REINSURANCE GROUP OF AMERICA INC
Form 10-Q
November 04, 2015

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, 2015
	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)

16600 Swingley Ridge Road
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 30, 2015, 65,749,401 shares of the registrant's common stock were outstanding.

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
TABLE OF CONTENTS

2

PART I - FINANCIAL INFORMATION

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

	September 30, 2015	December 31, 2014
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $25,844,795 and $23,105,597)	$ 27,411,788	$ 25,480,972
Mortgage loans on real estate (net of allowances of $5,652 and $6,471)	3,170,002	2,712,238
Policy loans	1,444,009	1,284,284
Funds withheld at interest	5,675,174	5,922,561
Short-term investments	58,200	97,694
Other invested assets	1,187,504	1,198,319
Total investments	38,946,677	36,696,068
Cash and cash equivalents	1,747,692	1,645,669
Accrued investment income	342,088	261,096
Premiums receivable and other reinsurance balances	1,553,093	1,527,729
Reinsurance ceded receivables	661,185	578,206
Deferred policy acquisition costs	3,311,086	3,342,575
Other assets	1,044,299	628,268
Total assets	$ 47,606,120	$ 44,679,611
Liabilities and Stockholders' Equity		
Future policy benefits	$ 16,574,783	$ 14,476,637
Interest-sensitive contract liabilities	13,699,896	12,591,497
Other policy claims and benefits	3,892,036	3,824,069
Other reinsurance balances	280,093	306,915
Deferred income taxes	2,285,066	2,365,817
Other liabilities	1,405,675	994,230
Long-term debt	2,313,053	2,314,293
Collateral finance and securitization notes	914,452	782,701
Total liabilities	41,365,054	37,656,159
Commitments and contingent liabilities (See Note 8)		
Stockholders' Equity:		
Preferred stock - par value $.01 per share, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock - par value $.01 per share, 140,000,000 shares authorized, 79,137,758 shares issued at September 30, 2015 and December 31, 2014	791	791
Additional paid-in-capital	1,812,377	1,798,279
Retained earnings	4,482,709	4,239,647
Treasury stock, at cost - 13,388,357 and 10,364,797 shares	(961,290)	(672,394)
Accumulated other comprehensive income	906,479	1,657,129
Total stockholders' equity	6,241,066	7,023,452
Total liabilities and stockholders' equity	$ 47,606,120	$ 44,679,611

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:	(Dollars in thousands, except per share data)			
Net premiums	$2,089,345	$2,168,285	$6,242,240	$6,452,082
Investment income, net of related expenses	389,597	447,106	1,267,027	1,262,088
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(23,111)	(246)	(29,775)	(1,419)
Other investment related gains (losses), net	(88,235)	22,564	(90,166)	226,835
Total investment related gains (losses), net	(111,346)	22,318	(119,941)	225,416
Other revenues	71,038	78,879	200,261	267,195
Total revenues	2,438,634	2,716,588	7,589,587	8,206,781
Benefits and Expenses:				
Claims and other policy benefits	1,831,819	1,855,037	5,473,453	5,540,599
Interest credited	34,008	120,952	231,932	347,508
Policy acquisition costs and other insurance expenses	249,702	336,411	827,157	1,100,658
Other operating expenses	142,270	133,737	395,488	372,135
Interest expense	35,565	36,065	107,043	106,360
Collateral finance and securitization expense	5,133	2,571	16,462	7,731
Total benefits and expenses	2,298,497	2,484,773	7,051,535	7,474,991
Income before income taxes	140,137	231,815	538,052	731,790
Provision for income taxes	56,603	73,819	199,013	238,834
Net income	$83,534	$157,996	$339,039	$492,956
Earnings per share:				
Basic earnings per share	$1.26	$2.30	$5.07	$7.10
Diluted earnings per share	$1.25	$2.28	$5.01	$7.03
Dividends declared per share	$0.37	$0.33	$1.03	$0.93

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Comprehensive income (loss)	(Dollars in thousands)			
Net income	$83,534	$157,996	$339,039	$492,956
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	(105,504)	(75,107)	(201,340)	(75,147)
Change in net unrealized gains and losses on investments	(139,066)	(55,615)	(552,783)	566,014
Change in other-than-temporary impairment losses on fixed maturity securities	—	1,248	—	1,698
Changes in pension and other postretirement plan adjustments	1,685	421	3,473	1,435
Total other comprehensive income (loss), net of tax	(242,885)	(129,053)	(750,650)	494,000
Total comprehensive income (loss)	$(159,351)	$28,943	$(411,611)	$986,956

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

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

	Nine months ended September 30,	
	2015	2014
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$339,039	$492,956
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities, net of acquisition:		
Accrued investment income	(47,088)	(41,658)
Premiums receivable and other reinsurance balances	(100,804)	(74,089)
Deferred policy acquisition costs	(42,855)	185,107
Reinsurance ceded receivable balances	(42,620)	9,961
Future policy benefits, other policy claims and benefits, and other reinsurance balances	594,389	736,169
Deferred income taxes	128,557	43,670
Other assets and other liabilities, net	(14,670)	134,471
Amortization of net investment premiums, discounts and other	(61,714)	(80,188)
Investment related (gains) losses, net	119,941	(225,416)
Excess tax benefits from share-based payment arrangement	(2,884)	3,088
Other, net	9,175	54,105
Net cash provided by operating activities	878,466	1,238,176
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	3,904,948	3,370,036
Maturities of fixed maturity securities available-for-sale	342,126	353,554
Principal payments on mortgage loans on real estate	223,807	341,989
Principal payments on policy loans	531	47,435
Purchases of fixed maturity securities available-for-sale	(3,746,290)	(4,414,097)
Cash invested in mortgage loans on real estate	(686,878)	(480,906)
Cash invested in policy loans	(6,628)	(52,914)
Cash invested in funds withheld at interest	(63,390)	(67,024)
Purchase of businesses, net of cash acquired of $19,907	(195,151)	—
Purchases of property and equipment	(24,240)	(74,342)
Cash received (paid) under securities repurchase agreements	(101,203)	100,000
Change in short-term investments	35,014	93,116
Change in other invested assets	132,412	266,389
Net cash used in investing activities	(184,942)	(516,764)
Cash Flows from Financing Activities:		
Dividends to stockholders	(69,111)	(64,587)
Repayment of collateral finance and securitization notes	(19,732)	—
Proceeds from issuance of collateral finance and securitization notes	160,060	—
Proceeds from long-term debt issuance	—	100,000
Debt issuance costs	(1,074)	—
Principal payments of long-term debt	(1,776)	(192)
Purchases of treasury stock	(333,432)	(201,032)
Excess tax benefits from share-based payment arrangement	2,884	(3,088)
Exercise of stock options, net	12,551	17,010
Change in cash collateral for derivative positions and other arrangements	60,202	83,283

Deposits on universal life and other investment type policies and contracts	204,456	84,036
Withdrawals on universal life and other investment type policies and contracts	(556,821)	(525,217)
Net cash provided in (used in) financing activities	(541,793)	(509,787)
Effect of exchange rate changes on cash	(49,708)	(16,527)
Change in cash and cash equivalents	102,023	195,098
Cash and cash equivalents, beginning of period	1,645,669	923,647
Cash and cash equivalents, end of period	$1,747,692	$1,118,745
Supplemental disclosures of cash flow information:		
Interest paid	$103,481	$93,698
Income taxes paid, net of refunds	$13,494	$37,833
Non-cash transactions:		
Transfer of invested assets	$342,082	$—
Accrual for capitalized assets	$804	$—
Purchase of businesses:		
Assets acquired, excluding cash acquired	$3,685,708	$—
Liabilities assumed	(3,490,557)	—
Net cash paid on purchase	$195,151	$—

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

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Business and Basis of Presentation

Reinsurance Group of America, Incorporated (“RGA”) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments necessary for a fair presentation have been included. Results for the nine months ended September 30, 2015 are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. There were no subsequent events, other than as disclosed in Note 17 - "Subsequent Event," that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, and all intercompany accounts and transactions have been eliminated. These condensed consolidated statements should be read in conjunction with the Company’s 2014 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on March 2, 2015 (the "2014 Annual Report").

Effective January 1, 2015, the Company further refined its reporting of the Canada; Europe, Middle East and Africa; and Asia Pacific segments into traditional and non-traditional businesses to reflect the expanded product offerings within its geographic-based segments. The prior period presentation has been adjusted to conform to the new segment reporting structure. See Part II, Item 5 - Other Information of this report for comparable figures by quarter for 2014 and 2013.

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,	
	2015	2014	2015	2014
Earnings:				
Net income (numerator for basic and diluted calculations)	$83,534	$157,996	$339,039	$492,956
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	66,205	68,643	66,895	69,426
Equivalent shares from outstanding stock options	677	692	749	675
Denominator for diluted calculation	66,882	69,335	67,644	70,101
Earnings per share:				
Basic	$1.26	$2.30	$5.07	$7.10
Diluted	$1.25	$2.28	$5.01	$7.03

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, 2015, no stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended September 30, 2014, no stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. Year-to-date amounts for equivalent shares from outstanding stock options and performance contingent shares are the weighted average of the individual quarterly amounts.

3. Accumulated Other Comprehensive Income

The balance of and changes in each component of accumulated other comprehensive income (loss) ("AOCI") for the nine months ended September 30, 2015 and 2014 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[1]	Pension and Postretirement Benefits	Total
Balance, December 31, 2014	$81,847	$ 1,624,773	$(49,491)	$1,657,129
Other comprehensive income (loss) before reclassifications	(176,562)	(843,541)	1,254	(1,018,849)
Deferred income tax benefit (expense)	(24,778)	269,378	(382)	244,218
Other comprehensive income (loss) before reclassifications, net of income tax	(201,340)	(574,163)	872	(774,631)
Amounts reclassified to (from) AOCI	—	34,790	4,002	38,792
Deferred income tax benefit (expense)	—	(13,410)	(1,401)	(14,811)
Amounts reclassified to (from) AOCI, net of income tax	—	21,380	2,601	23,981
Balance, September 30, 2015	$(119,493)	$ 1,071,990	$(46,018)	$906,479

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[1]	Pension and Postretirement Benefits	Total
Balance, December 31, 2013	$207,083	$ 820,245	$(21,721)	$1,005,607
Other comprehensive income (loss) before reclassifications	(66,167)	857,802	(461)	791,174
Deferred income tax benefit (expense)	(8,980)	(266,429)	184	(275,225)
Other comprehensive income (loss) before reclassifications, net of income tax	(75,147)	591,373	(277)	515,949
Amounts reclassified to (from) AOCI	—	(36,035)	2,634	(33,401)
Deferred income tax benefit (expense)	—	12,374	(922)	11,452
Amounts reclassified to (from) AOCI, net of income tax	—	(23,661)	1,712	(21,949)
Balance, September 30, 2014	$131,936	$ 1,387,957	$(20,286)	$1,499,607

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

The following table presents the amounts of AOCI reclassifications for the three and nine months ended September 30, 2015 and 2014 (dollars in thousands):

	Amount Reclassified from AOCI				
	Three months ended September 30,		Nine months ended September 30,		
Details about AOCI Components	2015	2014	2015	2014	Affected Line Item in Statement of Income
Unrealized gains and losses on available-for-sale securities	$(31,506)	$2,218	$(26,598)	$30,549	Investment related gains (losses), net
	(112)	393	491	932	Investment income

Gains and losses on cash flow hedges					
Gains and losses on cash flow hedges	179	—	834	—	Investment related gains (losses), net
Deferred policy acquisition costs attributed to unrealized gains and losses(1)	(9,543)	(4,237)	(9,517)	4,554	
Total	(40,982)	(1,626)	(34,790)	36,035	
Provision for income taxes	13,948	588	13,410	(12,374)	
Net unrealized gains (losses), net of tax	$(27,034)	$(1,038)	$(21,380)	$23,661	
Amortization of unrealized pension and postretirement benefits:					
Prior service cost(2)	$(82)	$(214)	$(245)	$(432)	
Actuarial gains/(losses)(2)	(1,955)	(850)	(3,757)	(2,202)	
Total	(2,037)	(1,064)	(4,002)	(2,634)	
Provision for income taxes	713	372	1,401	922	
Amortization of unrealized pension and postretirement benefits, net of tax	$(1,324)	$(692)	$(2,601)	$(1,712)	
Total reclassifications, net of tax	$(28,358)	$(1,730)	$(23,981)	$21,949	

(1) This AOCI component is included in the computation of the deferred policy acquisition cost. See Note 8 – “Deferred Policy Acquisition Costs” of the 2014 Annual Report for additional details.

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

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities by sector as of September 30, 2015 and December 31, 2014 (dollars in thousands):

September 30, 2015:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total		Other-than-temporary impairments in AOCI	
Available-for-sale:								
Corporate securities	$15,801,362	$702,697	$330,612	$16,173,447	59.1	%	$—	
Canadian and Canadian provincial governments	2,520,495	1,023,160	929	3,542,726	12.9		—	
Residential mortgage-backed securities	1,234,158	55,711	6,409	1,283,460	4.7		(300	)
Asset-backed securities	1,055,760	16,971	11,359	1,061,372	3.9		354	
Commercial mortgage-backed securities	1,441,845	58,555	8,449	1,491,951	5.4		(1,609	)
U.S. government and agencies	1,337,493	20,688	40,963	1,317,218	4.8		—	
State and political subdivisions	466,685	42,564	7,746	501,503	1.8		—	
Other foreign government, supranational and foreign government-sponsored enterprises	1,986,997	89,648	36,534	2,040,111	7.4		—	
Total fixed maturity securities	$25,844,795	$2,009,994	$443,001	$27,411,788	100.0	%	$(1,555	)
Non-redeemable preferred stock	$89,726	$2,737	$7,754	$84,709	76.7	%		
Other equity securities	26,968	—	1,303	25,665	23.3			
Total equity securities	$116,694	$2,737	$9,057	$110,374	100.0	%		

December 31, 2014:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total		Other-than-temporary impairments in AOCI	
Available-for-sale:								
Corporate securities	$14,010,604	$965,523	$90,544	$14,885,583	58.4	%	$—	
Canadian and Canadian provincial governments	2,668,852	1,196,420	7	3,865,265	15.2		—	
Residential mortgage-backed securities	991,867	52,640	6,611	1,037,896	4.1		(300	)
Asset-backed securities	1,059,660	20,301	10,375	1,069,586	4.2		354	
Commercial mortgage-backed securities	1,453,657	87,593	8,659	1,532,591	6.0		(1,609	)
U.S. government and agencies	501,352	25,014	515	525,851	2.0		—	
State and political subdivisions	378,457	51,117	3,498	426,076	1.7		—	
Other foreign government, supranational and foreign government-sponsored enterprises	2,041,148	110,065	13,089	2,138,124	8.4		—	
Total fixed maturity securities	$23,105,597	$2,508,673	$133,298	$25,480,972	100.0	%	$(1,555	)
Non-redeemable preferred stock	$93,540	$7,350	$1,527	$99,363	78.3	%		

Other equity securities	26,994	597	94	27,497	21.7	
Total equity securities	$120,534	$7,947	$1,621	$126,860	100.0	%

The Company enters into various collateral arrangements that require both the pledging and acceptance of fixed maturity securities as collateral with derivative, repurchase agreement and reinsurance counterparties. Pledged fixed maturity securities are included in fixed maturity securities, available-for-sale in the condensed consolidated balance sheets. Fixed maturity securities received as collateral are held in separate custodial accounts and are not recorded on the Company's condensed consolidated balance sheets. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge collateral it receives; however, as of September 30, 2015 and December 31, 2014, none of the collateral received had been sold or re-pledged. The Company also holds securities in trust to satisfy collateral requirements under certain third-party reinsurance treaties. The following table includes fixed maturity securities pledged and received as collateral, and assets in trust held to satisfy collateral requirements under certain third-party reinsurance treaties as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities pledged as collateral	$181,380	$194,189	$127,229	$134,863
Fixed maturity securities received as collateral	n/a	243,212	n/a	117,227
Securities held in trust	10,106,789	10,619,581	10,197,489	10,922,947

The Company monitors its concentrations of financial instruments on an ongoing basis, and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer. The Company’s exposure to concentrations of credit risk of single issuers greater than 10% of the Company’s stockholders’ equity included securities of the U.S. government and its agencies as of September 30, 2015, as well as the securities disclosed below as of September 30, 2015 and December 31, 2014 (dollars in thousands).

	September 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities guaranteed or issued by:				
Canadian province of Ontario	$876,694	$1,209,125	$979,908	$1,359,339
Canadian province of Quebec	966,171	1,464,067	1,006,315	1,599,673

The amortized cost and estimated fair value of fixed maturity securities available-for-sale at September 30, 2015 are shown by contractual maturity in the table below (dollars in thousands). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date.

	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due in one year or less	$649,473	$657,750
Due after one year through five years	4,976,774	5,182,233
Due after five years through ten years	7,762,616	7,980,594
Due after ten years	8,724,169	9,754,428
Asset and mortgage-backed securities	3,731,763	3,836,783
Total	$25,844,795	$27,411,788

Corporate Fixed Maturity Securities

The tables below show the major industry types of the Company’s corporate fixed maturity holdings as of September 30, 2015 and December 31, 2014 (dollars in thousands):

September 30, 2015:	Amortized Cost	Estimated Fair Value	% of Total	
Finance	$ 5,092,474	$5,279,879	32.7	%
Industrial	9,004,544	9,099,228	56.2	
Utility	1,704,344	1,794,340	11.1	
Total	$ 15,801,362	$16,173,447	100.0	%

December 31, 2014:	Amortized Cost	Estimated Fair Value	% of Total	
Finance	$ 4,789,568	$5,066,408	34.0	%
Industrial	7,639,330	8,086,067	54.3	
Utility	1,581,706	1,733,108	11.7	
Total	$ 14,010,604	$14,885,583	100.0	%

Other-Than-Temporary Impairments - Fixed Maturity and Equity Securities

As discussed in Note 2 – “Summary of Significant Accounting Policies” of the 2014 Annual Report, a portion of certain other-than-temporary impairment (“OTTI”) losses on fixed maturity securities is recognized in AOCI. For these securities the net amount recognized in the condensed consolidated statements of income (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Balance, beginning of period	$7,284	$7,284	$7,284	$11,696
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	—	—	—	(4,412)
Balance, end of period	$7,284	$7,284	$7,284	$7,284

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

The following table presents the total gross unrealized losses for the 1,640 and 932 fixed maturity and equity securities as of September 30, 2015 and December 31, 2014, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	September 30, 2015		December 31, 2014	
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total
Less than 20%	$363,451	80.4 %	$111,965	83.0 %
20% or more for less than six months	72,884	16.1	13,698	10.1
20% or more for six months or greater	15,723	3.5	9,256	6.9
Total	$452,058	100.0 %	$134,919	100.0 %

The Company’s determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company’s credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. In the Company’s impairment review process, the duration and severity of an unrealized loss position for equity securities are given greater weight and consideration given the lack of contractual cash flows or deferability features.

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for 1,640 and 932 fixed maturity and equity securities that have estimated fair values below amortized cost as of September 30, 2015 and December 31, 2014, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related fair value has remained below amortized cost.

September 30, 2015:	Less than 12 months Estimated Fair Value	Gross Unrealized Losses	12 months or greater Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$4,647,733	$216,291	$302,808	$30,784	$4,950,541	$247,075
Canadian and Canadian provincial governments	81,615	929	—	—	81,615	929
Residential mortgage-backed securities	231,621	2,363	66,339	3,247	297,960	5,610
Asset-backed securities	289,210	3,234	182,478	6,193	471,688	9,427
Commercial mortgage-backed securities	222,799	3,499	24,236	1,122	247,035	4,621
U.S. government and agencies	909,226	40,963	—	—	909,226	40,963
State and political subdivisions	128,633	4,204	13,206	3,542	141,839	7,746
Other foreign government, supranational and foreign government-sponsored enterprises	293,121	9,368	37,900	3,353	331,021	12,721
Total investment grade securities	6,803,958	280,851	626,967	48,241	7,430,925	329,092
Below investment grade securities:						
Corporate securities	659,513	60,972	112,210	22,565	771,723	83,537
Residential mortgage-backed securities	42,309	445	8,797	354	51,106	799
Asset-backed securities	6,905	85	13,677	1,847	20,582	1,932
Commercial mortgage-backed securities	3,238	262	7,280	3,566	10,518	3,828
Other foreign government, supranational and foreign government-sponsored enterprises	87,340	16,297	20,541	7,516	107,881	23,813
Total below investment grade securities	799,305	78,061	162,505	35,848	961,810	113,909
Total fixed maturity securities	$7,603,263	$358,912	$789,472	$84,089	$8,392,735	$443,001
Non-redeemable preferred stock	$38,857	$5,481	$6,411	$2,273	$45,268	$7,754
Other equity securities	25,619	1,303	—	—	25,619	1,303
Total equity securities	$64,476	$6,784	$6,411	$2,273	$70,887	$9,057

December 31, 2014:	Less than 12 months Estimated Fair Value	Gross Unrealized Losses	12 months or greater Estimated Fair Value	Gross Unrealized Losses	Total Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$1,225,767	$27,784	$614,294	$30,040	$1,840,061	$57,824
Canadian and Canadian provincial governments	—	—	1,235	7	1,235	7
Residential mortgage-backed securities	78,864	846	135,414	5,247	214,278	6,093
Asset-backed securities	332,785	4,021	109,411	4,289	442,196	8,310
Commercial mortgage-backed securities	78,632	564	28,375	2,461	107,007	3,025
U.S. government and agencies	81,317	89	32,959	426	114,276	515
State and political subdivisions	13,780	17	18,998	3,438	32,778	3,455
Other foreign government, supranational and foreign government-sponsored enterprises	156,725	7,007	76,111	2,946	232,836	9,953
Total investment grade securities	1,967,870	40,328	1,016,797	48,854	2,984,667	89,182
Below investment grade securities:						

Corporate securities	415,886	29,316	32,567	3,404	448,453	32,720
Residential mortgage-backed securities	22,836	293	6,284	225	29,120	518
Asset-backed securities	12,448	274	7,108	1,791	19,556	2,065
Commercial mortgage-backed securities	3,288	249	5,580	5,385	8,868	5,634
State and political subdivisions	964	43	—	—	964	43
Other foreign government, supranational and foreign government-sponsored enterprises	13,986	3,136	—	—	13,986	3,136
Total below investment grade securities	469,408	33,311	51,539	10,805	520,947	44,116
Total fixed maturity securities	$2,437,278	$73,639	$1,068,336	$59,659	$3,505,614	$133,298
Non-redeemable preferred stock	$11,619	$235	$19,100	$1,292	$30,719	$1,527
Other equity securities	—	—	3,545	94	3,545	94
Total equity securities	$11,619	$235	$22,645	$1,386	$34,264	$1,621

The Company has no intention to sell nor does it expect to be required to sell the securities outlined in the table above, as of the dates indicated. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.
Unrealized losses on below investment grade securities as of September 30, 2015 are primarily related to high-yield corporate and other foreign government, supranational and foreign government-sponsored enterprise securities. Unrealized losses increased across most security types as spreads widened during the first nine months of 2015.

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,	
	2015	2014	2015	2014
Fixed maturity securities available-for-sale	$298,376	$269,346	$871,936	$766,764
Mortgage loans on real estate	36,547	39,070	108,440	102,535
Policy loans	16,475	13,825	46,763	41,014
Funds withheld at interest	40,382	124,685	239,967	345,484
Short-term investments	576	462	2,085	1,507
Other invested assets	13,696	15,416	48,141	48,937
Investment income	406,052	462,804	1,317,332	1,306,241
Investment expense	(16,455)	(15,698)	(50,305)	(44,153)
Investment income, net of related expenses	$389,597	$447,106	$1,267,027	$1,262,088

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Fixed maturity and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturity securities recognized in earnings	$(23,111)	$(246)	$(29,775)	$(1,419)
Gain on investment activity	13,792	8,819	53,002	51,773
Loss on investment activity	(22,186)	(6,355)	(50,257)	(19,815)
Other impairment losses and change in mortgage loan provision	(636)	(2,041)	(4,661)	(5,686)
Derivatives and other, net	(79,205)	22,141	(88,250)	200,563
Total investment related gains (losses), net	$(111,346)	$22,318	$(119,941)	$225,416

The other-than-temporary impairment losses on fixed maturity securities for the three and nine months ended September 30, 2015 are primarily due to emerging market and high-yield debt exposures. The fluctuations in investment related gains (losses) for derivatives and other for the three and nine months ended September 30, 2015, compared to the same periods in 2014, are primarily due to changes in the fair value of embedded derivatives related to modified coinsurance and funds withheld treaties, as a result of changes in interest rates, driven primarily by credit spreads.
During the three months ended September 30, 2015 and 2014, the Company sold fixed maturity and equity securities with fair values of $404.1 million and $225.6 million at losses of $22.2 million and $6.4 million, respectively. During the nine months ended September 30, 2015 and 2014, the Company sold fixed maturity and equity securities with fair values of $1,255.0 million and $683.5 million at losses of $50.3 million and $19.8 million, respectively. The Company generally does not engage in short-term buying and selling of securities.
Securities Borrowing and Other

The Company participates in securities borrowing programs whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from third parties. The borrowed securities are used to provide collateral under affiliated reinsurance transactions. The Company is required to maintain a minimum of 100% of the fair value, or par value under certain programs, of the borrowed securities as collateral. The collateral consists of rights to reinsurance treaty cash flows. If cash flows from the reinsurance treaties are insufficient to maintain the minimum collateral requirement, the Company may substitute cash or securities to meet the requirement. No cash or securities have been pledged by the Company for this purpose.

During the year, the Company participated in a repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, were pledged to a third party. In return, the Company received cash from the third party, reflected as a payable to the third party, included in other liabilities on the condensed consolidated balance sheets. The Company was required to maintain a minimum collateral balance with a fair value of 105% of the cash received. The Company terminated the program and all cash was returned prior to September 30, 2015. The gross balance of the repurchase agreement payable was $101.4 million as of December 31, 2014. This was fully collateralized by securities with a fair value of $107.2 million as of December 31, 2014.
Additionally, the Company participates in a repurchase/reverse repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives securities from the third party with an estimated fair value equal to a minimum of 100% of the securities pledged. The securities received are not reflected on the Company's condensed consolidated balance sheets.
The following table includes the amount of borrowed securities, repurchased securities pledged and repurchased/reverse repurchased securities pledged and received as of September 30, 2015 and December 31, 2014 (dollars in thousands).

	September 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Borrowed securities	$265,240	$281,225	$201,050	$212,946
Repurchase program securities pledged	—	—	92,446	107,158
Repurchase program/reverse repurchase program:				
Securities pledged	442,679	468,008	298,466	314,160
Securities received	n/a	484,751	n/a	338,929

The following table presents information on the securities pledged as collateral by the Company related to its repurchase/reverse repurchase program as of September 30, 2015 (dollars in thousands). Collateral associated with certain borrowed securities is not included within the table as the collateral pledged to each counterparty is the right to reinsurance treaty cash flows.

	September 30, 2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Collateral on repurchase program					
U.S. government and agencies	$—	$—	$—	$201,681	$201,681
Residential mortgage-backed securities	—	—	—	101,888	101,888
Corporate securities	—	—	3,042	145,434	148,476
Foreign government	—	—	—	3,484	3,484
Other	12,479	—	—	—	12,479
Total borrowings	$12,479	$—	$3,042	$452,487	$468,008

Gross amount of recognized liabilities for repurchase agreement in preceding table	$484,751
Amounts related to agreements not included in offsetting disclosure	$16,743

Mortgage Loans on Real Estate
Mortgage loans represented approximately 8.1% and 7.4% of the Company’s total investments as of September 30, 2015 and December 31, 2014. The Company makes mortgage loans on income producing properties that are geographically diversified throughout the U.S., with the largest concentration being in California, which represented 21.5% and 18.7% of mortgage loans on real estate as of September 30, 2015 and December 31, 2014, respectively. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans, gross of valuation allowances, by property type is as follows as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			December 31, 2014		
Property type:	Recorded Investment	% of Total		Recorded Investment	% of Total	
Office building	$959,181	30.2	%	$851,749	31.3	%
Retail	1,007,083	31.7		802,466	29.6	
Industrial	571,346	18.0		466,583	17.2	
Apartment	423,509	13.3		376,430	13.8	
Other commercial	214,535	6.8		221,481	8.1	
Total	$3,175,654	100.0	%	$2,718,709	100.0	%

The maturities of the mortgage loans, gross of valuation allowances, as of September 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

	September 30, 2015			December 31, 2014		
	Recorded Investment	% of Total		Recorded Investment	% of Total	
Due within five years	$932,955	29.4	%	$860,362	31.6	%
Due after five years through ten years	1,511,275	47.6		1,165,530	42.9	
Due after ten years	731,424	23.0		692,817	25.5	
Total	$3,175,654	100.0	%	$2,718,709	100.0	%

Information regarding the Company’s credit quality indicators, as determined by the Company's internal evaluation methodology for its recorded investment in mortgage loans, gross of valuation allowances, as of September 30, 2015 and December 31, 2014 is as follows (dollars in thousands):

	September 30, 2015			December 31, 2014		
Internal credit quality grade:	Recorded Investment	% of Total		Recorded Investment	% of Total	
High investment grade	$1,681,552	52.9	%	$1,326,199	48.8	%
Investment grade	1,378,194	43.4		1,235,046	45.4	
Average	77,217	2.4		118,152	4.4	
Watch list	17,857	0.6		22,285	0.8	
In or near default	20,834	0.7		17,027	0.6	
Total	$3,175,654	100.0	%	$2,718,709	100.0	%

None of the payments due to the Company on its recorded investment in mortgage loans were delinquent as of September 30, 2015 and December 31, 2014.

The following table presents the recorded investment in mortgage loans, by method of measuring impairment, and the related valuation allowances as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015	December 31, 2014
Mortgage loans:		
Individually measured for impairment	$20,834	$17,027
Collectively measured for impairment	3,154,820	2,701,682
Mortgage loans, gross of valuation allowances	3,175,654	2,718,709
Valuation allowances:		
Individually measured for impairment	710	816
Collectively measured for impairment	4,942	5,655
Total valuation allowances	5,652	6,471
Mortgage loans, net of valuation allowances	$3,170,002	$2,712,238

Information regarding the Company's loan valuation allowances for mortgage loans for the three and nine months ended September 30, 2015 and 2014 is as follows (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Balance, beginning of period	$5,942	$9,692	$6,471	$10,106
Charge-offs, net of recoveries	—	(2,757)	—	(2,733)
Provision (release)	(290)	(93)	(819)	(531)
Balance, end of period	$5,652	$6,842	$5,652	$6,842

Information regarding the portion of the Company's mortgage loans that were impaired as of September 30, 2015 and December 31, 2014 is as follows (dollars in thousands):

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Carrying Value
September 30, 2015:				
Impaired mortgage loans with no valuation allowance recorded	$8,434	$8,374	$—	$8,374
Impaired mortgage loans with valuation allowance recorded	12,969	12,460	710	11,750
Total impaired mortgage loans	$21,403	$20,834	$710	$20,124
December 31, 2014:				
Impaired mortgage loans with no valuation allowance recorded	$7,314	$6,711	$—	$6,711
Impaired mortgage loans with valuation allowance recorded	10,279	10,316	816	9,500
Total impaired mortgage loans	$17,593	$17,027	$816	$16,211

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,			
	2015		2014	
	Average Recorded Investment(1)	Interest Income	Average Recorded Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$6,364	$71	$9,159	$225

Impaired mortgage loans with valuation allowance recorded	12,495	194	14,870	26
Total impaired mortgage loans	$18,859	$265	$24,029	$251

	Nine months ended September 30,			
	2015		2014	
	Average Recorded Investment(1)	Interest Income	Average Recorded Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$6,533	$212	$14,856	$614
Impaired mortgage loans with valuation allowance recorded	11,392	578	14,705	478
Total impaired mortgage loans	$17,925	$790	$29,561	$1,092

(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, 2015 and 2014. The Company had no mortgage loans that were on a nonaccrual status at September 30, 2015 and December 31, 2014.

Policy Loans

Policy loans comprised approximately 3.7% and 3.5% of the Company’s total investments as of September 30, 2015 and December 31, 2014, respectively, the majority of which are associated with one client. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due to the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. As policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

Funds Withheld at Interest

Funds withheld at interest comprised approximately 14.6% and 16.1% of the Company’s total investments as of September 30, 2015 and December 31, 2014, respectively. Of the $5.7 billion funds withheld at interest balance, net of embedded derivatives, as of September 30, 2015, $4.1 billion of the balance is associated with one client. For reinsurance agreements written on a modified coinsurance basis and certain agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned and managed by the ceding company and are reflected as funds withheld at interest on the Company’s condensed consolidated balance sheets. In the event of a ceding company’s insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances against amounts owed to the Company from the ceding company.

Other Invested Assets

Other invested assets include equity securities, limited partnership interests, joint ventures (other than operating joint ventures), structured loans, derivative contracts, fair value option ("FVO") contractholder-directed unit-linked investments, Federal Home Loan Bank of Des Moines ("FHLB") common stock (included in other in the table below), real estate held-for-investment (included in other in the table below), and equity release mortgages (included in other in the table below). The fair value option was elected for contractholder-directed investments supporting unit-linked variable annuity type liabilities which do not qualify for presentation and reporting as separate accounts. Other invested assets represented approximately 3.0% and 3.3% of the Company’s total investments as of September 30, 2015 and December 31, 2014, respectively. Carrying values of these assets as of September 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

	September 30, 2015	December 31, 2014
Equity securities	$110,374	$126,860
Limited partnerships and real estate joint ventures	507,628	446,604
Structured loans	53,030	164,309
Derivatives	275,518	216,966
FVO contractholder-directed unit-linked investments	129,511	140,344
Other	111,443	103,236
Total other invested assets	$1,187,504	$1,198,319

5. Derivative Instruments

Derivatives, except for embedded derivatives and longevity and mortality swaps, are carried on the Company's condensed consolidated balance sheets in other invested assets or other liabilities, at fair value. Longevity and mortality swaps are included on the condensed consolidated balance sheets in other assets or other liabilities, at fair value. Embedded derivative assets and liabilities on modified coinsurance or funds withheld arrangements are included on the condensed consolidated balance sheets with the host contract in funds withheld at interest, at fair value. Embedded derivative liabilities on indexed annuity and variable annuity products are included on the condensed consolidated balance sheets with the host contract in interest-sensitive contract liabilities, at fair value. The following table presents the notional amounts and gross fair value of derivative instruments prior to taking into account the netting effects of master netting agreements as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			December 31, 2014		
	Notional	Carrying Value/Fair Value		Notional	Carrying Value/Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives not designated as hedging instruments:						
Interest rate swaps	$1,130,627	$101,194	$3,130	$1,144,661	$93,783	$3,934
Interest rate options	—	—	—	240,000	18,195	—
Financial futures	354,914	—	—	275,983	—	—
Foreign currency forwards	40,000	343	6,675	67,967	87	15,098
Consumer price index swaps	36,002	14	282	41,938	—	561
Credit default swaps	902,000	7,015	9,007	805,700	11,689	3,502
Equity options	483,830	60,032	—	555,361	35,242	—
Longevity swaps	894,160	13,321	23	450,000	7,727	—
Mortality swaps	50,000	—	2,196	50,000	—	797
Synthetic guaranteed investment contracts	6,969,973	—	—	6,500,942	—	—
Embedded derivatives in:						
Modified coinsurance or funds withheld arrangements	—	—	49,498	—	22,094	—
Indexed annuity products	—	—	877,503	—	—	925,887
Variable annuity products	—	—	228,907	—	—	159,279
Total non-hedging derivatives	10,861,506	181,919	1,177,221	10,132,552	188,817	1,109,058
Derivatives designated as hedging instruments:						
Interest rate swaps	120,000	—	36,801	120,000	—	18,228
Foreign currency swaps	826,891	128,486	2,428	676,972	70,906	—
Forward bond purchase commitments	—	—	—	196,452	1,175	14,545
Total hedging derivatives	946,891	128,486	39,229	993,424	72,081	32,773
Total derivatives	$11,808,397	$310,405	$1,216,450	$11,125,976	$260,898	$1,141,831

Netting Arrangements

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

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

The following table provides information relating to the Company's derivative instruments as of September 30, 2015 and December 31, 2014 (dollars in thousands):

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged/ Received	Net Amount
September 30, 2015:						
Derivative assets	$ 310,405	$ (21,589)	$ 288,816	$(19,127)	$ (260,135)	$9,554
Derivative liabilities	60,542	(21,589)	38,953	(60,120)	(15,916)	(37,083)
December 31, 2014:						
Derivative assets	$ 238,804	$ (14,111)	$ 224,693	$(20,260)	$ (178,141)	$26,292
Derivative liabilities	56,665	(14,111)	42,554	(47,222)	—	(4,668)

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, 2015 and December 31, 2014, the Company held interest rate swaps that were designated and qualified as cash flow hedges of interest rate risk, held foreign currency swaps that were designated and qualified as hedges of a portion of its net investment in its foreign operations and had derivative instruments that were not designated as hedging instruments. In addition, as of September 30, 2015, the Company held foreign currency swaps that were designated and qualified as fair value hedges of foreign currency risk and, as of December 31, 2014, the Company had forward bond purchase commitments that qualified as cash flow hedges. See Note 2 – "Summary of Significant Accounting Policies" of the Company's 2014 Annual Report for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. Derivative instruments are carried at fair value and generally require an insignificant amount of cash at inception of the contracts.

Fair Value Hedges

The Company designates and reports certain foreign currency swaps to hedge the foreign currency fair value exposure of foreign currency denominated assets 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 a change in foreign currency and the offsetting gain or loss on the related foreign currency swaps as of September 30, 2015, 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 and nine months ended September 30, 2015:				
Foreign currency swaps	Foreign-denominated fixed maturity securities	$(293)	$293	$—

A regression analysis was used, both at inception of the hedge and on an ongoing basis, to determine whether each derivative used in a hedged transaction is highly effective in offsetting changes in the hedged item. For the foreign currency swaps, the change in fair value related to changes in the benchmark interest rate and credit spreads are excluded from the hedge effectiveness. For the three and nine months ended September 30, 2015, $2.1 million of the change in the estimated fair value of derivatives, was excluded from hedge effectiveness.

Cash Flow Hedges

Certain derivative instruments are designated as cash flow hedges when they meet the requirements of the general accounting principles for Derivatives and Hedging. 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. In addition, the Company designates and accounts for its forward bond purchase commitments as cash flow hedges.

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, 2015 and 2014 (dollars in thousands):

	Three months ended September 30,	
	2015	2014
Accumulated other comprehensive income (loss), balance beginning of period	$(23,901)	$457
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(13,199)	(10,679)
Amounts reclassified to investment related gains (losses), net	(179)	—
Amounts reclassified to investment income	112	(393)
Accumulated other comprehensive income (loss), balance end of period	$(37,167)	$(10,615)

	Nine months ended September 30,	
	2015	2014
Accumulated other comprehensive income (loss), balance beginning of period	$(31,591)	$(4,578)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	(4,251)	(5,105)
Amounts reclassified to investment related gains (losses), net	(834)	—
Amounts reclassified to investment income	(491)	(932)
Accumulated other comprehensive income (loss), balance end of period	$(37,167)	$(10,615)

As of September 30, 2015, the before-tax deferred net losses on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are approximately $0.2 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.

The following table presents the effective portion 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, 2015 and 2014 (dollars in thousands):

Derivative Type	Effective Portion Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified into Income from OCI	
		Investment Related Gains (Losses)	Investment Income
For the three months ended September 30, 2015:			
Interest rate swaps	$(13,199)	$—	$(60)
Forward bond purchase commitments	—	179	(52)
Total	$(13,199)	$179	$(112)
For the three months ended September 30, 2014:			
Interest rate swaps	$(10,679)	$—	$393
For the nine months ended September 30, 2015:			
Interest rate swaps	$(18,349)	$—	$231
Forward bond purchase commitments	14,098	834	260
Total	$(4,251)	$834	$491
For the nine months ended September 30, 2014:			
Interest rate swaps	$(5,105)	$—	$932

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. For the three and nine months ended September 30, 2015 and 2014, the ineffective portion of derivatives reported as cash flow hedges was not material to the Company's results of operations. Also, there were no material amounts reclassified into earnings relating to instances in which the Company discontinued cash flow hedge accounting because the forecasted transaction did not occur by the anticipated date or within the additional time period permitted by the authoritative guidance for the accounting for derivatives and hedging.

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, 2015 and 2014 (dollars in thousands):

	Derivative Gains (Losses) Deferred in AOCI			
	For the three months ended September 30,		For the nine months ended September 30,	
Type of NIFO Hedge (1) (2)	2015	2014	2015	2014
Foreign currency swaps	$42,702	$27,931	$79,723	$28,675

(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 recorded in AOCI related to these hedges was $155.6 million and $75.8 million at September 30, 2015 and December 31, 2014, respectively. If a foreign operation was sold or substantially liquidated, the amounts in AOCI would be reclassified to the condensed consolidated statements of income. A pro rata portion would be reclassified upon partial sale of a foreign operation.

Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging

The Company uses various other derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. The gain or loss related to the change in fair value for these derivative instruments is recognized in investment related gains (losses), in the condensed consolidated statements of income, except where otherwise noted.

A summary of the effect of non-hedging derivatives, including embedded derivatives, on the Company's income statement for the three and nine months ended September 30, 2015 and 2014 is as follows (dollars in thousands):

Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the three months ended September 30, 2015	2014
Interest rate swaps	Investment related gains (losses), net	$ 42,014	$ 9,121
Interest rate options	Investment related gains (losses), net	—	865
Financial futures	Investment related gains (losses), net	16,654	6,446
Foreign currency forwards	Investment related gains (losses), net	708	(5,277)
CPI swaps	Investment related gains (losses), net	(250)	(274)
Credit default swaps	Investment related gains (losses), net	(8,407)	(1,389)
Equity options	Investment related gains (losses), net	15,150	1,018
Longevity swaps	Other revenues	2,404	4,499
Mortality swaps	Other revenues	(442)	(320)
Subtotal		67,831	14,689
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	(46,169)	56,811
Indexed annuity products	Interest credited	50,246	(35,650)
Variable annuity products	Investment related gains (losses), net	(95,372)	(47,479)
Total non-hedging derivatives		$ (23,464)	$ (11,629)

Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	Gain (Loss) for the nine months ended September 30, 2015	2014
Interest rate swaps	Investment related gains (losses), net	$ 29,629	$ 61,025
Interest rate options	Investment related gains (losses), net	3,275	4,151
Financial futures	Investment related gains (losses), net	7,141	(2,822)
Foreign currency forwards	Investment related gains (losses), net	(946)	(2,945)
CPI swaps	Investment related gains (losses), net	(153)	193
Credit default swaps	Investment related gains (losses), net	(5,936)	1,280
Equity options	Investment related gains (losses), net	4,477	(16,748)
Longevity swaps	Other revenues	6,136	4,499
Mortality swaps	Other revenues	(1,399)	(320)
Subtotal		42,224	48,313
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	(71,592)	212,887
Indexed annuity products	Interest credited	28,999	(86,775)
Variable annuity products	Investment related gains (losses), net	(69,628)	(76,323)
Total non-hedging derivatives		$ (69,997)	$ 98,102

Types of Derivatives Used by the Company

Interest Rate Swaps

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

Interest Rate Options

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

Financial Futures

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

Equity Options

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

Consumer Price Index Swaps

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

Foreign Currency Swaps

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

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.

Forward Bond Purchase Commitments

Forward bond purchase commitments are used by the Company to hedge against the variability in the anticipated cash flows required to purchase securities. With forward bond purchase commitments, the forward price is agreed upon at the time of the contract and payment for such contract is made at the future specified settlement date of the securities.

Credit Default Swaps

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

The following table presents the estimated fair value, maximum amount of future payments and weighted average years to maturity of credit default swaps sold by the Company at September 30, 2015 and December 31, 2014 (dollars in thousands):

	September 30, 2015			December 31, 2014		
Rating Agency Designation of Referenced Credit Obligations(1)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps(2)	Weighted Average Years to Maturity(3)	Estimated Fair Value of Credit Default Swaps	Maximum Amount of Future Payments under Credit Default Swaps(2)	Weighted Average Years to Maturity(3)
AAA/AA-/A+/A/A-						
Single name credit default swaps	$1,827	$ 180,000	4.8	$1,498	$ 167,500	4.6
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	1,827	180,000	4.8	1,498	167,500	4.6
BBB+/BBB/BBB-						
Single name credit default swaps	(3,063)	296,000	5.3	168	217,200	4.9
Credit default swaps referencing indices	1,373	416,000	5.2	6,651	416,000	5.0
Subtotal	(1,690)	712,000	5.3	6,819	633,200	4.9
BB+						
Single name credit default swaps	(2,129)	10,000	4.4	(130)	5,000	4.5
Credit default swaps referencing indices	—	—	—	—	—	—
Subtotal	(2,129)	10,000	4.4	(130)	5,000	4.5
Total	$(1,992)	$ 902,000	5.2	$8,187	$ 805,700	4.9

(1) The rating agency designations are based on ratings from Standard and Poor's ("S&P").
(2) Assumes the value of the referenced credit obligations is zero.
(3) The weighted average years to maturity of the credit default swaps is calculated based on weighted average notional amounts.

Longevity Swaps

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

Mortality Swaps

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

Synthetic Guaranteed Investment Contracts

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

Embedded Derivatives

The Company has certain embedded derivatives which are required to be valued separately from their host contracts and reported as derivatives. Host contracts include reinsurance treaties structured on a modified coinsurance (“modco”) or funds withheld basis. The valuation of embedded derivatives is sensitive to the investment credit spread environment. Changes in investment credit spreads are also affected by the application of a credit valuation adjustment (“CVA”). The fair value calculation of an embedded derivative in an asset position utilizes a CVA based on the ceding company’s credit risk. Conversely, the fair value calculation of an embedded derivative in a liability position utilizes a CVA based on the Company’s credit risk. Generally, an increase in investment credit spreads, ignoring changes in the CVA, will have a negative impact on the fair value of the embedded derivative (decrease in income).

Changes in fair values of embedded derivatives on modco or funds withheld treaties are net of an increase (decrease) in investment related gains (losses) of $0.4 million and $(0.5) million for the three months and $0.6 million and $(1.8) million for the nine months ended September 30, 2015 and 2014, respectively, associated with a CVA. The Company also 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. Changes in fair values of embedded derivatives on variable annuity contracts are net of an increase in investment related gains (losses) of $2.1 million and $1.0 million for the three months, and $1.3 million and $1.6 million for the nine month periods ended September 30, 2015 and 2014, associated with a CVA. The related gains (losses) and the effect on net income after amortization of deferred acquisition costs ("DAC") and income taxes for the three and nine months ended September 30, 2015 and 2014 are reflected in the following table (dollars in thousands):

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Embedded derivatives in modco or funds withheld arrangements included in investment related gains	$(46,169)	$56,812	$(71,592)	$212,888
After the associated amortization of DAC and taxes, the related amounts included in net income	(11,783)	13,353	(18,287)	49,394
Embedded derivatives in variable annuity contracts included in investment related gains	(95,372)	(47,479)	(69,628)	(76,323)
After the associated amortization of DAC and taxes, the related amounts included in net income	(116,994)	26,542	(106,796)	6,388
Amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses	50,246	(35,650)	28,999	(86,775)
After the associated amortization of DAC and taxes, the related amounts included in net income	27,861	(23,920)	13,095	(57,896)

Credit Risk

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

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

The Company enters into various collateral arrangements, which require both the posting and accepting of collateral in connection with its derivative instruments. Collateral agreements contain attachment thresholds that may vary depending on the posting party's ratings. Additionally, a decline in the Company's or the counterparty's credit ratings to specified levels could result in potential settlement of the derivative positions under the Company's agreements with its counterparties. The Company also has exchange-traded futures, which require the maintenance of a margin account.

As exchange-traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties.

The Company’s credit exposure related to derivative contracts is generally limited to the fair value at the reporting date plus or minus any collateral posted or held by the Company. The Company’s credit exposure to mortality swaps is minimal, as they are fully collateralized by a counterparty. Information regarding the Company’s credit exposure related to its over-the-counter derivative contracts, centrally cleared derivative contracts and margin account for exchange-traded futures, excluding mortality swaps, at September 30, 2015 and December 31, 2014 are reflected in the following table (dollars in thousands):

	September 30, 2015	December 31, 2014
Estimated fair value of derivatives in net asset position	$252,059	$175,209
Cash provided as collateral[1]	15,916	—
Securities pledged to counterparties as collateral[2]	60,120	47,222
Cash pledged from counterparties as collateral[3]	(260,135)	(178,141)
Securities pledged from counterparties as collateral[4]	(19,127)	(20,260)
Initial margin for cleared derivatives[2]	(33,380)	(16,333)
Net credit exposure	$15,453	$7,697
Margin account related to exchange-traded futures[5]	$9,761	$7,976

(1) Consists of receivable from counterparty, included in other assets.
(2) Included in available-for-sale securities, primarily consists of U.S. Treasury securities.
(3) Included in cash and cash equivalents, with obligation to return cash collateral recorded in other liabilities.
(4) Consists of U.S. Treasury securities.
(5) Included in cash and cash equivalents.

6. Fair Value of Assets and Liabilities

Fair Value Measurement

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

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

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

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include those whose value is determined using market standard valuation techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company’s invested assets, this category generally includes corporate securities (primarily private placements and bank loans), asset-backed securities (including collateralized debt obligations and those with exposure to subprime mortgages), and to a lesser extent, certain residential and commercial mortgage-backed securities, and state and political subdivisions 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 and longevity and mortality swaps, are classified in Level 3 since their values include significant unobservable inputs.
When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such assets and liabilities categorized within Level 3 may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3).

Assets and Liabilities by Hierarchy Level

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 and December 31, 2014 are summarized below (dollars in thousands):

September 30, 2015:		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities – available-for-sale:				
Corporate securities	$16,173,447	$214,549	$14,711,208	$1,247,690
Canadian and Canadian provincial governments	3,542,726	—	3,542,726	—
Residential mortgage-backed securities	1,283,460	—	913,793	369,667
Asset-backed securities	1,061,372	—	457,169	604,203
Commercial mortgage-backed securities	1,491,951	—	1,419,308	72,643
U.S. government and agencies	1,317,218	1,162,453	127,445	27,320
State and political subdivisions	501,503	—	462,509	38,994
Other foreign government supranational and foreign government-sponsored enterprises	2,040,111	261,105	1,764,392	14,614
Total fixed maturity securities – available-for-sale	27,411,788	1,638,107	23,398,550	2,375,131
Funds withheld at interest – embedded derivatives	(49,498)	—	—	(49,498)
Cash equivalents	822,184	822,184	—	—
Short-term investments	11,829	4,422	7,407	—
Other invested assets:				
Non-redeemable preferred stock	84,709	72,717	—	11,992
Other equity securities	25,665	25,665	—	—
Derivatives:				
Interest rate swaps	86,504	—	86,504	—
Foreign currency forwards	343	—	343	—
CPI swaps	(268)	—	(268)	—
Credit default swaps	1,088	—	1,088	—
Equity options	60,032	—	60,032	—
Foreign currency swaps	127,819	—	127,819	—
FVO contractholder-directed unit-linked investments	129,511	125,609	3,902	—
Other	8,289	8,289	—	—
Total other invested assets	523,692	232,280	279,420	11,992
Other assets – longevity swaps	13,298	—	—	13,298
Total	$28,733,293	$2,696,993	$23,685,377	$2,350,923
Liabilities:				
Interest sensitive contract liabilities – embedded derivatives	$1,106,410	$—	$—	$1,106,410
Other liabilities:				
Derivatives:				
Interest rate swaps	25,241	—	25,241	—
Foreign currency forwards	6,675	—	6,675	—
Credit default swaps	3,080	—	3,080	—
Foreign currency swaps	1,761	—	1,761	—
Mortality swaps	2,196	—	—	2,196

Total	$1,145,363	$—	$36,757	$1,108,606

December 31, 2014:		Fair Value Measurements Using:		
	Total	Level 1	Level 2	Level 3
Assets:				
Fixed maturity securities – available-for-sale:				
Corporate securities	$14,885,583	$115,822	$13,459,334	$1,310,427
Canadian and Canadian provincial governments	3,865,265	—	3,865,265	—
Residential mortgage-backed securities	1,037,896	—	849,802	188,094
Asset-backed securities	1,069,586	—	496,626	572,960
Commercial mortgage-backed securities	1,532,591	—	1,445,845	86,746
U.S. government and agencies	525,851	437,129	60,193	28,529
State and political subdivisions	426,076	—	383,365	42,711
Other foreign government, supranational and foreign government-sponsored enterprises	2,138,124	285,995	1,832,466	19,663
Total fixed maturity securities – available-for-sale	25,480,972	838,946	22,392,896	2,249,130
Funds withheld at interest – embedded derivatives	22,094	—	—	22,094
Cash equivalents	899,846	899,846	—	—
Short-term investments	45,190	21,536	23,654	—
Other invested assets:				
Non-redeemable preferred stock	99,363	91,450	9	7,904
Other equity securities	27,497	27,497	—	—
Derivatives:				
Interest rate swaps	84,578	—	84,578	—
Interest rate options	18,195	—	18,195	—
CPI swaps	(561)	—	(561)	—
Credit default swaps	8,606	—	8,606	—
Equity options	35,242	—	35,242	—
Foreign currency swaps	70,906	—	70,906	—
FVO contractholder-directed unit-linked investments	140,344	134,749	5,595	—
Other	6,420	6,420	—	—
Total other invested assets	490,590	260,116	222,570	7,904
Other assets - longevity swaps	7,727	—	—	7,727
Total	$26,946,419	$2,020,444	$22,639,120	$2,286,855
Liabilities:				
Interest sensitive contract liabilities – embedded derivatives	$1,085,166	$—	$—	$1,085,166
Other liabilities:				
Derivatives:				
Interest rate swaps	12,957	—	12,957	—
Foreign currency forwards	15,011	—	15,011	—
Credit default swaps	419	—	419	—
Forward purchase commitments	13,370	—	13,370	—
Mortality swaps	797	—	—	797
Total	$1,127,720	$—	$41,757	$1,085,963

The Company may utilize information from third parties, such as pricing services and brokers, to assist in determining the fair value for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company’s condensed consolidated financial statements. This includes responsibility for monitoring the fair value process, ensuring objective and reliable valuation practices and pricing of assets and liabilities, and approving changes to valuation methodologies and pricing sources. The selection of the valuation technique(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required.

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

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

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

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

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

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

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

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

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

Embedded Derivatives – For embedded derivative liabilities associated with the underlying products in reinsurance treaties, primarily equity-indexed and variable annuity treaties, the Company utilizes a discounted cash flow model, which includes an estimate of future equity option purchases and an adjustment for a CVA. 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 a CVA. 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.

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

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

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

reflected as Level 3 in the fair value hierarchy.
FVO Contractholder-Directed Unit-Linked Investments - FVO contractholder-directed investments supporting unit-linked variable annuity type liabilities primarily consist of exchange-traded funds and, to a lesser extent, fixed maturity securities and cash and cash equivalents. The fair values of the exchange-traded securities are primarily based on quoted market prices in active markets and are classified within Level 1 of the hierarchy. The fair value of the fixed maturity contractholder-directed securities is determined on a basis consistent with the methodologies described above for fixed maturity securities and are classified within Level 2 of the hierarchy.

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

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

Level 3 Measurements and Transfers

As of September 30, 2015 and December 31, 2014, the Company classified approximately 8.7% and 8.8%, respectively, of its fixed maturity securities in the Level 3 category. These securities primarily consist of private placement corporate securities and bank loans with inactive trading markets. Additionally, the Company has included asset-backed securities with subprime exposure and mortgage-backed securities with below investment grade ratings in the Level 3 category due to market uncertainty associated with these securities and the Company’s utilization of unobservable information from third parties for the valuation of these securities.

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

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

The actuarial assumptions used in the fair value of embedded derivatives which include assumptions related to lapses, withdrawals, and mortality, are based on experience studies performed by the Company in combination with available industry information and are reviewed on a periodic basis, at least annually. The significant unobservable inputs used in the fair value measurement of embedded derivatives are assumptions associated with policyholder experience and selected capital market assumptions for equity-indexed and variable annuities. The selected capital market assumptions, which include long-term implied volatilities, are projections based on short-term historical information. Changes in interest rates, equity indices, equity volatility, CVA, 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 CVA 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 CVA assumption tend to decrease (increase) the magnitude of the fair value of embedded derivatives.

The actuarial assumptions used in the fair value of longevity and mortality swaps include assumptions related to the level and volatility of mortality. The assumptions are based on studies performed by the Company in combination with available industry information and are reviewed on a periodic basis, at least annually.
The following table presents quantitative information about significant unobservable inputs used in Level 3 fair value measurements that are developed by the Company, which does not include unobservable Level 3 asset and liability measurements provided by third parties, as of September 30, 2015 and December 31, 2014 (dollars in thousands):

September 30, 2015:	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
State and political subdivision securities	$4,898	Market comparable securities	Liquidity premium	1 %
Corporate securities	186,499	Market comparable securities	Liquidity premium	0-2% (1%)
U.S. government and agencies securities	27,320	Market comparable securities	Liquidity premium	0-1% (1%)
Funds withheld at interest-embedded derivatives	(49,498)	Total return swap	Mortality	0-100% (2%)
			Lapse	0-35% (6%)
			Withdrawal	0-5% (3%)
			CVA	0-5% (1%)
			Crediting rate	2-4% (3%)
Longevity swaps	13,298	Discounted cash flow	Mortality	0-100% (2%)
			Mortality improvement	(10%)-10% (3%)
Liabilities:				
Interest sensitive contract liabilities-embedded derivatives- indexed annuities	877,503	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-35% (6%)
			Withdrawal	0-5% (3%)
			Option budget projection	2-4% (3%)
Interest sensitive contract liabilities-embedded derivatives- variable annuities	228,907	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-25% (8%)
			Withdrawal	0-7% (3%)
			CVA	0-5% (1%)
			Long-term volatility	0-27% (14%)
Mortality swaps	2,196	Discounted cash flow	Mortality	0-100% (1%)

December 31, 2014:	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average)
Assets:				
State and political subdivision securities	$4,994	Market comparable securities	Liquidity premium	1 %
Corporate securities	205,392	Market comparable securities	Liquidity premium	0-2% (1%)
U.S. government and agencies securities	28,530	Market comparable securities	Liquidity premium	0-1% (1%)
Funds withheld at interest- embedded derivatives	22,094	Total return swap	Mortality	0-100% (2%)
			Lapse	0-35% (7%)
			Withdrawal	0-5% (3%)
			CVA	0-5% (1%)
			Crediting rate	2-4% (3%)
Longevity swaps	7,727	Discounted cash flow	Mortality	0-100% (2%)
			Mortality improvement	(10%)-10% (3%)
Liabilities:				
Interest sensitive contract liabilities- embedded derivatives- indexed annuities	925,887	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-35% (7%)
			Withdrawal	0-5% (3%)
			Option budget projection	2-4% (3%)
Interest sensitive contract liabilities- embedded derivatives- variable annuities	159,279	Discounted cash flow	Mortality	0-100% (2%)
			Lapse	0-25% (8%)
			Withdrawal	0-7% (3%)
			CVA	0-5% (1%)
			Long-term volatility	0-27% (11%)
Mortality swaps	797	Discounted cash flow	Mortality	0-100% (1%)

The Company recognizes transfers of assets and liabilities into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Assets and liabilities transferred into Level 3 are due to a lack of observable market transactions and price information. Assets and liabilities are transferred out of Level 3 when circumstances change such that significant inputs can be corroborated with market observable data. This may be due to a significant increase in market activity for the asset or liability, a specific event, one or more significant input(s) becoming observable. Transfers out of Level 3 were primarily the result of the Company using observable pricing information or a third party pricing quotation that appropriately reflects the fair value of those assets and liabilities. In addition, certain transfers out of Level 3 were also due to ratings upgrades on mortgage-backed securities that had previously had below investment-grade ratings.

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, 2015 and 2014 (dollars in thousands):

	2015		2014	
	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
Three months ended September 30:				
Fixed maturity securities - available-for-sale:				
Corporate securities	$—	$ 47,199	$—	$ 5,888
Nine months ended September 30:				
Fixed maturity securities - available-for-sale:				
Corporate securities	$625	$ 84,195	$—	$ 15,946

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, 2015, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2015 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2015 (dollars in thousands):

For the three months ended September 30, 2015:	Fixed maturity securities - available-for-sale					
	Corporate securities	Residential mortgage-backed securities	Asset-backed securities	Commercial mortgage-backed securities	U.S. government and agencies	State and political subdivisions
Fair value, beginning of period	$ 1,237,317	$ 298,376	$ 580,510	$ 77,819	$ 27,359	$ 40,186
Total gains/losses (realized/unrealized)						
Included in earnings, net:						
Investment income, net of related expenses	(891)	(378)	1,609	896	(92)	7
Investment related gains (losses), net	(35)	(143)	265	(466)	(37)	(5)
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—
Included in other comprehensive income	(1,125)	829	(3,924)	(1,265)	200	(1,164)
Purchases[(1)]	66,137	86,748	57,120	—	157	—
Sales[(1)]	—	(271)	(174)	(3,197)	—	—
Settlements[(1)]	(47,248)	(12,263)	(26,776)	(1,144)	(267)	(30)
Transfers into Level 3	3,050	453	—	—	—	—
Transfers out of Level 3	(9,515)	(3,684)	(4,427)	—	—	—
Fair value, end of period	$ 1,247,690	$ 369,667	$ 604,203	$ 72,643	$ 27,320	$ 38,994
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	$(841)	$(378)	$ 373	$ 841	$(92)	$ 7
Investment related gains (losses), net	—	—	—	—	—	—
Claims & other policy benefits	—	—	—	—	—	—
Interest credited	—	—	—	—	—	—
Policy acquisition costs and other insurance expenses	—	—	—	—	—	—

35

For the three months ended September 30, 2015 (continued):	Fixed maturity securities available-for-sale					
	Other foreign government, supranational and foreign government-sponsored enterprises	Funds withheld at interest-embedded derivatives	Other invested assets - non-redeemable preferred stock	Other assets longevity swaps	Interest sensitive contract liabilities embedded derivatives	Other liabilities mortality swaps
Fair value, beginning of period	$ 14,657	$(3,329)	$ 12,388	$10,853	$(1,069,154)	$(1,754)
Total gains/losses (realized/unrealized)						
Included in earnings, net:						