine months ended September 30, 2012	2011
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$ 408,904	$ 407,466
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(60,684)	(64,464)
Premiums receivable and other reinsurance balances	(102,447)	(86,339)
Deferred policy acquisition costs	(70,107)	(60,792)
Reinsurance ceded receivable balances	2,240	42,409
Future policy benefits, other policy claims and benefits, and other reinsurance balances	1,406,844	669,174
Deferred income taxes	(99,200)	58,207
Other assets and other liabilities, net	225,749	(46,320)
Amortization of net investment premiums, discounts and other	(61,644)	(100,328)
Investment related gains, net	(143,374)	(11,408)
Gain on repurchase of collateral finance facility securities	--	(55,840)
Excess tax benefits from share-based payment arrangement	262	(4,418)
Other, net	22,533	86,630
Net cash provided by operating activities	1,529,076	833,977
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	3,970,569	2,338,405
Maturities of fixed maturity securities available-for-sale	122,405	195,582
Purchases of fixed maturity securities available-for-sale	(4,660,131)	(3,104,714)
Cash invested in mortgage loans	(350,823)	(117,697)
Cash invested in policy loans	(8,032)	(8,928)
Cash invested in funds withheld at interest	(81,602)	(23,784)
Principal payments on mortgage loans on real estate	85,921	60,764
Principal payments on policy loans	24,934	8,456
Change in short-term investments and other invested assets	(129,874)	(86,895)
Net cash used in investing activities	(1,026,633)	(738,811)
Cash Flows from Financing Activities:		
Dividends to stockholders	(44,220)	(31,039)
Repurchase of collateral finance facility securities	--	(111,831)
Proceeds from long-term debt issuance	400,000	397,788
Debt issuance costs	(6,255)	(3,400)
Proceeds from redemption and remarketing of trust preferred securities	--	154,588
Maturity of trust preferred securities	--	(159,473)
Purchases of treasury stock	(6,924)	(380,345)
Excess tax benefits from share-based payment arrangement	(262)	4,418
Exercise of stock options, net	4,096	8,680
Change in cash collateral for derivative positions	(62,896)	163,250
Deposits on universal life and other investment type policies and contracts	89,458	328,903
Withdrawals on universal life and other investment type policies and contracts	(249,190)	(119,180)
Net cash provided by financing activities	123,807	252,359
Effect of exchange rate changes on cash	14,610	(8,535)
Change in cash and cash equivalents	640,860	338,990

Cash and cash equivalents, beginning of period	962,870	463,661
Cash and cash equivalents, end of period	$ 1,603,730	$ 802,651
Supplementary information:		
Cash paid for interest	$ 76,514	$ 57,821
Cash paid for income taxes, net of refunds	$ 81,391	$ 110,075

Non-cash supplementary information - See Note 4 - Investments

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

6

Table of Contents

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, they 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 three and nine months ended September 30, 2012 are not necessarily indicative of the results that may be expected for the year ending December 31, 2012. 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. The December 31, 2011 consolidated balance sheet data was derived from the Company s 2011 Annual Report on Form 10-K (2011 Annual Report) filed with the Securities and Exchange Commission (SEC) on February 29, 2012 and the revised 2011 consolidated financial statements and notes thereto included in the Company s 2012 Current Report on Form 8-K (DAC Current Report) filed with the SEC on July 13, 2012. Therefore, these interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements of the Company included in the DAC Current Report.

In October 2010, the Financial Accounting Standards Board (FASB) amended the general accounting principles for *Financial Services Insurance* as it relates to accounting for costs associated with acquiring or renewing insurance contracts. This amendment clarified that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defined acquisitions costs as costs that are related directly to the successful acquisition of new or renewal insurance contracts.

The Company filed the DAC Current Report in response to its adoption of the amendment described above on January 1, 2012 on a retrospective basis. The DAC Current Report reflects the impact of the adoption of this amendment on the Company s previously filed financial statements and other disclosures included in the 2011 Annual Report, including that (i) only costs related directly to the successful acquisition of new or renewal contracts can be capitalized as deferred acquisition costs and (ii) all other acquisition-related costs must be expensed as incurred. In connection therewith, the Company adjusted the presentation of certain prior-period information to conform to the new accounting principle. The Company believes retrospective adoption provides the most comparable and useful financial information for financial statement users. Likewise, the financial statements and notes thereto presented in this Quarterly Report on Form 10-Q have been adjusted to reflect the retrospective adoption of this accounting principle.

The following tables present the effects of the retrospective adoption of the new accounting principle on the Company s previously reported condensed consolidated statement of income and condensed consolidated statement of cash flows for the three and nine months ended September 30, 2011 (in thousands, except share amounts):

	Three months ended September 30, 2011		
	As Reported	Adjustments	As Amended
Benefits and Expenses:			
Policy acquisition costs and other insurance expenses	$ 149,228	$ 15,144	$ 164,372
Income before income taxes	171,540	(15,144)	156,396
Provision for income taxes	24,155	(2,361)	21,794
Net income	$ 147,385	$ (12,783)	$ 134,602
Earnings per share:			

Basic earnings per share	$	2.00	$	(0.18)	$	1.82
Diluted earnings per share	$	1.98	$	(0.17)	$	1.81

Table of Contents

	Nine months ended September 30, 2011		
	As Reported	Adjustments	As Amended
Benefits and Expenses:			
Policy acquisition costs and other insurance expenses	$ 741,663	$ 43,475	$ 785,138
Income before income taxes	613,795	(43,475)	570,320
Provision for income taxes	172,706	(9,852)	162,854
Net income	$ 441,089	$ (33,623)	$ 407,466
Earnings per share:			
Basic earnings per share	$ 5.99	$ (0.46)	$ 5.53
Diluted earnings per share	$ 5.94	$ (0.45)	$ 5.49

	Nine months ended September 30, 2011		
	As Reported	Adjustments	As Amended
Cash Flows from Operating Activities:			
Net Income	$ 441,089	$ (33,623)	$ 407,466
Change in operating assets and liabilities			
Deferred policy acquisition costs	(104,267)	43,475	(60,792)
Deferred income taxes	68,059	(9,852)	58,207

2. Earnings Per Share

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Earnings:				
Net income (numerator for basic and diluted calculations)	$ 144,475	$ 134,602	$ 408,904	$ 407,466
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	73,776	73,856	73,690	73,680
Equivalent shares from outstanding stock options(1)	362	398	388	527
Denominator for diluted calculation	74,138	74,254	74,078	74,207
Earnings per share:				
Basic	$ 1.96	$ 1.82	$ 5.55	$ 5.53
Diluted	$ 1.95	$ 1.81	$ 5.52	$ 5.49

(1) Year-to-date amounts are the weighted average of the individual quarterly amounts.

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended September 30, 2012, approximately 0.7 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended September 30, 2011, approximately 1.1 million stock options and approximately 0.8 million performance contingent shares were excluded from the calculation.

Table of Contents

3. Accumulated Other Comprehensive Income

The balance of and changes in each component of accumulated other comprehensive income (AOCI) for the nine months ended September 30, 2012 and 2011 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation of Securities	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	43,463	488,194	1,837	533,494
Balance, September 30, 2012	$ 273,258	$ 1,907,512	$ (29,123)	$ 2,151,647

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation of Securities	Pension and Postretirement Benefits	Total
Balance, December 31, 2010	$ 255,295	$ 651,449	$ (14,560)	$ 892,184
Change in component during the period	(65,948)	468,275	1,280	403,607
Balance, September 30, 2011	$ 189,347	$ 1,119,724	$ (13,280)	$ 1,295,791

4. Investments

All investments held by the Company are monitored for conformance to the qualitative and quantitative limits prescribed by the applicable jurisdiction s insurance laws and regulations. In addition, the operating companies boards of directors periodically review their respective investment portfolios. The Company s investment strategy is to maintain a predominantly investment-grade, fixed maturity securities portfolio, which will provide adequate liquidity for expected reinsurance obligations and maximize total return through prudent asset management. The Company s asset/liability duration matching differs between operating companies. Based on Canadian reserve requirements, the Canadian liabilities are matched with long-duration Canadian assets. The duration of the Canadian portfolio exceeds twenty years, however, the average duration for all portfolios, when consolidated, ranges between eight and ten years.

Investment Income, Net of Related Expenses

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Fixed maturity securities available-for-sale	$ 221,212	$ 190,990	$ 633,110	$ 566,581
Mortgage loans on real estate	26,938	14,474	67,258	41,801
Policy loans	16,519	16,454	49,637	49,549
Funds withheld at interest	127,855	41,267	305,861	306,028
Short-term investments	960	393	3,027	2,201
Other invested assets	13,117	11,470	35,803	31,680
Investment revenue	406,601	275,048	1,094,696	997,840
Investment expense	(9,820)	(6,838)	(28,641)	(21,154)

Investment income, net of related expenses	$ 396,781	$ 268,210	$ 1,066,055	$ 976,686

Table of Contents

Investment Related Gains (Losses), Net

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

	Three months ended September 30, 2012	2011	Nine months ended September 30, 2012	2011
Fixed maturity and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturities	$ (1,996)	$ (11,911)	$ (11,562)	$ (19,049)
Portion of loss recognized in accumulated other comprehensive income (before taxes)	(559)	3,089	(7,618)	3,381
Net other-than-temporary impairment losses on fixed maturities recognized in earnings	(2,555)	(8,822)	(19,180)	(15,668)
Impairment losses on equity securities	--	--	(3,025)	(3,680)
Gain on investment activity	53,173	34,840	102,078	92,423
Loss on investment activity	(6,668)	(7,182)	(23,090)	(20,749)
Other impairment losses and change in mortgage loan provision	(10,301)	(2,370)	(14,382)	(4,980)
Derivatives and other, net	42,404	(156,066)	100,973	(35,938)
Total investment related gains (losses), net	$ 76,053	$ (139,600)	$ 143,374	$ 11,408

The net other-than-temporary impairment losses on fixed maturity securities recognized in earnings of $19.2 million and $15.7 million in the first nine months of 2012 and 2011, respectively, are 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 gain on investment activity increased primarily due to repositioning of securities for duration matching during the third quarter of 2012. The increase in other impairment losses was primarily due to $7.5 million of impairments in the limited partnership asset class in the third quarter of 2012. The volatility in derivatives and other for the three and nine months ended September 30, 2012 is primarily due to changes in the fair value of embedded derivative liabilities associated with modified coinsurance and funds withheld treaties and guaranteed minimum benefit riders.

During the three months ended September 30, 2012 and 2011, the Company sold fixed maturity and equity securities with fair values of $220.5 million and $57.2 million at losses of $6.7 million and $7.2 million, respectively. During the nine months ended September 30, 2012 and 2011, the Company sold fixed maturity and equity securities with fair values of $622.1 million and $388.9 million at losses of $23.1 million and $20.7 million, respectively. The Company generally does not engage in short-term buying and selling of securities.

Other-Than-Temporary Impairments

As discussed in Note 2 Summary of Significant Accounting Policies of the DAC Current 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):

Table of Contents

	Three months ended September 30, 2012	2011
Balance, beginning of period	$ 45,903	$ 52,484
Initial impairments - credit loss OTTI recognized on securities not previously impaired	--	5,259
Additional impairments - credit loss OTTI recognized on securities previously impaired	1,306	2,432
Credit loss OTTI previously recognized on securities impaired to fair value during the period	(2,622)	--
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	(20,725)	(752)
Balance, end of period	$ 23,862	$ 59,423

	Nine months ended September 30, 2012	2011
Balance, beginning of period	$ 63,947	$ 47,291
Initial impairments - credit loss OTTI recognized on securities not previously impaired	1,962	6,731
Additional impairments - credit loss OTTI recognized on securities previously impaired	10,187	6,871
Credit loss OTTI previously recognized on securities impaired to fair value during the period	(22,291)	--
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	(29,943)	(1,470)
Balance, end of period	$ 23,862	$ 59,423

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities by sector as of September 30, 2012 and December 31, 2011 (dollars in thousands):

September 30, 2012:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than-temporary impairments in AOCI
Available-for-sale:						
Corporate securities	$ 10,885,071	$ 1,059,275	$ 44,624	$ 11,899,722	55.0 %	$ --
Canadian and Canadian provincial governments	2,653,761	1,438,124	2	4,091,883	18.9	--
Residential mortgage-backed securities	980,655	80,614	5,461	1,055,808	4.9	(477)
Asset-backed securities	588,851	18,050	34,201	572,700	2.6	(2,295)
Commercial mortgage-backed securities	1,663,493	137,153	60,255	1,740,391	8.0	(6,111)
U.S. government and agencies	251,417	33,458	18	284,857	1.3	--
State and political subdivisions	254,845	38,784	6,212	287,417	1.3	--
Other foreign government, supranational and foreign government-sponsored enterprises	1,627,190	100,539	2,093	1,725,636	8.0	--
Total fixed maturity securities	$ 18,905,283	$ 2,905,997	$ 152,866	$ 21,658,414	100.0 %	$ (8,883)
Non-redeemable preferred stock	$ 69,182	$ 6,332	$ 834	$ 74,680	35.7 %	
Other equity securities	133,037	1,555	-	134,592	64.3	
Total equity securities	$ 202,219	$ 7,887	$ 834	$ 209,272	100.0 %	

Table of Contents

December 31, 2011:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than-temporary impairments in AOCI
Available-for-sale:						
Corporate securities	$ 6,931,958	$ 654,519	$ 125,371	$ 7,461,106	46.0 %	$ --
Canadian and Canadian provincial governments	2,507,802	1,362,160	29	3,869,933	23.9	--
Residential mortgage-backed securities	1,167,265	76,393	16,424	1,227,234	7.6	(1,042)
Asset-backed securities	443,974	11,692	53,675	401,991	2.5	(5,256)
Commercial mortgage-backed securities	1,233,958	87,750	79,489	1,242,219	7.7	(12,225)
U.S. government and agencies	341,087	32,976	61	374,002	2.3	--
State and political subdivisions	184,308	24,419	3,341	205,386	1.3	--
Other foreign government, supranational and foreign government-sponsored enterprises	1,372,528	50,127	3,576	1,419,079	8.7	--
Total fixed maturity securities	$ 14,182,880	$ 2,300,036	$ 281,966	$ 16,200,950	100.0 %	$ (18,523)
Non-redeemable preferred stock	$ 82,488	$ 4,677	$ 8,982	$ 78,183	68.6 %	
Other equity securities	35,352	1,903	1,538	35,717	31.4	
Total equity securities	$ 117,840	$ 6,580	$ 10,520	$ 113,900	100.0 %	

The Company enters into various collateral arrangements that require both the pledging and acceptance of fixed maturity securities as collateral, which are excluded from the tables above. The Company pledged fixed maturity securities as collateral to derivative and reinsurance counterparties with an amortized cost of $32.0 million and $29.0 million, and an estimated fair value of $37.2 million and $32.6 million, as of September 30, 2012 and December 31, 2011 respectively, which are included in other invested assets in the condensed consolidated balance sheets.

The Company received fixed maturity securities as collateral from derivative and reinsurance counterparties with an estimated fair value of $95.3 million and $1.0 million, as of September 30, 2012 and December 31, 2011, 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 September 30, 2012 and December 31, 2011, none of the collateral had been sold or re-pledged.

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 market value of the borrowed securities as collateral. The Company had borrowed securities with an amortized cost and an estimated fair value of $237.5 million and $150.0 million as of September 30, 2012 and December 31, 2011, respectively. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction.

As of September 30, 2012, the Company held securities with a fair value of $1,261.0 million that were issued by the Canadian province of Ontario and $1,187.2 million that were issued by an entity that is guaranteed by the Canadian province of Quebec, both of which exceeded 10% of total stockholders equity. As of December 31, 2011, the Company held securities with a fair value of $1,171.2 million that were issued by the Canadian province of Ontario and $1,107.7 million that were issued by an entity that is guaranteed 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 September 30, 2012 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. At September 30, 2012, 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	$	247,507	$	251,672
Due after one year through five years		3,767,244		3,950,306
Due after five year through ten years		6,172,841		6,757,674
Due after ten years		5,484,692		7,329,863
Asset and mortgage-backed securities		3,232,999		3,368,899
Total	$	18,905,283	$	21,658,414

Table of Contents

The tables below show the major industry types of the Company s corporate fixed maturity holdings as of September 30, 2012 and December 31, 2011 (dollars in thousands):

September 30, 2012:	Amortized Cost	Estimated Fair Value	% of Total
Finance	$ 3,551,382	$ 3,802,951	32.0 %
Industrial	5,583,541	6,146,069	51.6
Utility	1,715,512	1,914,809	16.1
Other	34,636	35,893	0.3
Total	$ 10,885,071	$ 11,899,722	100.0 %

December 31, 2011:	Amortized Cost	Estimated Fair Value	% of Total
Finance	$ 2,411,175	$ 2,442,149	32.7 %
Industrial	3,402,099	3,760,187	50.4
Utility	1,115,384	1,255,090	16.9
Other	3,300	3,680	-
Total	$ 6,931,958	$ 7,461,106	100.0 %

The creditworthiness of Greece, Ireland, Italy, Portugal and Spain, commonly referred to as Europe s peripheral region, is under ongoing stress and uncertainty due to high debt levels and economic weakness. The Company did not have exposure to sovereign fixed maturity securities, which includes global government agencies, from Europe s peripheral region as of September 30, 2012 and December 31, 2011. In addition, the Company did not purchase or sell credit protection, through credit default swaps, referenced to sovereign entities of Europe s peripheral region. The tables below show the Company s exposure to sovereign fixed maturity securities originated in countries other than Europe s peripheral region, included in Other foreign government, supranational and foreign government-sponsored enterprises, as of September 30, 2012 and December 31, 2011 (dollars in thousands):

September 30, 2012:	Amortized Cost	Estimated Fair Value	% of Total
Australia	$ 454,131	$ 470,628	33.3 %
Japan	221,977	228,478	16.2
United Kingdom	129,960	140,478	10.0
Cayman Islands	69,333	76,661	5.4
South Africa	63,037	67,240	4.8
New Zealand	54,077	54,716	3.9
Germany	42,360	45,229	3.2
South Korea	41,396	44,619	3.2
France	38,694	41,945	3.0
Other	215,586	240,896	17.0
Total	$ 1,330,551	$ 1,410,890	100.0 %

December 31, 2011:	Amortized Cost	Estimated Fair Value	% of Total
Australia	$ 437,713	$ 446,694	39.1 %
Japan	214,994	219,276	19.2
United Kingdom	118,618	130,106	11.4

Germany		72,926		75,741	6.6
New Zealand		51,547		51,544	4.5
South Africa		37,624		38,528	3.4
South Korea		30,592		32,025	2.8
Other		139,927		148,792	13.0
Total	$	1,103,941	$	1,142,706	100.0 %

The tables below show the Company s exposure to non-sovereign fixed maturity and equity securities, based on the security s country of issuance, from Europe s peripheral region as of September 30, 2012 and December 31, 2011 (dollars in thousands):

September 30, 2012:	Amortized Cost	Estimated Fair Value	% of Total
Financial institutions:			
Ireland	$ 3,592	$ 4,057	4.4 %
Spain	23,347	23,215	25.0
Total financial institutions	26,939	27,272	29.4
Other:			
Ireland	26,346	27,528	29.7
Italy	6,393	6,394	6.9
Spain	31,694	31,525	34.0
Total other	64,433	65,447	70.6
Total	$ 91,372	$ 92,719	100.0 %

December 31, 2011:	Amortized Cost	Estimated Fair Value	% of Total
Financial institutions:			
Ireland	$ 4,084	$ 4,397	5.9 %
Spain	25,565	20,378	27.6
Total financial institutions	29,649	24,775	33.5
Other:			
Ireland	12,474	13,149	17.8
Italy	2,898	2,808	3.8
Spain	34,459	33,137	44.9
Total other	49,831	49,094	66.5
Total	$ 79,480	$ 73,869	100.0 %

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

The following table presents the total gross unrealized losses for the 618 and 940 fixed maturity and equity securities as of September 30, 2012 and December 31, 2011, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	September 30, 2012		December 31, 2011	
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total
Less than 20%	$ 55,930	36.4 %	$ 131,155	44.8 %
20% or more for less than six months	509	0.3	51,503	17.6
20% or more for six months or greater	97,261	63.3	109,828	37.6
Total	$ 153,700	100.0 %	$ 292,486	100.0 %

As of September 30, 2012 and December 31, 2011, respectively, 52.8% and 65.3% of these gross unrealized losses were associated with investment grade securities. The unrealized losses on these securities decreased primarily due to a decline in interest rates since December 31, 2011.

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 valuation declines as a potential indicator of credit deterioration. 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 618 and 940 fixed maturity and equity securities that have estimated fair values below amortized cost as of September 30, 2012 and December 31, 2011, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related market value has remained below amortized cost.

Table of Contents

September 30, 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	$ 436,908	$ 7,947	$ 168,366	$ 26,006	$ 605,274	$ 33,953
Canadian and Canadian provincial governments	589	2	--	--	589	2
Residential mortgage-backed securities	21,365	113	21,236	4,763	42,601	4,876
Asset-backed securities	55,260	1,286	101,691	20,960	156,951	22,246
Commercial mortgage-backed securities	117,736	1,350	40,110	9,546	157,846	10,896
U.S. government and agencies	6,715	18	--	--	6,715	18
State and political subdivisions	2,885	1,272	18,409	4,940	21,294	6,212
Other foreign government, supranational and foreign government-sponsored enterprises	53,671	1,068	16,589	1,025	70,260	2,093
Total investment grade securities	695,129	13,056	366,401	67,240	1,061,530	80,296
Non-investment grade securities:						
Corporate securities	133,893	4,330	63,817	6,341	197,710	10,671
Residential mortgage-backed securities	7,774	55	4,304	530	12,078	585
Asset-backed securities	--	--	18,244	11,955	18,244	11,955
Commercial mortgage-backed securities	12,157	492	60,373	48,867	72,530	49,359
Total non-investment grade securities	153,824	4,877	146,738	67,693	300,562	72,570
Total fixed maturity securities	$ 848,953	$ 17,933	$ 513,139	$ 134,933	$ 1,362,092	$ 152,866
Non-redeemable preferred stock	$ 734	$ 6	$ 6,744	$ 828	$ 7,478	$ 834
Total equity securities	$ 734	$ 6	$ 6,744	$ 828	$ 7,478	$ 834

December 31, 2011:	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	$ 790,758	$ 40,180	$ 286,244	$ 63,117	$ 1,077,002	$ 103,297

Canadian and Canadian provincial governments	3,094	29	--	--	3,094	29
Residential mortgage-backed securities	128,622	3,549	58,388	10,382	187,010	13,931
Asset-backed securities	101,263	3,592	93,910	29,036	195,173	32,628
Commercial mortgage-backed securities	109,455	3,538	58,979	22,001	168,434	25,539
U.S. government and agencies	1,764	61	--	--	1,764	61
State and political subdivisions	21,045	1,845	12,273	1,268	33,318	3,113
Other foreign government, supranational and foreign government-sponsored enterprises	148,416	1,085	16,588	2,491	165,004	3,576
Total investment grade securities	1,304,417	53,879	526,382	128,295	1,830,799	182,174
Non-investment grade securities:						
Corporate securities	212,795	10,852	47,310	11,222	260,105	22,074
Residential mortgage-backed securities	23,199	712	10,459	1,781	33,658	2,493
Asset-backed securities	2,363	940	21,275	20,107	23,638	21,047
Commercial mortgage-backed securities	34,918	7,220	62,357	46,730	97,275	53,950
State and political subdivisions	4,000	228	--	--	4,000	228
Total non-investment grade securities	277,275	19,952	141,401	79,840	418,676	99,792
Total fixed maturity securities	$ 1,581,692	$ 73,831	$ 667,783	$ 208,135	$ 2,249,475	$ 281,966
Non-redeemable preferred stock	$ 19,516	$ 4,478	$ 15,694	$ 4,504	$ 35,210	$ 8,982
Other equity securities	1,662	602	5,905	936	7,567	1,538
Total equity securities	$ 21,178	$ 5,080	$ 21,599	$ 5,440	$ 42,777	$ 10,520

As of September 30, 2012, 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. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality, asset-liability management and liquidity guidelines.

As of September 30, 2012, 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

Table of Contents

equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

Unrealized losses on non-investment grade securities are principally related to asset-backed securities, residential mortgage-backed securities and commercial 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 September 30, 2012 and December 31, 2011, approximately $61.4 million and $68.6 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.

Purchased Credit Impaired Fixed Maturity Securities Available-for-Sale

In the third quarter of 2012, the Company began purchasing certain residential mortgage-backed 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):

	September 30, 2012	
Outstanding principal and interest balance(1)	$	36,090
Carrying value, including accrued interest(2)	$	31,196

(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.

The following table presents information about purchased credit impaired investments acquired during the nine months ended September 30, 2012 (dollars in thousands).

	At Date of Acquisition	
Contractually required payments (including interest)	$	50,268
Cash flows expected to be collected(1)	$	42,316
Fair value of investments acquired	$	30,853

(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 nine months ended September 30, 2012 (dollars in thousands):

	Nine months ended September 30, 2012
Balance, beginning of period	$ --
Investments purchased	11,463
Accretion	(6)
Balance, end of period	$ 11,457

Table of Contents

Mortgage Loans on Real Estate

Mortgage loans represented approximately 6.7% and 3.8% of the Company s cash and invested assets as of September 30, 2012 and December 31, 2011, respectively. The Company makes mortgage loans on income producing properties, such as apartments, retail and office buildings, light warehouses 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 September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012		December 31, 2011	
Property type:	Recorded Investment	Percentage of Total	Recorded Investment	Percentage of Total
Apartment	$ 238,365	10.5 %	$ 124,674	12.4 %
Retail	618,896	27.3	335,745	33.5
Office building	803,889	35.4	264,584	26.4
Industrial	454,215	20.0	200,762	20.0
Other commercial	154,849	6.8	77,759	7.7
Total	$ 2,270,214	100.0 %	$ 1,003,524	100.0 %

As of September 30, 2012 and December 31, 2011, the Company s mortgage loans, gross of valuation allowances, were distributed throughout the United States as follows (dollars in thousands):

	September 30, 2012		December 31, 2011	
	Recorded Investment	Percentage of Total	Recorded Investment	Percentage of Total
Pacific	$ 613,425	27.0 %	$ 269,922	26.9 %
South Atlantic	470,722	20.7	233,534	23.3
Mountain	198,443	8.7	116,224	11.6
Middle Atlantic	311,192	13.7	86,590	8.6
West North Central	155,745	6.9	69,789	7.0
East North Central	221,085	9.7	92,861	9.2
West South Central	147,177	6.5	58,506	5.8
East South Central	60,121	2.7	40,767	4.1
New England	92,304	4.1	35,331	3.5
Total	$ 2,270,214	100.0 %	$ 1,003,524	100.0 %

The maturities of the mortgage loans, gross of valuation allowances, as of September 30, 2012 and December 31, 2011 are as follows (dollars in thousands):

	September 30, 2012	December 31, 2011
Due one year through five years	$ 1,234,191	$ 493,027
Due after five years	731,618	299,252
Due after ten years	304,405	211,245
Total	$ 2,270,214	$ 1,003,524

Information regarding the Company s credit quality indicators for its recorded investment in mortgage loans, gross of valuation allowances, as of September 30, 2012 and December 31, 2011 is as follows (dollars in thousands):

Internal credit risk grade:	September 30, 2012	December 31, 2011
High investment grade	$ 1,153,162	$ 252,333
Investment grade	871,508	526,608
Average	134,205	105,177
Watch list	73,977	91,037
In or near default	37,362	28,369
Total	$ 2,270,214	$ 1,003,524

Table of Contents

The age analysis of the Company s past due recorded investment in mortgage loans, gross of valuation allowances, as of September 30, 2012 and December 31, 2011 is as follows (dollars in thousands):

	September 30, 2012	December 31, 2011
31-60 days past due	$ 16,627	$ 21,800
61-90 days past due	--	--
Greater than 90 days	16,298	20,316
Total past due	32,925	42,116
Current	2,237,289	961,408
Total	$ 2,270,214	$ 1,003,524

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):

	September 30, 2012	December 31, 2011
Mortgage loans:		
Evaluated individually for credit losses	$ 44,394	$ 60,904
Evaluated collectively for credit losses	2,225,820	942,620
Mortgage loans, gross of valuation allowances	2,270,214	1,003,524
Valuation allowances:		
Specific for credit losses	8,343	8,188
Non-specifically identified credit losses	4,990	3,605
Total valuation allowances	13,333	11,793
Mortgage loans, net of valuation allowances	$ 2,256,881	$ 991,731

Information regarding the Company s loan valuation allowances for mortgage loans for the three months ended September 30, 2012 and 2011 is as follows (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
Balance, beginning of period	$ 11,011	$ 7,692	$ 11,793	$ 6,239
Charge-offs	(526)	--	(4,595)	(1,157)
Provision	2,848	2,370	6,135	4,980
Balance, end of period	$ 13,333	$ 10,062	$ 13,333	$ 10,062

Information regarding the portion of the Company s mortgage loans that were impaired as of September 30, 2012 and December 31, 2011 is as follows (dollars in thousands):

	Unpaid	Recorded	Related	Carrying Value

	Principal Balance	Investment	Allowance	
September 30, 2012:				
Impaired mortgage loans with no valuation allowance recorded	$ 13,127	$ 12,585	$ --	$ 12,585
Impaired mortgage loans with valuation allowance recorded	31,939	31,809	8,343	23,466
Total impaired mortgage loans	$ 45,066	$ 44,394	$ 8,343	$ 36,051
December 31, 2011:				
Impaired mortgage loans with no valuation allowance recorded	$ 32,088	$ 31,496	$ --	$ 31,496
Impaired mortgage loans with valuation allowance recorded	29,724	29,408	8,188	21,220
Total impaired mortgage loans	$ 61,812	$ 60,904	$ 8,188	$ 52,716

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

	Three Months Ended			
	September 30, 2012		September 30, 2011	
	Average Investment(1)	Interest Income	Average Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$ 11,054	$ 109	$ 4,706	$ 32
Impaired mortgage loans with valuation allowance recorded	35,047	461	31,351	202
Total	$ 46,101	$ 570	$ 36,057	$ 234

	Nine Months Ended			
	September 30, 2012		September 30, 2011	
	Average Investment[(1)]	Interest Income	Average Investment[(1)]	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$ 16,312	$ 305	$ 11,228	$ 102
Impaired mortgage loans with valuation allowance recorded	36,178	1,180	25,046	678
Total	$ 52,490	$ 1,485	$ 36,274	$ 780

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

The Company did not acquire any impaired mortgage loans during the nine months ended September 30, 2012 and 2011. The Company had $16.3 million and $20.3 million of mortgage loans, gross of valuation allowances, that were on nonaccrual status at September 30, 2012 and December 31, 2011, respectively.

Other Invested Assets

Other invested assets include equity securities, limited partnership interests, structured loans and derivative contracts. Other invested assets represented approximately 3.7% and 3.9% of the Company s cash and invested assets as of September 30, 2012 and December 31, 2011, respectively. Carrying values of these assets as of September 30, 2012 and December 31, 2011 are as follows (dollars in thousands):

	September 30, 2012	December 31, 2011
Equity securities	$ 209,272	$ 113,900
Limited partnerships and joint ventures	350,643	251,315
Structured loans	341,795	281,022
Derivatives	212,322	257,050
Other	122,584	109,254
Total other invested assets	$ 1,236,616	$ 1,012,541

Investments Transferred to the Company

During the second quarter of 2012, the Company added a large fixed deferred annuity reinsurance transaction in its U.S. Asset Intensive sub-segment. This transaction increased the Company s invested asset base by approximately $5.4 billion which was reflected on the condensed consolidated balance sheet as of June 30, 2012 as an investment receivable. In satisfaction of this investment receivable, the Company received the following on July 31, 2012 and August 3, 2012 (dollars in thousands):

	Amortized Cost/ Recorded Investment	Estimated Fair Value
Fixed maturity securities available for sale:		
Corporate securities	$ 2,585,095	$ 2,606,816
Asset-backed securities	137,251	138,918
Commercial mortgage-backed securities	703,313	704,065
U.S. Government and agencies securities	240,952	256,168
State and political subdivision securities	27,297	27,555
Other foreign government, supranational, and foreign government-sponsored enterprises	56,776	55,437
Total fixed maturity securities available for sale	3,750,684	3,788,959

Mortgage loans on real estate		1,009,454		1,021,661
Short-term investments		101,428		101,338
Cash and cash equivalents		501,593		501,593
Accrued interest		43,739		43,739
Total	$	5,406,898	$	5,457,290

The securities transferred to the Company related to the transaction are considered a non-cash transaction in the condensed consolidated statement of cash flows.

Table of Contents

5. Derivative Instruments

The following table presents the notional amounts and fair value of derivative instruments as of September 30, 2012 and December 31, 2011 (dollars in thousands):

	September 30, 2012			December 31, 2011		
	Notional Amount	Carrying Value/Fair Value Assets	Carrying Value/Fair Value Liabilities	Notional Amount	Carrying Value/Fair Value Assets	Carrying Value/Fair Value Liabilities
Derivatives not designated as hedging instruments:						
Interest rate swaps(1)	$ 2,236,718	$ 306,774	$ 174,741	$ 2,748,317	$ 184,842	$ 18,702
Financial futures(1)	204,424	--	--	277,814	--	--
Foreign currency forwards(1)	44,400	4,052	36	24,400	4,560	--
Consumer price index swaps(1)	102,742	817	--	101,069	766	--
Credit default swaps(1)	640,500	1,308	3,770	649,500	1,313	10,949
Equity options(1)	696,776	73,659	--	510,073	90,106	--
Synthetic guaranteed investment contracts (GICs(1))	1,913,202	--	--	--	--	--
Embedded derivatives in:						
Modified coinsurance or funds withheld arrangements(2)	--	--	320,501	--	--	361,456
Indexed annuity products(3)	--	4,192	751,112	--	4,945	751,523
Variable annuity products(3)	--	--	202,693	--	--	276,718
Total non-hedging derivatives	5,838,762	390,802	1,452,853	4,311,173	286,532	1,419,348
Derivatives designated as hedging instruments:						
Interest rate swaps(1)	57,181	3,901	--	56,250	133	960
Foreign currency swaps(1)	629,512	--	32,757	621,578	286	23,996
Total hedging derivatives	686,693	3,901	32,757	677,828	419	24,956
Total derivatives	$ 6,525,455	$ 394,703	$ 1,485,610	$ 4,989,001	$ 286,951	$ 1,444,304

(1) Carried on the Company s condensed consolidated balance sheets in other invested assets or other liabilities, at fair value.
(2) Embedded liability is included on the condensed consolidated balance sheets with the host contract in funds withheld at interest, at fair value.
(3) Embedded liability is included on the condensed consolidated balance sheets with the host contract in interest-sensitive contract liabilities, at fair value. Embedded asset is included on the condensed consolidated balance sheets in reinsurance ceded receivables.

Accounting for Derivative Instruments and Hedging Activities

The Company does not enter into derivative instruments for speculative purposes. As discussed below under Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging, the Company uses various derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. As of September 30, 2012 and December 31, 2011, the Company held interest rate swaps that were designated and qualified as cash flow hedges of interest rate risk. As of September 30, 2012 and December 31, 2011, 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 September 30, 2012 and December 31, 2011, 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 DAC Current 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.

Fair Value Hedges

During the fourth quarter of 2011 the Company removed the fair value hedge designation for its interest rate swaps. However, prior to the fourth quarter of 2011 the Company designated and accounted for certain interest rate swaps that convert fixed rate investments to floating rate investments as fair value hedges when they meet the requirements of the general accounting principles for *Derivatives and Hedging*. The gain or loss on the hedged item attributable to the hedged benchmark interest rate and the offsetting gain or loss on the related interest rate swaps for the three and nine months ended September 30, 2011 were (dollars in thousands):

Type of Fair Value Hedge	Hedged Item	Gains (Losses) Recognized for Derivatives		Gains (Losses) Recognized for Hedged Items		Ineffectiveness Recognized in Investment Related Gains (Losses)	
For the three months ended September 30, 2011:							
Interest rate swaps	Fixed rate fixed maturities	$	(655)	$	913	$	258
For the nine months ended September 30, 2011:							
Interest rate swaps	Fixed rate fixed maturities	$	(921)	$	1,509	$	588

A regression analysis was used, both at the inception of the hedge and on an ongoing basis, to determine whether each derivative used in a hedge transaction is highly effective in offsetting changes in the hedged item. All components of each derivative s gain or loss were included in the assessment of hedge effectiveness.

Cash Flow Hedges

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

The following table presents the components of AOCI, before income tax, and the condensed consolidated income statement classification where the gain or loss is recognized related to cash flow hedges for the three and nine months ended September 30, 2012 (dollars in thousands):

	Three months ended September 30, 2012		Nine months ended September 30, 2012	
Accumulated other comprehensive income (loss), balance beginning of period	$	(719)	$	(828)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges		(2,831)		(2,044)
Amounts reclassified to investment related gains (losses), net		--		--
Amounts reclassified to investment income		(351)		(1,029)
Accumulated other comprehensive income (loss), balance end of period	$	(3,901)	$	(3,901)

As of September 30, 2012, 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 $0.8 million. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to investment income over the term of the investment cash flows. There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments on existing financial instruments, for the three and nine months ended September 30, 2012. The Company had no derivative instruments that were designated and qualified as cash flow hedges for the three and nine months ended September 30, 2011.

The following table presents the effects of derivatives in cash flow hedging relationships on the condensed consolidated statements of income and AOCI for the three and nine months ended September 30, 2012 (dollars in thousands):

Table of Contents

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 September 30, 2012:					
Interest rate swaps	$ (2,831)	$ --	$ 351	$ (3)	$ --
For the nine months ended September 30, 2012:					
Interest rate swaps	$ (2,044)	$ --	$ 1,029	$ --	$ --

Hedges of Net Investments in Foreign Operations

The Company uses foreign currency swaps to hedge a portion of its net investment in certain foreign operations against adverse movements in exchange rates. The following table illustrates the Company s net investments in foreign operations (NIFO) hedges for the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Derivative Gains (Losses) Deferred in AOCI			
	For the three months ended		For the nine months ended	
Type of NIFO Hedge (1) (2)	2012	2011	2012	2011
Foreign currency swaps	$ (19,454)	$ 50,974	$ (23,457)	$ 25,954

(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 $(19.4) million and $4.1 million at September 30, 2012 and December 31, 2011, respectively. If a foreign operation was sold or substantially liquidated, the amounts in AOCI would be reclassified to the condensed consolidated statements of income. A pro rata portion would be reclassified upon partial sale of a foreign operation.

Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging

The Company uses various other derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. The gain or loss related to the change in fair value for these derivative instruments is recognized in investment related gains (losses), in the condensed consolidated statements of income, except where otherwise noted. For the three months ended September 30, 2012 and 2011, the Company recognized investment related gains (losses) of $(20.6) million and $200.8 million, respectively, and $(31.8) million and $203.4 million for the nine months ended September 30, 2012 and 2011, respectively, related to derivatives (not including embedded derivatives) that do not qualify or have not been qualified for hedge accounting.

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.

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 inception and termination of the currency swap by each party. The Company may also use foreign currency swaps to economically hedge the foreign currency risk associated with certain of its net investments in foreign operations.

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 Company s maximum amount at risk on credit default swaps, assuming the value of the underlying referenced securities is zero, was $622.5 million and $614.0 million at September 30, 2012 and December 31, 2011, respectively.

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 GICs

The Company sells fee-based synthetic GICs 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.

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, net of $(6.2) million and $25.4 million for the three months and $(63.4) million and $1.1 million for the nine months ended September 30, 2012 and 2011, 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 $(28.3) million and $23.2 million for the three and nine months ended September 30, 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 months ended September 30, 2012 and 2011 are reflected in the following table (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Embedded derivatives in modco or funds withheld arrangements included in investment related gains	$ 54,836	$ (102,574)	$ 40,955	$ (1,514)
After the associated amortization of DAC and taxes, the related amounts included in net income	11,228	(22,403)	10,563	568
Embedded derivatives in variable annuity contracts included in investment related gains	2,579	(260,239)	74,025	(253,445)
After the associated amortization of DAC and taxes, the related amounts included in net income	1,588	(25,263)	494	(23,876)
Amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses	(33,821)	14,360	(26,422)	(58,987)
After the associated amortization of DAC and taxes, the related amounts included in net income	(22,529)	23,002	6,465	(26,840)

Non-hedging Derivatives

A summary of the effect of non-hedging derivatives, including embedded derivatives, on the Company s income statement for the three and nine months ended September 30, 2012 and 2011 is as follows (dollars in thousands):

		Gain (Loss) for the Three Months Ended September 30,	
Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	2012	2011
Interest rate swaps	Investment related gains (losses), net	$ (1,437)	$ 142,907
Financial futures	Investment related gains (losses), net	(3,977)	36,217
Foreign currency forwards	Investment related gains (losses), net	519	1,374
CPI swaps	Investment related gains (losses), net	422	(219)
Credit default swaps	Investment related gains (losses), net	7,817	(10,018)
Equity options	Investment related gains (losses), net	(23,916)	30,530
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	54,836	(102,574)
Indexed annuity products	Policy acquisition costs and other insurance expenses	(224)	(3,172)
Indexed annuity products	Interest credited	(33,597)	17,531
Variable annuity products	Investment related gains (losses), net	2,579	(260,239)
Total non-hedging derivatives		$ 3,022	$ (147,663)

		Gain (Loss) for the Nine Months Ended September 30,	
Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	2012	2011
Interest rate swaps	Investment related gains (losses), net	$ 24,553	$ 157,520
Financial futures	Investment related gains (losses), net	(10,312)	21,920
Foreign currency forwards	Investment related gains (losses), net	(574)	1,114
CPI swaps	Investment related gains (losses), net	(1,811)	1,096
Credit default swaps	Investment related gains (losses), net	14,835	(8,138)
Equity options	Investment related gains (losses), net	(58,532)	29,880
Embedded derivatives in:			

Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	40,955	(1,514)
Indexed annuity products	Policy acquisition costs and other insurance expenses	(363)	8,947
Indexed annuity products	Interest credited	(26,059)	(67,935)
Variable annuity products	Investment related gains (losses), net	74,025	(253,445)
Total non-hedging derivatives		$ 56,717	$ (110,555)

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.

Table of Contents

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.

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 September 30, 2012 and December 31, 2011 are reflected in the following table (dollars in thousands):

	September 30, 2012	December 31, 2011
Estimated fair value of derivatives in net asset position	$ 179,206	$ 227,399
Securities pledged to counterparties as collateral(1)	35,093	27,052
Cash pledged from counterparties as collateral(2)	(178,584)	(241,480)
Securities pledged from counterparties as collateral(3)	(25,049)	(997)
Net credit exposure	$ 10,666	$ 11,974
Margin account related to exchange-traded futures(4)	$ 5,376	$ 18,153

(1) Consists of U.S. Treasury securities, included in other invested assets.
(2) Included in cash and cash equivalents, with obligation to return cash collateral recorded in other liabilities.
(3) Consists of U.S. Treasury securities.
(4) 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 Quoted prices in active markets for identical assets or liabilities. 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), asset-backed securities (including those with exposure to subprime

Table of Contents

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 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 priority 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 September 30, 2012 and December 31, 2011 are summarized below (dollars in thousands):

September 30, 2012:		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities available-for-sale:				
Corporate securities	$ 11,899,722	$ 52,993	$ 10,339,456	$ 1,507,273
Canadian and Canadian provincial governments	4,091,883	--	4,091,883	--
Residential mortgage-backed securities	1,055,808	--	1,006,449	49,359
Asset-backed securities	572,700	--	383,110	189,590
Commercial mortgage-backed securities	1,740,391	--	1,573,323	167,068
U.S. government and agencies securities	284,857	212,636	67,655	4,566
State and political subdivision securities	287,417	--	240,467	46,950
Other foreign government supranational and foreign government-sponsored enterprises	1,725,636	228,478	1,497,158	--
Total fixed maturity securities available-for-sale	21,658,414	494,107	19,199,501	1,964,806
Funds withheld at interest embedded derivatives	(320,501)	--	--	(320,501)
Cash equivalents	1,025,410	1,025,410	--	--
Short-term investments	44,556	--	22,495	22,061
Other invested assets:				
Non-redeemable preferred stock	74,680	63,874	10,806	--
Other equity securities	134,592	134,592	--	--
Derivatives:				
Interest rate swaps	136,211	--	136,211	--
Foreign currency forwards	4,016	--	4,016	--
CPI swaps	817	--	817	--
Credit default swaps	(2,381)	--	(2,381)	--
Equity options	73,659	--	73,659	--
Collateral	37,202	34,598	2,604	--
Other	37,056	37,056	--	--
Total other invested assets	495,852	270,120	225,732	--
Reinsurance ceded receivable embedded derivatives	4,192	--	--	4,192
Total	$ 22,907,923	$ 1,789,637	$ 19,447,728	$ 1,670,558
Liabilities:				
Interest sensitive contract liabilities embedded derivatives	$ 953,804	$ --	$ --	$ 953,804

Other liabilities:				
Derivatives:				
Interest rate swaps	277	--	277	--
Credit default swaps	81	--	81	--
Foreign currency swaps	32,757	--	32,757	--
Total other liabilities	33,115	--	33,115	--
Total	$ 986,919	$ --	$ 33,115	$ 953,804

26

Table of Contents

December 31, 2011:	Fair Value Measurements Using:			
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities available-for-sale:				
Corporate securities	$ 7,461,106	$ 76,097	$ 6,410,840	$ 974,169
Canadian and Canadian provincial governments	3,869,933	--	3,869,933	--
Residential mortgage-backed securities	1,227,234	--	1,145,579	81,655
Asset-backed securities	401,991	--	208,499	193,492
Commercial mortgage-backed securities	1,242,219	--	1,126,243	115,976
U.S. government and agencies securities	374,002	300,514	73,488	--
State and political subdivision securities	205,386	12,894	182,119	10,373
Other foreign government, supranational and foreign government-sponsored enterprises	1,419,079	223,440	1,195,639	--
Total fixed maturity securities available-for-sale	16,200,950	612,945	14,212,340	1,375,665
Funds withheld at interest embedded derivatives	(361,456)	--	--	(361,456)
Cash equivalents	504,522	504,522	--	--
Short-term investments	46,671	37,155	9,516	--
Other invested assets:				
Non-redeemable preferred stock	78,183	58,906	19,277	--
Other equity securities	35,717	5,308	18,920	11,489
Derivatives:				
Interest rate swaps	168,484	--	168,484	--
Foreign currency forwards	4,560	--	4,560	--
CPI swaps	766	--	766	--
Credit default swaps	(4,003)	--	(4,003)	--
Equity options	87,243	--	87,243	--
Collateral	32,622	27,052	5,570	--
Other	59,373	59,373	--	--
Total other invested assets	462,945	150,639	300,817	11,489
Reinsurance ceded receivable embedded derivatives	4,945	--	--	4,945
Total	$ 16,858,577	$ 1,305,261	$ 14,522,673	$ 1,030,643
Liabilities:				
Interest sensitive contract liabilities embedded derivatives	$ 1,028,241	$ --	$ --	$ 1,028,241
Other liabilities:				
Derivatives:				
Interest rate swaps	3,171	--	3,171	--
Credit default swaps	5,633	--	5,633	--
Equity options	(2,864)	--	(2,864)	--
Foreign currency swaps	23,710	--	23,710	--
Total other liabilities	29,650	--	29,650	--
Total	$ 1,057,891	$ --	$ 29,650	$ 1,028,241

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 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.

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 September 30, 2012 and 2011, 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.

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

Table of Contents

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, non-option-based, 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 September 30, 2012 and December 31, 2011, respectively, the Company classified approximately 9.1% and 8.5% of its fixed maturity securities in the Level 3 category. These securities primarily consist of private placement corporate securities with inactive trading markets. Additionally, the Company has included asset-backed securities with sub-prime exposure and

29

Table of Contents

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 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 securities are probability of default, liquidity premium, subordination 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 assumptions used for the liquidity premium, subordination premium and loss severity. 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 based on observable 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.

The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements that are developed by the Company as of September 30, 2012 (dollars in thousands):

September 30, 2012:	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
State and political subdivision securities	$ 15,186	Market comparable securities	Liquidity premium	1%
Corporate securities	431,187	Market comparable securities	Liquidity premium	0-2% (1%)
Short-term investments	22,061	Market comparable securities	Liquidity premium	1%
Funds withheld at interest- embedded derivatives	(320,501)	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%)
Reinsurance ceded receivable- embedded derivatives	4,192	Discounted cash flow	Mortality	0-100% (8%)
			Lapse	14-16% (15%)

Table of Contents

September 30, 2012 (continued):	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	751,112	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	202,692	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% (16%)

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.

Transfers from Level 1 to Level 2 are due to the lack of observable market data when pricing these securities, while transfers from Level 2 to Level 1 are due to an increase in the availability of market observable data in an active market. The following tables present the transfers between Level 1 and Level 2 during the three and nine months ended September 30, 2012 and 2011 (dollars in thousands):

	Three months ended September 30,	
	2012	2011

	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	$ 11,777	$ --	$ --	$ --
State and political subdivision securities	--	--	--	5,485
Other foreign government, supranational and foreign government-sponsored enterprises	2,163	--	1,474	--
Total fixed maturity securities	13,940	--	1,474	5,485
Non-redeemable preferred stock	9,646	11,068	--	--
Total	$ 23,586	$ 11,068	$ 1,474	$ 5,485

	Nine months ended September 30,			
	2012		2011	
	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	$ 14,773	$ 4	$ --	$ --
U.S. government and agencies securities	--	11,152	23,065	--
State and political subdivision securities	12,794	--	--	5,485
Other foreign government, supranational and foreign government-sponsored enterprises	3,222	--	1,845	--
Total fixed maturity securities	30,789	11,156	24,910	5,485
Non-redeemable preferred stock	9,646	11,068	--	--
Other equity securities	--	--	2,290	--
Total	$ 40,435	$ 22,224	$ 27,200	$ 5,485

Table of Contents

The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2012, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2012 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2012 (dollars in thousands):

For the three months ended September 30, 2012:	Fixed maturity securities - available-for-sale			
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities
Fair value, beginning of period	$ 994,014	$ 49,591	$ 128,358	$ 115,733
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	(4,846)	114	54	446
Investment related gains (losses), net	(1,059)	(187)	(3)	(2,088)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--
Included in other comprehensive income	22,280	479	7,658	6,188
Purchases(1)	556,031	31,020	62,109	21,092
Sales(1)	(18,548)	(24,566)	(3,725)	--
Settlements(1)	(31,448)	(1,437)	(4,407)	(511)
Transfers into Level 3	1,293	1,804	5,006	26,208
Transfers out of Level 3	(10,444)	(7,459)	(5,460)	--
Fair value, end of period	$ 1,507,273	$ 49,359	$ 189,590	$ 167,068
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	$ (4,861)	$ 28	$ 40	$ 446
Investment related gains (losses), net	(223)	--	(242)	(2,088)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--

For the three months ended September 30, 2012 (continued):	Fixed maturity securities - available-for-sale			
	U.S. Government and agencies securities	State and political subdivision securities	Funds withheld at interest-embedded derivatives	Short-term investments
Fair value, beginning of period	$ --	$ 14,486	$ (375,337)	$ --
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	(59)	1	--	(7)
Investment related gains (losses), net	--	(4)	54,836	--
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--
Included in other comprehensive income	(15)	3,433	--	54
Purchases(1)	4,640	--	--	22,014
Sales(1)	--	--	--	--
Settlements(1)	--	(116)	--	--
Transfers into Level 3	--	29,150	--	--

Transfers out of Level 3		--		--		--		--
Fair value, end of period	$	4,566	$	46,950	$	(320,501)	$	22,061
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	$	(59)	$	1	$	--	$	(7)
Investment related gains (losses), net		--		--		54,836		--
Claims & other policy benefits		--		--		--		--
Interest credited		--		--		--		--
Policy acquisition costs and other insurance expenses		--		--		--		--

32

Table of Contents

For the three months ended September 30, 2012 (continued):	Other invested assets- other equity securities	Reinsurance ceded receivable- embedded derivatives	Interest sensitive contract liabilities embedded derivatives
Fair value, beginning of period	$ 3,227	$ 4,416	$ (938,927)
Total gains/losses (realized/unrealized)			
Included in earnings, net:			
Investment income, net of related expenses	--	--	--
Investment related gains (losses), net	--	--	2,579
Claims & other policy benefits	--	--	213
Interest credited	--	--	(33,980)
Policy acquisition costs and other insurance expenses	--	(124)	--
Included in other comprehensive income	--	--	--
Purchases(1)	--	--	(8,502)
Sales(1)	--	--	--
Settlements(1)	--	(100)	24,813
Transfers into Level 3	--	--	--
Transfers out of Level 3	(3,227)	--	--
Fair value, end of period	$ --	$ 4,192	$ (953,804)
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period			
Included in earnings, net:			
Investment income, net of related expenses	$ --	$ --	$ --
Investment related gains (losses), net	--	--	427
Claims & other policy benefits	--	--	(23)
Interest credited	--	--	(58,621)
Policy acquisition costs and other insurance expenses	--	13	--

(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 u 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 per

For the nine months ended September 30, 2012:	Fixed maturity securities - available-for-sale			
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities
Fair value, beginning of period	$ 974,169	$ 81,655	$ 193,492	$ 115,976
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	(4,738)	413	497	1,579
Investment related gains (losses), net	(2,339)	(223)	(510)	(13,771)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--
Included in other comprehensive income	31,940	1,886	16,135	17,436
Purchases(1)	645,466	31,602	64,121	21,092
Sales(1)	(45,833)	(40,790)	(11,627)	(1,552)
Settlements(1)	(84,819)	(5,139)	(11,510)	(568)
Transfers into Level 3	18,738	8,979	6,086	37,054
Transfers out of Level 3	(25,311)	(29,024)	(67,094)	(10,178)
Fair value, end of period	$ 1,507,273	$ 49,359	$ 189,590	$ 167,068

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	$ (4,747)	$ 283	$ 440	$ 1,579
Investment related gains (losses), net	(1,329)	(269)	(849)	(14,163)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--

Table of Contents

For the nine months ended September 30, 2012 (continued):	Fixed maturity securities - available-for-sale			
	U.S. Government and agencies securities	State and political subdivision securities	Funds withheld at interest - embedded derivatives	Short-term investments
Fair value, beginning of period	$ --	$ 10,373	$ (361,456)	$ --
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	(59)	5	--	(7
Investment related gains (losses), net	--	(12)	40,955	--
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--
Included in other comprehensive income	(15)	4,666	--	54
Purchases(1)	4,640	--	--	22,014
Sales(1)	--	--	--	--
Settlements(1)	--	(162)	--	--
Transfers into Level 3	--	37,588	--	--
Transfers out of Level 3	--	(5,508)	--	--
Fair value, end of period	$ 4,566	$ 46,950	$ (320,501)	$ 22,061
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	$ (59)	$ 5	$ --	$ (7
Investment related gains (losses), net	--	--	40,955	--
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--

For the nine months ended September 30, 2012 (continued):	Other invested assets- other equity securities	Reinsurance ceded receivable-embedded derivatives	Interest sensitive contract liabilities embedded derivatives
Fair value, beginning of period	$ 11,489	$ 4,945	$ (1,028,241)
Total gains/losses (realized/unrealized)			
Included in earnings, net:			
Investment income, net of related expenses	--	--	--
Investment related gains (losses), net	1,098	--	74,025
Claims & other policy benefits	--	--	770
Interest credited	--	--	(27,348)
Policy acquisition costs and other insurance expenses	--	(449)	--
Included in other comprehensive income	843	--	--
Purchases(1)	108	--	(48,199)
Sales(1)	(3,788)	--	--
Settlements(1)	--	(304)	75,189
Transfers into Level 3	--	--	--
Transfers out of Level 3	(9,750)	--	--
Fair value, end of period	$ --	$ 4,192	$ (953,804)
Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period			
Included in earnings, net:			
Investment income, net of related expenses	$ --	$ --	$ --

Investment related gains (losses), net	(183)	--	68,315
Claims & other policy benefits	--	--	56
Interest credited	--	--	(102,017)
Policy acquisition costs and other insurance expenses	--	(33)	--

(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.

Table of Contents

The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2011, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2011 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2011 (dollars in thousands):

For the three months ended September 30, 2011:	Fixed maturity securities - available-for-sale			
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities
Fair value, beginning of period	$ 977,560	$ 103,430	$ 188,773	$ 150,765
Total gains/losses (realized/unrealized)				
Included in earnings, net:				
Investment income, net of related expenses	38	181	271	505
Investment related gains (losses), net	591	(1,059)	(6,760)	(6,548)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--
Included in other comprehensive income	7,725	44	(1,827)	(14,717)
Purchases [(1)]	59,905	454	7,449	--
Sales[(1)]	(14,415)	--	(5,547)	--
Settlements[(1)]	(23,677)	(1,447)	(3,172)	--
Transfers into Level 3	15,947	2,248	10,773	--
Transfers out of Level 3	(65,855)	(36,941)	(27,417)	(17,026)
Fair value, end of period	$ 957,819	$ 66,910	$ 162,543	$ 112,979
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	$ 32	$ 181	$ 246	$ 504
Investment related gains (losses), net	(708)	(131)	(1,052)	(6,548)
Claims & other policy benefits	--	--	--	--
Interest credited	--	--	--	--
Policy acquisition costs and other insurance expenses	--	--	--	--

For the three months ended September 30, 2011 (continued):	Fixed maturity securities - available-for-sale