

RG&A Reinsurance Company

Statutory-Basis Financial Statements as of and for the
Years Ended December 31, 2013 and 2012,
Supplemental Information as of and
for the Year Ended December 31, 2013, and
Independent Auditors' Report

RGa REINSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
RGA Reinsurance Company
Chesterfield, Missouri

We have audited the accompanying statutory-basis financial statements of RGA Reinsurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2013 and 2012, and the related statutory-basis statements of operations and changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory-basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statutory-basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by the Company using accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Missouri Department of Insurance, Financial Institutions and Professional Registration.

The effects on the statutory-basis financial statements of the variances between the statutory-basis of accounting described in Note 2 to the statutory-basis financial statements and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America

In our opinion, because of the significance of the matter described in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America paragraph, the statutory-basis financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of RGA Reinsurance Company as of December 31, 2013 and 2012, or results of its operations or its cash flows for the years then ended.

Opinion on Statutory Basis of Accounting

In our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of RGA Reinsurance Company as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration as described in Note 2 to the statutory-basis financial statements.

Other Matter

Results of the Company may not be indicative of those of a stand-alone entity, as the Company is a member of a controlled group of affiliated companies. Our opinion is not modified with respect to this matter.

Report on Supplemental Schedules

Our 2013 audit was conducted for the purpose of forming an opinion on the 2013 statutory-basis financial statements as a whole. The supplemental schedule of investment risks interrogatories, the supplemental summary investment schedule, and the supplemental schedule of selected financial data, as of and for the year ended December 31, 2013 are presented for purposes of additional analysis and are not a required part of the 2013 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the 2013 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-

basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2013 statutory-basis financial statements as a whole.

Deloitte + Touche LLP

May 28, 2014

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2013 AND 2012 (In thousands, except share data)

	2013	2012
ADMITTED ASSETS		
INVESTED ASSETS:		
Bonds — affiliated	\$ 330,497	\$ 213,481
Bonds — unaffiliated	11,060,553	11,071,284
Preferred stocks — unaffiliated	65,473	51,224
Common stocks — affiliated	960	849
Common stocks — unaffiliated	38,050	47,184
Mortgage loans on real estate	2,492,217	2,301,594
Policy loans	1,224,184	1,256,560
Derivatives	87,181	196,419
Cash, cash equivalents, and short-term investments	376,708	586,572
Other invested assets	481,593	408,175
Total invested assets	16,157,416	16,133,342
ACCRUED INVESTMENT INCOME	184,027	126,620
PREMIUM DEFERRED AND UNCOLLECTED	1,081,696	962,167
AMOUNTS DUE FROM REINSURERS	223,317	190,961
FUNDS WITHHELD ON REINSURANCE ASSUMED	5,416,749	5,242,769
DEFERRED FEDERAL INCOME TAX ASSET	60,108	48,667
RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES	4,247	25,458
OTHER ASSETS	132,199	105,102
TOTAL	<u>\$ 23,259,759</u>	<u>\$ 22,835,086</u>

(Continued)

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2013 AND 2012 (In thousands, except share data)

	2013	2012
LIABILITIES, AND CAPITAL AND SURPLUS		
LIABILITIES:		
Policy reserves:		
Life insurance	\$ 10,501,066	\$ 10,491,630
Accident and health insurance	943,957	776,368
Liability for deposit-type contracts	297,015	200,003
Policy and contract claims:		
Life insurance	1,247,440	1,163,969
Accident and health insurance	152,556	135,764
Commissions, expenses, and taxes accrued and payable	235,763	206,351
Amounts due to reinsurers	490,771	425,751
Funds withheld on reinsurance retroceded	6,787,815	6,506,475
Income tax due and accrued	4,669	118,681
Asset valuation reserve	193,106	158,260
Interest maintenance reserve	225,361	263,549
Derivatives	100,111	200,606
Payables to parent, subsidiaries and affiliates	3,452	4,222
Other liabilities	498,922	515,798
Unauthorized reinsurance liability	27,685	23,070
 Total liabilities	 <u>21,709,689</u>	 <u>21,190,497</u>
 COMMITMENTS AND CONTINGENT LIABILITIES (see Note 14)		
 CAPITAL AND SURPLUS:		
Common capital stock — par value of \$100 per share; 100,000 shares authorized; 25,000 shares issued and outstanding	2,500	2,500
Surplus notes	200,597	200,597
Additional paid-in-surplus	1,056,000	981,000
Unassigned surplus	290,973	460,492
 Total capital and surplus	 <u>1,550,070</u>	 <u>1,644,589</u>
 TOTAL	 <u>\$ 23,259,759</u>	 <u>\$ 22,835,086</u>

See notes to statutory-basis financial statements.

(Concluded)

T. C. Lau
Joe B. L. 7

May 30, 2014
May 30, 2014

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
REVENUE:		
Premiums and annuity considerations	\$ 2,305,630	\$ 5,213,812
Net investment income	800,425	696,224
Commissions and expense allowances on reinsurance retroceded	615,060	712,895
Adjustments on reinsurance retroceded	(575,917)	(571,610)
Other income	654,330	292,868
Total revenue	3,799,528	6,344,189
BENEFITS AND EXPENSES:		
Policyholder benefits	3,223,183	2,793,764
Change in reserves for life and accident and health contracts	(1,179,121)	1,231,025
Commissions and expense allowances on reinsurance assumed	1,013,944	1,652,867
Funds withheld interest on reinsurance ceded	355,915	283,772
General and administrative expenses and taxes	292,831	281,163
Total benefits and expenses	3,706,752	6,242,591
GAIN FROM OPERATIONS BEFORE DIVIDENDS AND INCOME TAX EXPENSE	92,776	101,598
DIVIDENDS TO POLICYHOLDERS	9,123	7,124
NET GAIN FROM OPERATIONS BEFORE INCOME TAX EXPENSE	83,653	94,474
INCOME TAX (BENEFIT) EXPENSE	(18,025)	74,210
NET GAIN FROM OPERATIONS	101,678	20,264
CAPITAL GAINS (LOSSES) — Net of income tax expense, and transfers to the interest maintenance reserve	14,136	(16,767)
NET INCOME	115,814	3,497

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STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
OTHER CAPITAL AND SURPLUS CHANGES:		
Change in net unrealized capital gains and losses — net of deferred income taxes of \$7,463 and \$7,792 at December 31, 2013 and 2012, respectively	\$ (6,208)	\$ 16,239
Change in net deferred income tax	15,915	12,996
Change in nonadmitted assets and related items	(11,903)	(44,176)
Change in surplus as a result of reinsurance	(142,257)	20,412
Change in asset valuation reserve	(34,846)	(89,543)
Surplus contribution	75,000	150,000
Change in accounting principles	-	54,831
Dividends to stockholders	(100,000)	-
Other items — net	(6,034)	4,400
Total other capital and surplus changes	(210,333)	125,159
NET CHANGE IN CAPITAL AND SURPLUS	(94,519)	128,655
CAPITAL AND SURPLUS — Beginning of year	1,644,589	1,515,934
CAPITAL AND SURPLUS — End of year	\$ 1,550,070	\$ 1,644,589

See notes to statutory-basis financial statements.

(Concluded)

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
CASH FLOW FROM OPERATIONS:		
Cash received:		
Premiums, annuity considerations, and deposit-type funds net of reinsurance	\$2,295,227	\$ 8,146,345
Net investment income	716,235	666,001
Reinsurance retroceded and other income	934,644	775,549
Total cash provided by operations	3,946,106	9,587,895
Cash paid:		
Policyholder benefits and dividends to policyholders	2,040,731	1,961,913
Commissions, expenses, and taxes	1,724,579	2,114,237
Income taxes	94,547	97,479
Total operating charges paid	3,859,857	4,173,629
Net cash provided by operations	86,249	5,414,266
CASH FLOW FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	2,761,249	4,281,361
Common and preferred stocks	29,720	18,751
Mortgage loans on real estate	400,334	176,289
Other invested assets	260,142	77,258
Miscellaneous proceeds	-	5,379
Total investment proceeds	3,451,445	4,559,038
Cost of investments acquired:		
Bonds	2,938,056	8,204,088
Common and preferred stocks	35,142	34,942
Mortgage loans on real estate	615,561	1,513,301
Other invested assets	334,016	183,881
Net increase in policy loans	(32,376)	18,852
Total cost of investments acquired	3,890,399	9,955,064
Net cash used in investments	(438,954)	(5,396,026)

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RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (In thousands)

	2013	2012
CASH FLOW FROM FINANCING AND MISCELLANEOUS SOURCES:		
Surplus notes, capital and surplus paid-in	\$ 75,000	\$ 150,000
Net withdrawals on deposit-type contracts	97,136	(4,330)
Dividends to stockholders	-	(40,000)
Other applications — net	<u>(29,295)</u>	<u>67,117</u>
Net cash provided by financing and miscellaneous sources	<u>142,841</u>	<u>172,787</u>
(DECREASE) INCREASE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	(209,864)	191,028
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — Beginning of year	<u>586,572</u>	<u>395,544</u>
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — End of year	<u>\$ 376,708</u>	<u>\$ 586,572</u>
SUPPLEMENTARY INFORMATION — Non-cash exchange of investments for premium income (See Note 11)		
Transfer of assets from mortgage loans to other invested assets	\$ -	\$ 5,027,637
Transfer of assets from real estate to other invested assets	4,941	-
Tax free exchanges of bonds	8,874	-
	<u>269,656</u>	<u>133,631</u>

See notes to statutory-basis financial statements.

(Concluded)

RGa REINSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

1. ORGANIZATION AND NATURE OF BUSINESS

RGA Reinsurance Company ("RGA Reinsurance" or the "Company") is a wholly owned subsidiary of Reinsurance Company of Missouri, Incorporated ("RCM"), which is a wholly owned subsidiary of Reinsurance Group of America, Incorporated ("RGA, Inc.").

The Company primarily engages in U.S. life, health and annuity reinsurance and, to a lesser extent, in Canadian life reinsurance, and international life, health and disability reinsurance. Reinsurance is an arrangement under which an insurance company, the "reinsurer," agrees to indemnify another insurance company, the "ceding company," for all or a portion of the insurance risks underwritten by the ceding company. Reinsurance is designed to (i) reduce the net liability on individual risks, thereby enabling the ceding company to increase the volume of business it can underwrite, as well as increase the maximum risk it can underwrite on a single life or risk; (ii) stabilize operating results by leveling fluctuations in the ceding company's loss experience; (iii) assist the ceding company to meet applicable regulatory requirements; and (iv) enhance the ceding company's financial strength and surplus position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statutory-Basis Accounting Practices — The accompanying statutory-basis financial statements were prepared in conformity with accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration (MDOI). The MDOI requires that insurance companies domiciled in the State of Missouri prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures Manual* (NAIC SAP), subject to any deviations as prescribed or permitted by the MDOI. Accounting practices and procedures of the NAIC as prescribed or permitted by the MDOI comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The effects on these statutory-basis financial statements of the differences between the statutory-basis of accounting and GAAP are not reasonably determinable, however, the more significant of these variances from GAAP are:

- (a) As the Company maintains an Asset Valuation Reserve (AVR), investments in bonds are reported at amortized cost, except for those with an NAIC designation of 6, which are reported at the lower of amortized cost or fair value. Under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's intent to sell or ability and intent to hold or trade the securities. The AVR, determined by formula, represents a reserve against possible losses on investments other than those from interest rate changes and is recorded as a liability through a charge to surplus. An AVR is not required for GAAP.
- (b) As the Company maintains an AVR, investments in preferred stocks rated NAIC 3 or higher are recorded at cost or amortized cost and preferred stocks rated NAIC 4 or lower are recorded at the lower of cost, amortized cost, or fair value. Under GAAP, preferred stocks are reported at fair value. Investments in affiliated common stock are recorded based on the statutory-basis equity method for insurance entities in accordance with NAIC SAP and the GAAP equity method for non-insurance entities.

- (c) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP, they are deferred if they meet certain criteria and amortized to income as premiums are earned or in relation to estimated gross profits. Commissions and allowances on reinsurance retroceded are recognized as income when due, while under GAAP, they are deferred and amortized to income over the terms of the respective reinsurance agreements.
- (d) Statutory-basis policy reserves are based on statutory-basis mortality and interest assumptions without the consideration of withdrawals and lapses. Statutory-basis policy reserves generally differ from policy reserves under GAAP, which are based on the Company's estimates of mortality, interest, and withdrawals and lapses, including a provision for adverse deviation locked in at inception. The effect, if any, on reserves due to a change in valuation basis, is recorded directly to unassigned surplus rather than included in the determination of net gain from operations.
- (e) Embedded derivative instruments are not separated from the host contract and accounted for separately as derivative instruments, whereas under GAAP, embedded derivative instruments are bifurcated from the host contract and recorded separately.
- (f) Assets are included in the statutory-basis statements of admitted assets, liabilities, and capital and surplus at "admitted asset value" and "nonadmitted assets" are excluded through a charge or credit to surplus. Under GAAP, "nonadmitted assets" are recorded on the balance sheet, net of any valuation allowance.
- (g) The statutory-basis statements of admitted assets, liabilities, and capital and surplus are presented net of the effects of reinsurance.
- (h) Additional liabilities are provided for reinsurance ceded to unauthorized reinsurers, which are not required for GAAP. The change in provision for reinsurance is charged, or credited, directly through surplus under NAIC SAP; while this provision is not recognized for GAAP purposes.
- (i) Amounts from reinsurers overdue greater than 90 days are nonadmitted assets under NAIC SAP. Under GAAP, the overdue amount is recorded net of allowance for non-collection.
- (j) Certain capital gains and losses resulting from the sale of debt securities may be subject to deferral as an interest maintenance reserve (IMR) and amortized through the stated maturity dates. An IMR is not required for GAAP.
- (k) Investments in domestic life insurance and other affiliates that have significant ongoing insurance related operations are carried at their net statutory-basis equity value with changes in value being recorded directly to surplus. Entities in which the reporting entity has a majority voting interest or is the primary beneficiary of a variable interest entity are not consolidated. Investments in noninsurance subsidiaries and affiliated entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates are recorded based on the audited GAAP equity of the investee.
- (l) Deferred income taxes are calculated on temporary differences between statutory-basis and tax-basis reporting (rather than the difference between GAAP and tax-basis reporting). In addition, under NAIC SAP, there are limitations as to the amount of deferred income tax assets that may be reported as admitted assets. Deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years, plus (2) the lesser of (a) the remaining gross deferred income tax assets expected to be

realized within the applicable period following of the balance sheet date (after subtracting the admission under (1)) or (b) an amount that is no greater than the applicable percentage of statutory capital and surplus as required to be shown on the statutory balance sheet recalculated to exclude any net deferred income tax assets, electronic data processing (EDP) equipment and operating software and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing gross deferred income tax liabilities. The remaining deferred income tax assets are non-admitted. Deferred income taxes do not include amounts for state taxes.

- (m) Increases in surplus, net of federal income tax, resulting from the reinsurance of in-force blocks of business are identified separately as a surplus item and recognition of the surplus increase as income are reflected on a net of tax basis as earnings emerge from the business reinsured.
- (n) Surplus notes are included as surplus rather than reflected as debt under GAAP.
- (o) Statutory-basis financial statements do not provide for a statement of comprehensive income.
- (p) Goodwill under GAAP is calculated as the difference between the cost of acquiring the entity and the fair value of the assets received and liabilities assumed. Under NAIC SAP, goodwill is calculated as the difference between the cost of acquiring the entity and the reporting entity's share of the historical book value of the acquired entity. However, under NAIC SAP, the total amount of goodwill recorded as an admitted asset is limited to 10% of the Company's current capital and surplus adjusted to exclude goodwill, EDP equipment, operating system software, and net deferred income tax assets. Under GAAP, goodwill is not amortized. Under NAIC SAP, goodwill is amortized on a straight-line basis over a period of ten years.
- (q) An other-than-temporary impairment (OTTI) exists under NAIC SAP on a loan-backed or structured security if (a) the entity has the intent to sell, (b) the entity does not have the intent and ability to retain the investment for a period of time sufficient to recover the amortized cost basis, or (c) the entity does not expect to recover the entire amortized cost basis. Under NAIC SAP, an OTTI loan-backed or structured security whose fair value is less than its amortized cost is written down to expected recovery value, typically the present value of discounted cash flows if the Company doesn't have the intent to sell the security and has the intent and ability to hold the security; while under GAAP, the loan-backed or structured security is written down to fair value. For all other securities under NAIC SAP, an OTTI is taken if it is probable that the reporting entity will be unable to collect all amounts due according to the contractual terms of the security in effect at the date of acquisition or since the last OTTI. An OTTI exists under GAAP if (a) the entity has the intent to sell, (b) it is more likely than not that the entity will be required to sell before the recovery of the amortized cost basis, or (c) if the entity does not expect to recover the entire amortized cost basis of the security.
- (r) Under NAIC SAP, cash, cash equivalents, and short-term investments represent cash balances and investments with initial maturities of one year or less. Under GAAP, cash and cash equivalents balances include investments with initial maturities of three months or less, and short-term investments are reported as a component of fixed maturity or equity security balances.

As of December 31, 2013 and 2012, only one MDOI prescribed accounting practice differing from the NAIC SAP was applicable to the Company's statutory-basis financial statements. Specifically, the MDOI requires that surplus note interest accrued but not approved for payment be reported as a direct reduction of surplus and an addition to the surplus note balance. Under NAIC SAP, surplus note interest is not to be reported until approved for payment and, when approved, is reported as a reduction of net investment income in the statutory-basis statements of operations and changes in capital and surplus.

Since the payment of surplus note interest was approved by the MDOI as of December 31, 2013 and 2012, there is no difference in surplus related to the treatment of surplus note interest. The MDOI has the right to permit other specific practices that deviate from NAIC SAP.

There were no differences between the Company's reported net income or surplus under NAIC SAP and practices prescribed and permitted by the MDOI during 2013 and 2012.

Management's Estimates — The preparation of statutory-basis financial statements in accordance with statutory-basis accounting principles requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts that the Company deems to be sensitive to changes in estimates include accruals for estimated premiums uncollected for cedent statements not yet received by the Company, policy reserves, policy and contract claims, valuation of investments and investment impairments and income taxes. In all instances, actual results could differ from management's estimates.

Investments — Investment securities are valued as prescribed by the NAIC.

Bonds not backed by other loans and with a NAIC designation of 5 or higher are stated at amortized cost. Bonds with a NAIC designation of 6 are stated at the lower of amortized cost or fair value. Bonds not backed by other loans are amortized using the modified scientific method. The retrospective adjustment method is used to value all securities except for loan-backed securities that have been impaired.

For loan-backed securities, the retrospective adjustment method is used except in the case of a security with a recognized other-than-temporary impairment. Bonds that have been other-than-temporarily impaired are carried at their impaired value and will be evaluated in subsequent periods. Bonds backed by other loans are amortized using the scientific method.

Preferred stocks with a NAIC designation of 1 through 3 are stated at amortized cost. Preferred stocks with a NAIC designation of 4 through 6 are stated at the lower of fair value or amortized cost.

Common stocks are stated at fair value, except for investments in stocks of uncombined affiliates in which the Company has an interest of 20% or more, which are carried on the equity basis of accounting.

Mortgage loans on real estate are stated at unpaid principal balance, adjusted for unamortized premium or discount, deferred fees and expenses, and are net of valuation allowances.

Policy loans are carried at the outstanding principal balance. Policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy, as such, no valuation allowance has been recorded.

Investments in joint ventures, partnerships, and limited liability companies (LLC) are carried at the underlying audited GAAP equity of the respective entity's financial statements. Undistributed earnings of these entities are recognized in unrealized gains and losses. Such investments are non-admitted if they do not have financial statement audits.

Derivative instruments include interest rate swaps, consumer price index swaps, credit default swaps, interest rate options, and equity options. Investments in limited partnerships and limited liability companies are recorded at net asset value and investments in receivables for securities and other long-term assets are recorded at cost. Derivative instruments that qualify and are designated as hedges of

changes in the fair value or the variability in expected cash flows of assets, are valued consistent with the valuation method used for the hedged item. Derivatives used as part of a Replication Synthetic Asset Transaction (RSAT) are carried consistent with the valuation method of the item being replicated and the cash instrument. Derivatives used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value and is reported as a change in surplus.

The Company's investment in Reinsurance Partners, Inc. common stock, the Company's sole affiliated common stock investment, is recorded on the statutory-basis equity method and is included in common stocks — affiliated on the statutory-basis statements of admitted assets, liabilities, and capital and surplus. The Company's investments in RGA Real Estate Holdings, LLC and RGA Real Estate Investments, LLC are recorded on the statutory-basis equity method and are included in other invested assets on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

Investment income is recognized as it accrues or is legally due. All investment income due and accrued that is over 90 days past due is non-admitted from surplus. Realized gains and losses on sales of investments are included in income, net of amounts transferred to the IMR, as are write-downs of securities where declines in value are deemed to be other-than-temporary. The cost of investment securities sold is determined based upon the first-in, first-out (FIFO) method and includes the effects of any related amortization of premium or accretion of discount. Unrealized gains and losses on stocks are reflected as a direct charge to surplus.

Capital gains and losses realized on the sale of bonds and certain other invested assets which resulted from changes in the level of interest rates are recorded in an IMR, net of related income taxes. The IMR is amortized into investment income over the expected remaining maturities of the investments sold. Other realized gains and losses from the sale or decrease in valuation basis due to change in credit quality of invested assets are presented separately and are reported in the AVR on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

The NAIC has established an AVR for the potential losses on investments. This reserve is determined by formula and is maintained for the purpose of stabilizing surplus against the effect of fluctuations in the value of certain bond, stock, mortgage loan, and real estate investments by a direct charge to surplus. Realized and unrealized capital gains and losses, other than those resulting from interest rate changes, are added or charged to the AVR.

Impairment losses on bonds are recognized in the statutory-basis financial statements depending on the facts and circumstances related to the specific security and the type of bond. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuers financial position and access to capital; and (4) the Company's intent to sell a security or whether it is more likely than not it will be required to sell the security before the recovery of its amortized cost. If the Company intends to sell a bond or it is more likely than not that it would be required to sell a bond before the recovery of its amortized cost, it recognizes an OTTI in earnings equal to the difference between the security's fair value and amortized cost.

Further, for non-loan-backed securities, the Company determines if the decline in value is only interest related and if so, an OTTI is not recognized as long as the Company does not have the intent to sell the security. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the non-loan-backed security or if other factors such as the length of time and extent to which fair value has been less than cost, compliance with covenants, general market conditions or if the financial condition and short-term prospects of the issuer indicate that an OTTI should be recorded,

the Company records an OTTI equal to the difference between the security's fair value and amortized cost in earnings.

For loan-backed securities, the Company compares the present value of expected future cash flows to amortized cost. If amortized cost exceeds the present value of the future cash flows, an OTTI is recognized in earnings equal to the difference between the present value of expected future cash flows and amortized cost.

Impairment losses on preferred stock securities are considered to be other-than-temporary when the Company believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the security. A decline in fair value which is deemed to be other-than-temporary includes situations where the Company has made a decision to sell a security at an amount below its carrying value. If it is determined that a decline in the fair value of a preferred stock is other-than-temporary, an impairment loss is recognized as a realized loss equal to the entire difference between the preferred stock's carrying value and its fair value at the balance sheet date.

Non-interest related OTTI losses are recorded through the AVR. If a security is written down to fair value due to the intent to sell or the Company does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the OTTI loss is recorded through the AVR and the interest related OTTI is recorded through the IMR.

A mortgage loan is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. The Company measures impairments of mortgage loans based on the fair value of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan is recognized as an impairment by establishing or adjusting a valuation allowance with a corresponding charge to unrealized gain or loss. The unrealized gain or loss on impairment is included in the calculation of the AVR. If the impairment is other-than-temporary, a direct write down shall be recognized as a realized loss, and a new cost basis is established.

The cost of real estate held for investments is adjusted for impairments in value deemed to be other-than-temporary in the period in which the determination is made. These impairments are included within net realized investment gains (losses) and the cost basis of the investment is reduced accordingly. The Company does not change the revised cost basis of real estate investments for subsequent recoveries in value. Real estate held for investment is periodically reviewed for impairment.

Statutory-Basis Fair Value of Financial Instruments — The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Bonds, Preferred Stocks and Common Stocks — Affiliated/Unaffiliated — The statutory-basis fair values for bonds, preferred stocks, and common stocks (non-affiliates) have been determined by using available market information and the valuation methodologies described in Note 6 to the statutory-basis financial statements. The fair values of the Company's publicly-traded bonds 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 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. Although the Company utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for bonds, management is ultimately responsible for all fair values presented in the Company's statutory-basis financial statements. The statutory-basis fair values of loan-backed securities are primarily estimated using values obtained from independent pricing services and based on expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Mortgage Loans on Real Estate — The statutory-basis fair values for mortgage loans are estimated using discounted cash flow calculations that are based on interest rates currently being offered for similar loans to borrowers with similar credit ratings, credit quality, and maturity of the investments.

Policy Loans — Policy loans typically carry an interest rate that is adjusted annually based on an observable market index and therefore carrying value approximates fair value.

Derivatives — The statutory-basis fair values for derivative instruments are determined using standard market valuation techniques, including published swap curves and other available market data.

Real Estate — The fair value of real estate is estimated based upon third-party appraisals.

Cash, Cash Equivalents, Short-Term Investments — The carrying amounts for these instruments approximate their statutory-basis fair values due to the short-term nature of these instruments.

Other Invested Assets — Other Invested Assets consist of surplus notes. The valuations of the surplus notes are based on observable market data.

Liability for Deposit-Type Contracts — The statutory-basis fair values for liabilities under deposit-type contracts are estimated using discounted cash flow calculations, which are based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

Accrued Investment Income — The carrying amounts for accrued investment income approximate their statutory-basis fair values due to the short-term nature of these instruments.

Receivables for Securities — The carrying amounts for these instruments approximate their statutory-basis fair values due to the short-term nature of these instruments.

Other Assets — Other assets are primarily comprised of the cash surrender value of corporate owned life insurance and EDP equipment and operating software. EDP equipment and operating software is recorded at cost less accumulated depreciation. Depreciation is charged to operations using the straight-line method, generally over three years. Maintenance and repairs are charged to expense as incurred.

Funds Withheld on Reinsurance Assumed — Funds withheld on reinsurance assumed represents amounts contractually withheld by ceding companies in accordance with reinsurance agreements. Income accrues on these assets as defined by the treaty terms.

Funds Withheld on Reinsurance Retroceded — Funds withheld on reinsurance retroceded represents amounts contractually withheld by the Company in accordance with reinsurance agreements. Expense accrues for the benefit of the reinsurer on these assets in accordance with the treaty terms.

Policy Reserves — The liability for policy reserves is based on statutory-basis mortality and interest requirements without consideration of withdrawals. The liability for policy reserves on interest sensitive products is not less than the cash value of the contracts. The mortality table and interest assumptions currently being used for the majority of new ordinary life policies is the 2001 Commissioners Standard Ordinary (CSO) table, with the 2001 CSO Preferred Structure set of tables applicable to US term coinsurance, with 4.0% interest, using the reserve methodology specified under the Valuation of Life Insurance Policies regulation (XXX) for policies issued January 1, 2000, and later, floored at the unearned modal tabular cost of insurance. With respect to the majority of ordinary life policies issued prior to January 1, 2000, the mortality table and interest assumptions are primarily from the 1958 and 1980 CSO tables with 2.0% to 6.0% interest, using a unitary methodology floored at the unearned modal tabular cost of insurance.

The liability for annuity policy reserves is based on statutory Mortality and interest requirements using the Commissioners' Annuity Reserve Valuation Method. The mortality table and interest rate combinations used are 1994 Minimum Guarantee Death Benefit table 4.0% to 8.25%, SP Deferred table 3.5% to 9.25%, and SP Immediate table 4.25% to 6.0%, as appropriate by issue year.

Policy reserves on accident and health insurance are generally based on unearned premiums computed on a pro rata basis as well as prescribed morbidity tables, such as the 1985 Commissioner's Individual Disability table for disability business. The Company also provides a liability for accident and health claims which represents an estimate of the ultimate cost of unpaid claims incurred through December 31 of each year.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. All policies issued or assumed by the Company with ratings based upon multiple mortality tables have an extra reserve equal to one-half of the extra premium. The Company had approximately \$89.6 million of insurance in force and \$1.0 million of reserves, and \$53.2 million of insurance in force and \$1.0 million of reserves, at December 31, 2013 and 2012, respectively, for which the gross premiums are less than the net premiums according to the standard valuation set by the MDOI. The Tabular Interest, Tabular Less Actual Reserve Released, and Tabular Cost have been calculated on a theoretical basis as described in the NAIC annual statement instructions. The Company had no other increases in policy reserves because of valuation changes or other increases (net). Management believes this liability will be adequate to cover such costs; however, the ultimate liability may be more or less than the estimated liability.

Liability For Deposit-Type Contracts — Reserves for deposit-type contracts, which do not subject the reporting entity to any risks arising from policyholder mortality or morbidity, are equal to deposits received and interest credited to the benefit of contract holders, less fees and other charges assessed and surrenders or withdrawals that represent a return to the contract holders.

Policy and Contract Claims — Policy and contract claims is comprised of outstanding claims payable including incurred but not reported losses (IBNR). IBNR is determined using case-basis estimates and lag studies of past experience. The time lag from the date of the claim or death to when the ceding company reports the claim to the Company can vary significantly by ceding company and product type. Incurred but not reported claims are estimates on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized, which are reflected in policyholder benefits in the statutory-basis statements of operations and changes in capital and surplus in the period in which they are determined.

Income Taxes — Income taxes are charged to operations based on the Company's income that is currently taxable. Deferred taxes are established for the tax effects of temporary differences between the statutory-basis financial reporting and tax bases of assets and liabilities.

Receivable From/Payable To Parent and Affiliates — Receivable from/payable to parent and affiliates is primarily comprised of non-reinsurance related amounts receivable/payable. It is the policy of the Company and all related parties to settle outstanding balances within 90 days.

Revenues and Expenses — Life premiums are recognized on the policy anniversary date. Accident and health premiums are reported as revenue when due and earned on a pro rata basis over the period covered by the policy. Deferred life premiums represent modal premiums (other than annual) to be billed in the year subsequent to the commencement of the policy year. Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred.

Foreign Currency Translation — The translation of the foreign currency into U.S. dollars is performed for asset and liability accounts using current exchange rates in effect at the statutory-basis financial statement date and for revenue and expense accounts using a weighted-average exchange rate for each year. Gains or losses resulting from such translation are included in unrealized capital gains or losses. The Company's material foreign functional currencies are the Australian dollar, Canadian dollar, Japanese yen and Korean won.

Additional Information Regarding Statements of Cash Flows — Cash, cash equivalents and short-term investments include cash on deposit and highly liquid investments with an original maturity of one year or less.

Recent Statutory-Basis Accounting Pronouncements — In March 2012, the NAIC issued *SSAP No. 92—Accounting for Postretirement Benefits Other Than Pensions* (SSAP 92). This SSAP adopts, with modification, *FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* and supersedes SSAP No. 14—Postretirement Benefits Other Than Pensions. SSAP 92 requires reporting entities to recognize the funded status of a defined benefit other post-employment benefit plan in its statutory-basis statements of admitted assets, liabilities, and capital and surplus. SSAP 92 is effective for reporting periods ending on or after January 1, 2013, with early adoption permitted. Additionally, it was noted that the revised guidance reflected in the adopted SSAPs has the potential to significantly impact surplus; however, transition guidance has been incorporated to mitigate the impact over a possible 10-year period. The Company estimates that the adoption of SSAP 92 would reduce surplus by \$21.8 million. The Company opted not to utilize early adoption but did choose to utilize 10-year transition guidance which resulted in a \$2.2 million reduction in the Company's pre-tax statutory-basis surplus as of December 31, 2013. The Company opted not to utilize early adoption and the adoption of this statement did not have an impact on the Company's statutory-basis financial statements.

In March 2012, the NAIC issued *SSAP No. 102—Accounting for Pensions* (SSAP 102). This SSAP adopts, with modification, *FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* and supersedes SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8. SSAP 102 requires reporting entities to recognize the funded status of a defined benefit pension plan in its balance sheet. SSAP 102 was adopted by the NAIC with a January 1, 2013, effective date, with early adoption permitted. Additionally, it was noted that the revised guidance reflected in the adopted SSAP has the potential to significantly impact surplus; however, transition guidance has been incorporated to mitigate the impact over a possible 10-year period. The Company was in compliance with SSAP 102 prior to its January 1,

2013 effective date and as such the adoption of this statement did not have an impact on the Company's statutory-basis financial statements.

In March 2012, the NAIC issued *SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP 103). SSAP 103 is effective for reporting periods ending on or after January 1, 2013, with prospective application. SSAP 103 adopts, with modification, *FAS 166, Accounting for Transfers of Financial Assets* and supersedes *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The adoption of this statement did not have an impact on the Company's statutory-basis financial statements.

In August 2012, the NAIC issued *SSAP No. 104—Share-Based Payments* (SSAP 104). SSAP 104 is effective for reporting periods ending on or after January 1, 2013. SSAP 104 adopts with modification *FAS 123(R): Share-Based Payment* and supersedes *SSAP No. 13—Stock Options and Stock Purchase Plans*. SSAP 104 requires that the cost resulting from all share-based payment transactions be recognized in the statutory-basis financial statements and establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee stock ownership plans. The adoption of this statement resulted in an \$8.5 million reduction in the Company's pre-tax statutory-basis surplus.

In December 2013, the NAIC issued *SSAP No. 104R—Share-Based Payments* (SSAP 104R). SSAP 104R is effective for reporting periods ending on or after December 31, 2013. SSAP 104R adopts with modification *ASC 505-50: Equity, Equity Payments to Non-Employees* and supersedes *SSAP No. 104—Share-Based Payment*. The modified adoption of ASC 505-50 within SSAP 104R results in statutory accounting principles for transactions in which an entity exchanges its equity instruments to non-employees in share-based payment transactions. The adoption of this statement did not have an impact on the Company's statutory-basis financial statements.

In December 2013, the NAIC issued *SSAP No. 105—Working Capital Finance Investments* (SSAP 105). SSAP 105 is effective for reporting periods ending on or after January 1, 2014. SSAP 105 amends *SSAP No. 20-Nonadmitted Assets* (SSAP 20) to allow working capital finance investments as admitted assets to the extent they conform to the requirement of SSAP 105. Working capital finance investments represent a confirmed short-term obligation to pay a specified amount owed by one party (the obligor) to another (typically a supplier of goods) generated as a part of a working capital finance investments program currently designated by the NAIC Securities Valuation Office. Pursuant to the working capital finance investments program, this short-term obligation has been transferred by the entity entitled to payment (typically a supplier of goods) to a third party investor. The adoption of this statement will not have an impact on the Company's statutory-basis financial statements.

Correction in Presentation — The Company has corrected the presentation of the funds withheld interest in its statutory-basis statements of operations and changes in capital and surplus for the year ended December 31, 2012, which impacted revenues and benefits and expenses by \$283.8 million. In the prior year, Other income and Funds withheld interest ceded were reported at \$9.1 million and \$0 and when corrected in the current year were revised to \$292.9 million and \$283.8 million respectively. Related amounts had previously been shown on a net basis rather than a gross basis in accordance with SSAP 61R, Life Deposit-Type and Accident and Health Reinsurance. The correction of this error had no effect on net income in the statutory-basis statements of operations and changes in capital and surplus nor did it impact capital and surplus in the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

The Company has corrected the presentation of the non-cash disclosures in its statutory-basis statements of cash flows for the year ended December 31, 2012. Except for the non-cash exchange of investments for premium income, reflected amounts had not been previously disclosed in accordance with SSAP 69, Statement of Cash Flow. The correction of this error had no effect on net income in the statutory-basis statements of operations and changes in capital and surplus nor did it impact capital and surplus in the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

3. INVESTMENTS

Major categories of net investment income consist of the following (in thousands):

	2013	2012
Bonds — affiliated	\$ 17,192	\$ 8,340
Bonds (including IMR amortization) — unaffiliated	615,672	533,715
Preferred stocks — unaffiliated	3,735	3,817
Mortgage loans on real estate	123,273	99,232
Policy loans	55,810	61,463
Cash, cash equivalents, and short-term investments	2,482	3,457
Other	<u>37,158</u>	<u>30,599</u>
Gross investment income (including IMR amortization)	855,322	740,623
Investment expense	40,505	30,042
Interest expense	<u>14,392</u>	<u>14,357</u>
Net investment income	<u>\$ 800,425</u>	<u>\$ 696,224</u>

Bonds and Preferred Stocks — The carrying values and estimated fair values of the Company's bond and preferred stock investments at December 31, 2013 and 2012, by category, are as follows (in thousands):

	2013			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$ 7,798,645	\$ 400,863	\$ 132,337	\$ 8,067,171
U.S. government and agencies	69,517	5,879	1	75,395
State and local governments and agencies	283,566	21,961	8,965	296,562
Canadian and Canadian provincial governments	22,097	1,895	-	23,992
Mortgage-backed/asset-backed securities	2,256,594	114,595	20,427	2,350,762
Hybrid securities — issuer obligations	117,515	6,826	2,572	121,769
Hybrid securities — other loan-backed and structured securities	40,888	1,525	2,336	40,077
Other foreign government	802,228	26,025	11,250	817,003
Total bonds	<u>\$ 11,391,050</u>	<u>\$ 579,569</u>	<u>\$ 177,888</u>	<u>\$ 11,792,731</u>
Preferred stocks — unaffiliated	<u>\$ 65,473</u>	<u>\$ 2,433</u>	<u>\$ 4,024</u>	<u>\$ 63,882</u>

	2012			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$ 7,876,330	\$ 708,166	\$ 19,794	\$ 8,564,702
U.S. government and agencies	114,384	18,584	4	132,964
State and local governments and agencies	199,498	32,095	695	230,898
Canadian and Canadian provincial governments	9,195	617	-	9,812
Mortgage-backed/asset-backed securities	2,170,995	181,520	15,854	2,336,661
Hybrid securities — issuer obligations	99,683	6,682	1,185	105,180
Hybrid securities — other loan-backed and structured securities	55,936	2,019	950	57,005
Other foreign government	758,744	46,355	1,370	803,729
Total bonds	<u>\$ 11,284,765</u>	<u>\$ 996,038</u>	<u>\$ 39,852</u>	<u>\$ 12,240,951</u>
Preferred stocks — unaffiliated	<u>\$ 51,224</u>	<u>\$ 4,077</u>	<u>\$ 169</u>	<u>\$ 55,132</u>

The Company held corporate securities with a carrying value of \$80 million, a gross unrealized gain of \$.1 million and an estimated fair value of \$80.1 million issued by an affiliated company at December 31, 2013. The Company held mortgage-backed/asset-backed securities with a carrying value of \$250.5 million, a gross unrealized loss of \$3.3 million, and an estimated fair value of \$247.2 million issued by an affiliated company at December 31, 2013. The Company held corporate securities with a carrying value of \$80.0 million, a gross unrealized gain of \$0.3 million and an estimated fair value of \$80.3 million issued by an affiliated company at December 31, 2012. The Company held mortgage-backed/asset-backed securities with a carrying value of \$133.5 million, a gross unrealized gain of \$5.5 million, and an estimated fair value of \$139.0 million issued by an affiliated company at December 31, 2012. The affiliated amounts are included in the above tables.

The carrying values and estimated fair values of the Company's bonds at December 31, 2013, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without penalties (in thousands):

	Carrying Value	Estimated Fair Value
Due in one year or less	\$ 232,647	\$ 236,568
Due after one year through five years	1,934,940	2,055,252
Due after five years through ten years	4,531,646	4,625,507
Due after ten years	2,394,335	2,484,566
Mortgage-backed/asset-backed securities	<u>2,297,482</u>	<u>2,390,838</u>
Total	<u>\$ 11,391,050</u>	<u>\$ 11,792,731</u>

Proceeds from the sales and maturities of bonds were \$2.8 billion and \$4.3 billion in 2013 and 2012, respectively. Gross gains of approximately \$54.6 million and \$89.7 million and gross losses of approximately \$41.2 million and \$19.6 million were realized on these sales and maturities in 2013 and 2012, respectively.

Proceeds from sales of common and preferred stocks were \$29.7 million and \$18.8 million in 2013 and 2012, respectively. Gross gains of approximately \$0.3 million and \$1.7 million were realized on these sales in 2013 and 2012, respectively. In 2013, there were no gross losses, however in 2012, approximately \$0.2 million of gross losses were realized on these sales.

Realized capital gains and losses are reported net of income taxes and exclude \$11.1 million and \$66.7 million of pre-tax capital gains transferred into the IMR in 2013 and 2012, respectively.

The following table presents the total gross unrealized losses for 747 and 320 bonds and preferred stocks as of December 31, 2013 and 2012, respectively, where the estimated fair value had declined and remained below carrying value by the indicated amount (in thousands):

	<u>At December 31, 2013</u>		<u>At December 31, 2012</u>	
	<u>Gross Unrealized Losses</u>	<u>Percent of Total</u>	<u>Gross Unrealized Losses</u>	<u>Percent of Total</u>
Less than 20%	\$ 167,439	92 %	\$ 27,195	68 %
20% or more for less than six months	12,640	7	1,234	3
20% or more for six months or greater	<u>1,833</u>	<u>1</u>	<u>11,592</u>	<u>29</u>
Total	<u>\$ 181,912</u>	<u>100 %</u>	<u>\$ 40,021</u>	<u>100 %</u>

As of December 31, 2013, included in the table above the company held mortgage-backed/asset-backed securities issued by affiliated companies with an estimated fair value of \$247.2 million and gross unrealized losses of \$3.3 million. There were no gross unrealized losses for corporate or mortgage-backed/asset-backed securities issued by affiliated companies as of December 31, 2012. As of December 31, 2013 and 2012, there were no gross unrealized losses on common stocks held that were issued by affiliated companies.

While all of these securities are monitored for potential impairment, the Company's experience indicates that unrealized losses less than 20% do not present a great risk of impairment, and often, fair values recover over time. These bonds, particularly mortgage-backed/asset-backed securities, have generally been adversely affected by overall economic conditions and credit market deterioration, including the impact of lower real estate valuations.

The following tables present the estimated fair values and gross unrealized losses for the 747 and 320 bonds and preferred stocks that have estimated fair values below carrying value as of December 31, 2013 and 2012, respectively. These investments are presented by class and grade of security. The length of time the related estimated fair value has remained below carrying value is provided for bonds and preferred stock securities as of December 31, 2013 and 2012 (in thousands).

	As of December 31, 2013					
	Less Than 12 Months		Equal to or Greater Than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Bonds:						
Corporate securities	\$1,957,206	\$101,869	\$127,870	\$17,318	\$2,085,076	\$119,187
Hybrid securities — issuer obligations	22,274	1,750	3,170	814	25,444	2,564
Hybrid securities — other loan-backed and structured securities	1,704	121	7,800	2,200	9,504	2,321
U.S. government and agencies	104	1	-	-	104	1
State and local governments and agencies	92,736	7,998	3,891	967	96,627	8,965
Mortgage-backed/asset-backed securities	533,625	14,310	142,383	5,106	676,008	19,416
Other foreign government securities	216,105	10,267	15,926	943	232,031	11,210
Total bonds	2,823,754	136,316	301,040	27,348	3,124,794	163,664
Preferred stocks — unaffiliated	41,344	3,449	-	-	41,344	3,449
Total investment grade securities	2,865,098	139,765	301,040	27,348	3,166,138	167,113
Non-investment grade securities:						
Bonds:						
Corporate securities	339,508	9,110	41,511	4,040	381,019	13,150
Hybrid securities — issuer obligations	2,488	8	-	-	2,488	8
Hybrid securities — other loan-backed and structured securities	1,393	5	3,388	10	4,781	15
Mortgage-backed/asset-backed securities	43,714	684	4,533	327	48,247	1,011
Other foreign government securities	1,022	40	-	-	1,022	40
Total bonds	388,125	9,847	49,432	4,377	437,557	14,224
Preferred stocks — unaffiliated	6,623	575	-	-	6,623	575
Total non-investment grade securities	394,748	10,422	49,432	4,377	444,180	14,799
Total	\$3,259,846	\$150,187	\$350,472	\$31,725	\$3,610,318	\$181,912

	As of December 31, 2012					
	Less Than 12 Months		Equal to or Greater Than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Bonds:						
Corporate securities	\$ 577,275	\$12,993	\$ 27,105	\$ 2,948	\$ 604,380	\$15,941
Hybrid securities — issuer obligations	-	-	15,735	1,160	15,735	1,160
Hybrid securities — other loan-backed and structured securities	25	-	9,660	938	9,685	938
U.S. government and agencies	11,223	4	-	-	11,223	4
State and local governments and agencies	17,767	233	4,392	462	22,159	695
Mortgage-backed/asset-backed securities	82,216	807	68,151	10,047	150,367	10,854
Other foreign government securities	118,404	1,370	-	-	118,404	1,370
Total bonds	806,910	15,407	125,043	15,555	931,953	30,962
Preferred stocks — unaffiliated	5,576	51	-	-	5,576	51
Total investment grade securities	812,486	15,458	125,043	15,555	937,529	31,013
Non-investment grade securities:						
Bonds:						
Corporate securities	172,491	3,182	31,724	671	204,215	3,853
Hybrid securities — issuer obligations	2,942	25	-	-	2,942	25
Hybrid securities — other loan-backed and structured securities	1,776	12	-	-	1,776	12
Mortgage-backed/asset-backed securities	20,086	966	12,188	4,034	32,274	5,000
Total bonds	197,295	4,185	43,912	4,705	241,207	8,890
Preferred stocks — unaffiliated	-	-	5,679	118	5,679	118
Total non-investment grade securities	197,295	4,185	49,591	4,823	246,886	9,008
Total	\$1,009,781	\$19,643	\$174,634	\$20,378	\$1,184,415	\$40,021

As of December 31, 2013, included in the above table under investment grade and in both the less than 12 months and equal to or greater than 12 months categories, the company held mortgage-backed/asset-backed securities issued by affiliated companies with an estimated fair value of \$247.2 million and gross unrealized losses of \$3.3 million. There were no gross unrealized losses for corporate or mortgage-backed/asset-backed securities issued by affiliated companies as of December 31, 2012.

The Company believes that the analysis of each security whose price has been below market for greater than twelve months indicated that the financial strength, liquidity, leverage, and future outlook support the view that the security was not other-than-temporarily impaired as of December 31, 2013. As discussed in Note 2 — “Summary of Significant Accounting Policies,” the Company evaluates each invested asset class for potential impairments.

The Company realized losses of \$10.5 million and \$21.1 million resulting from other-than-temporary impairments of bonds during 2013 and 2012, respectively. The Company did not realize any losses from other-than-temporary impairments of preferred stock in 2013, however, in 2012, the Company did realize \$0.5 million of losses from other-than-temporary impairments of preferred stock.

Subprime Mortgage Related Risk Exposure — As of December 31, 2013 and 2012, respectively, the Company held investments in securities with subprime mortgage exposure with carrying values totaling \$42.9 million and \$22.5 million and estimated fair values of \$45.1 million and \$22.9 million. Those amounts include exposure to subprime mortgages through securities held directly in the Company’s investment portfolios. The Company does not expect to realize any material losses despite the continuing elevated default rates and market concern over future performance of this asset class.

The following tables summarize the subprime securities by rating and underwriting year at December 31, 2013 and 2012 (in thousands):

December 31, 2013						
	AAA		AA		A	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	\$ -	\$ -	\$ -	\$ -	\$ 4,569	\$ 4,503
2004	-	-	-	-	-	-
2005	-	-	-	-	3,520	3,564
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,089</u>	<u>\$ 8,067</u>

	BBB		Below Investment Grade		Total	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	\$ -	\$ -	\$ 3,859	\$ 3,576	\$ 8,428	\$ 8,079
2004	-	-	-	-	-	-
2005	-	-	10,241	10,534	13,761	14,098
2006	-	-	9,148	11,045	9,148	11,045
2007	-	-	11,528	11,856	11,528	11,856
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,776</u>	<u>\$ 37,011</u>	<u>\$ 42,865</u>	<u>\$ 45,078</u>

December 31, 2012						
	AAA		AA		A	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	\$ 3,124	\$ 2,951	\$ -	\$ -	\$ 2,151	\$ 2,200
2004	-	-	-	-	-	-
2005	-	-	-	-	-	-
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total	<u>\$ 3,124</u>	<u>\$ 2,951</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,151</u>	<u>\$ 2,200</u>

	BBB		Below Investment Grade		Total	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	\$ -	\$ -	\$ 4,271	\$ 3,951	\$ 9,546	\$ 9,102
2004	-	-	-	-	-	-
2005	2,449	2,382	7,605	7,538	10,054	9,920
2006	-	-	2,253	3,214	2,253	3,214
2007	-	-	606	617	606	617
Total	<u>\$ 2,449</u>	<u>\$ 2,382</u>	<u>\$ 14,735</u>	<u>\$ 15,320</u>	<u>\$ 22,459</u>	<u>\$ 22,853</u>

Restricted Assets — Bonds on deposit with regulatory authorities were \$7.6 million and \$7.9 million as of December 31, 2013 and 2012, respectively. Cash, bonds and mortgage loans of \$7.1 billion and

\$7.4 billion were held in trust to satisfy collateral requirements for reinsurance business as of December 31, 2013 and 2012, respectively. The Company held \$33.9 million and \$32.3 million of Federal Home Loan Bank common stock at December 31, 2013 and 2012, respectively. Bonds and commercial mortgage loans in the amount of \$767.8 million and \$531.8 million were pledged to the Federal Home Loan Bank as collateral against current borrowings as of December 31, 2013 and 2012, respectively.

Concentrations — As of December 31, 2013, excluding investments issued and guaranteed by the U.S. Government, the Company held securities with a carrying value of \$299.7 million issued by the Japanese Government and \$250.5 million issued by Timberlake Financial LLC, an affiliated company that exceeded 10% of the Company's statutory-basis capital and surplus. As of December 31, 2012, excluding investments issued and guaranteed by the U.S. Government, the Company held securities with a carrying value of \$302.6 million issued by the Japanese Government that exceeded 10% of the Company's statutory-basis capital and surplus.

Federal Home Loan Bank Agreements — The Company is a member of the Federal Home Loan Bank of Des Moines (FHLB). Membership provides the Company access to borrowing arrangements with the FHLB ("advances") and funding agreements.

The Company did not have advances at December 31, 2013 and 2012. During 2013, the Company did enter into advances ranging from \$60.0 million to \$120.0 million for periods ranging from overnight to three weeks and incurred interest expense on advances in the amount of \$.05 million.

The Company has entered into funding agreements with the FHLB under guaranteed investment contracts whereby the Company has issued the funding agreements in exchange for cash and for which the FHLB has been granted a blanket lien on the Company's commercial and residential mortgage-backed securities and commercial mortgage loans used to collateralize the Company's obligations under the funding agreements.

The Company maintains control over these pledged assets, and may use, commingle, encumber or dispose of any portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. The funding agreements and the related security agreements represented by this blanket lien provide that upon any event of default by the Company, the FHLB's recovery is limited to the amount of the Company's liability under the outstanding funding agreements.

The Company held common stock totaling \$33.9 million and \$32.3 million of which \$23.9 million and \$22.3 million represented stock activity related to borrowings at December 31, 2013 and 2012, respectively.

Under the terms of its membership in the FHLB, the Company is required to pledge collateral in support of advance and funding agreements. In addition, the Company voluntarily places additional investments on deposit with the FHLB in order to expedite the future potential advance and funding transactions. In total, the Company had pledged collateral in the amount of \$1.3 billion and \$.8 billion at December 31, 2013 and 2012, respectively.

The Company had \$729 million and \$310.8 million available at December 31, 2013 and 2012, respectively available as total borrowing/funding capacity.

The amount of the Company's liability for the funding agreements with the FHLB under guaranteed investment contracts was \$597.1 million and \$500.0 million at December 31, 2013 and 2012,

respectively, which is reflected as a deposit fund liability. The advance on these agreements is collateralized primarily by commercial mortgage-backed securities and commercial mortgage loans.

Mortgage Loans — The Company makes mortgage loans on income-producing properties, such as apartments, retail and office buildings, light warehouses, and light industrial facilities. Loan to value ratios at the time of loan approval are 75% or less. The maximum and minimum interest rates on new commercial loans in 2013 were 5.68% and 3.0%, respectively.

As of December 31, 2013 and 2012, the Company's mortgage loans were distributed as follows (in thousands):

States	2013		2012	
	Recorded Investment	Percent of Total	Recorded Investment	Percent of Total
Alabama	\$ 27,680	1.1 %	\$ 35,881	1.6 %
Arizona	95,934	3.8	86,178	3.7
California	581,440	23.3	562,051	24.3
Colorado	159,199	6.4	118,423	5.1
District of Columbia	37,949	1.5	38,313	1.7
Florida	113,506	4.6	114,761	5.0
Georgia	169,456	6.8	101,827	4.4
Illinois	101,713	4.1	93,180	4.0
Indiana	32,866	1.3	3,951	0.2
Iowa	2,744	0.1	2,832	0.1
Kansas	15,955	0.6	21,950	1.0
Kentucky	5,640	0.2	-	-
Maine	3,330	0.1	7,549	0.3
Maryland	33,425	1.3	41,342	1.8
Massachusetts	69,419	2.8	77,207	3.3
Michigan	53,200	2.1	47,879	2.1
Minnesota	8,390	0.3	52,101	2.3
Missouri	110,032	4.4	89,717	3.9
Nebraska	1,614	0.1	1,647	0.1
Nevada	25,562	1.0	16,545	0.7
New Hampshire	-	-	2,224	0.1
New Jersey	25,260	1.0	30,319	1.3
New York	112,342	4.5	123,705	5.4
North Carolina	74,091	3.0	54,467	2.4
Ohio	33,589	1.3	66,324	2.9
Oklahoma	-	.0	2,775	0.1
Oregon	13,899	0.6	14,148	0.6
Pennsylvania	129,046	5.2	146,264	6.3
Rhode Island	4,266	0.2	4,448	0.2
South Carolina	81,317	3.3	48,809	2.1
Tennessee	26,263	1.1	26,845	1.2
Texas	168,548	6.8	158,951	6.9
Utah	52,038	2.1	9,975	0.4
Virginia	35,220	1.4	78,320	3.4
Washington	77,532	3.1	17,677	0.8
Wisconsin	12,963	0.5	9,989	0.4
Total	<u>\$2,495,428</u>	<u>100.0 %</u>	<u>\$2,308,574</u>	<u>100.0 %</u>

Property Type	2013		2012	
	Recorded Investment	Percent of Total	Recorded Investment	Percent of Total
Apartment	\$ 289,917	11.6 %	\$ 229,535	9.9 %
Retail	744,744	29.8	665,200	28.8
Office Building	918,638	36.8	825,988	35.8
Industrial	386,084	15.5	456,017	19.8
Other Commercial	156,045	6.3	131,834	5.7
Total	<u>\$2,495,428</u>	<u>100.0 %</u>	<u>\$2,308,574</u>	<u>100.0 %</u>

The recorded investment of the Company's mortgage loans by maturity at December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Due in one year through five years	\$ 987,339	\$1,187,324
Due after five years	986,628	777,992
Due after ten years	<u>521,461</u>	<u>343,258</u>
Total	<u>\$2,495,428</u>	<u>\$2,308,574</u>

The estimated fair value of the Company's mortgage loan portfolio at December 31, 2013 and 2012, was approximately \$2,484.0 million and \$2,419.9 million, respectively. There were seven and eight restructured loans in the amount of \$16.4 million and \$18.2 million at December 31, 2013 and 2012, respectively. The Company had no loans with a book value (net of valuation allowance) with interest overdue greater than 180 days at December 31, 2013, and three loans with a book value (net of valuation allowance) in the amount of \$9.8 million with interest overdue greater than 180 days at December 31, 2012.

The Company has established an internal credit risk grading process for the commercial mortgage loan portfolio, which is used to estimate the probability of default and the likelihood of loss upon default. The debt service coverage ratio and the loan to value ratio are the most heavily weighted factors in determining the loan rating. Other factors involved in determining the final rating are loan amortization, tenant rollover, location and market stability, and borrower's financial condition and experience. All loans are assigned a rating at origination and ratings are updated at least annually. Lower rated loans appear on the Company's watch list and are re-evaluated more frequently. Information regarding the Company's credit quality indicators for mortgage loans as of December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Internal credit risk grade:		
High investment grade	\$1,433,389	\$1,232,440
Investment grade	830,454	834,071
Average	155,978	132,640
Watchlist	49,376	76,425
In or near default	<u>26,231</u>	<u>32,998</u>
	<u>\$2,495,428</u>	<u>\$2,308,574</u>

The age analysis of the Company's past due mortgage loan receivables as of December 31, 2013 and 2012 is as follows (in thousands):

	2013	2012
31-60 days past due	\$ -	\$ 7,505
61-90 days past due	-	-
Greater than 90 days	-	16,885
	<u>-</u>	<u>16,885</u>
Total past due	-	24,390
Current	2,495,428	2,284,184
	<u>2,495,428</u>	<u>2,284,184</u>
Total mortgage loans receivable	<u>\$2,495,428</u>	<u>\$2,308,574</u>

A mortgage loan is considered to be impaired when, based on the current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. The Company measures impairments on mortgage loans based on the fair value of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan is recognized as an impairment and a valuation allowance is recorded with a corresponding charge to unrealized loss. If the impairment is other-than-temporary, a direct write down shall be recognized as a realized loss, and a new cost basis is established. Charge-offs are defined as a loan that was permanently written-down. Information regarding the Company's loan valuation allowances for mortgage loans as of December 31, 2013 and 2012, are as follows (in thousands):

	2013	2012
Balance at January 1	\$ 6,980	\$ 5,994
Charge-offs	(3,432)	(6,474)
Recoveries	-	2,193
Provisions	<u>(337)</u>	<u>5,267</u>
Balance at December 31	<u>\$ 3,211</u>	<u>\$ 6,980</u>

As of December 31, 2013 and 2012, the Company held 15 and 17 impaired loans, respectively. The Company accrued interest income on impaired loans to the extent it is deemed collectible (delinquent less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis. The Company's average investment in impaired loans was \$2.5 million and \$2.4 million as of December 31, 2013 and 2012, respectively. Interest income on impaired loans was \$1.7 million for the years ended December 31, 2013 and 2012.

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

	2013	2012
Impaired loans with valuation allowances	\$ 16,741	\$ 27,460
Impaired loans without valuation allowances	<u>21,100</u>	<u>12,497</u>
Subtotal	37,841	39,957
Less valuation allowances on impaired loans	<u>(3,211)</u>	<u>(6,980)</u>
Impaired loans	<u>\$ 34,630</u>	<u>\$ 32,977</u>

The Company foreclosed on one commercial mortgage loan in each of the years ended December 31, 2013 and 2012 and acquired real estate in the amount of \$4.9 million and \$4.4 million, respectively. Real estate acquired through foreclosure is recorded in other invested assets on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

Derivative Instruments — Cash Flow Hedges — The Company designates and accounts for certain interest rate swaps in which the cash flows are denominated in different currencies, commonly referred to as cross-currency swaps, as cash flow hedges when they meet the requirements of SSAP 86. The Company uses these interest rate swaps to hedge the variability of cash flows due to fluctuations in foreign exchange rates.

In assessing effectiveness, no component of the derivative's gain or loss was excluded.

There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments on existing financial instruments, for the years ended December 31, 2013 and 2012.

There was no gain or loss recognized in unrealized gains or losses resulting from cash flow hedge derivatives that no longer qualify for hedge accounting during 2013 or 2012.

For the years ended December 31, 2013 and 2012, none of the Company's cash flow hedges were discontinued because it was no longer probable that the original forecasted transactions would occur by the end of the originally specified time period or within two months of that date.

Replication Synthetic Asset Transactions — The Company uses RSATs in order to reproduce the investment characteristics of otherwise permissible investments, in accordance with SSAP 86.

The derivative instruments used in a RSAT are carried at amortized cost, consistent with the cash instruments being replicated.

In a RSAT, the Company uses credit default swaps to increase exposure to issuers by selling protection against specified credit events. The Company sells protection to synthetically replicate investment risks and returns when the actual bond is not an available option in the primary investment market. The buyer of the credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the underlying security. This transfers the risk of default from the buyer of the swap to the seller. If the cash bond defaults, the Company's maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default, the Company is typically required to pay the

protection holder the full notional value less a recovery rate determined at auction. The Company sells these swaps to generate returns consistent with bond returns.

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 for hedge accounting treatment or have not currently been qualified by the Company for hedge accounting treatment. All derivative instruments used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value. The changes in fair value of these derivatives are recorded as a component of surplus as unrealized gains (losses).

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 fixed rate and floating rate interest amounts as calculated by reference to an agreed notional principal amount. 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. For positions in which the hedged risk has been retro-ceded to an affiliated company, the Company enters into offsetting swap positions with the affiliated company. As of December 31, 2013, the Company held interest rate swaps, with affiliated companies, with a notional of \$1.3 billion, which resulted in assets and liabilities with a market value of \$21.7 million and \$28.1 million, respectively. As of December 31, 2012, the Company held interest rate swaps, with affiliated companies, with a notional of \$1.9 billion, which resulted in assets and liabilities with a market value of \$17.8 million and \$113.7 million, respectively.

Consumer Price Index (CPI) swaps are used by the Company primarily to economically hedge liabilities embedded in certain insurance products assumed by the Company whose 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.

The Company purchases credit default swaps to reduce (hedge) its risk against specific credit exposure. The swaps are purchased to reduce exposure against specific corporate issuers as a better alternative to sell bonds from these issuers in a less liquid market. If the cash bond defaults, the credit default swap should pay the difference to the Company between par and the value of this bond. Price changes in the value of the cash bond from changes in creditworthiness should be offset by price changes in the value of the swap. These positions were terminated in 2012.

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. For positions in which the hedged risk has been retroceded to an affiliated company, the Company enters into offsetting option positions with the affiliated companies. As of December 31, 2013, the Company held equity index options, with affiliated companies, with total notional of \$757.4 million, which resulted in total liabilities of \$33.9 million. As of December 31, 2012, the Company held equity index options, with affiliated companies, with total notional of \$696.8 million, which resulted in total liabilities of \$62.5 million.

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. For positions in which the hedged risk has been retroceded to an affiliated company, the Company enters into offsetting option positions with the affiliated companies. As of December 31, 2013, the Company held interest rate options, with affiliated companies, with total notional of \$240.0 million, which resulted in total liabilities of \$2.6 million. The Company did not have any interest rate options as of December 31, 2012.

Credit Risk — The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date. The credit exposure of the Company's derivative transactions is represented by the fair value of contracts after consideration of any collateral received with a net positive fair value at the reporting date.

The Company manages its credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties, maintaining collateral arrangements and through the use of master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination. Certain of the Company's over-the-counter 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 entered into on or after June 10, 2013, related to new guidelines implemented under the Dodd-Frank Wall Street Reform and Consumer Protection Act.

With the exception of RGA Americas Reinsurance Company Ltd. ("RGA Americas"), a related party, the Company enters into collateral arrangements with all counterparties, which require both the pledging and accepting of collateral in connection with its derivative instruments. The amount of collateral that is required is determined by the agreement executed between the Company and the counterparty and may be subject to a threshold that could 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 position under the Company's agreements with its counterparties. The Company currently posts and receives cash and bonds to satisfy collateral requirements.

The Company held cash collateral of \$44.3 million and \$138.3 million as of December 31, 2013 and 2012, respectively. The Company posted no cash collateral and \$1.9 million as of December 31, 2013 and 2012, respectively. The Company also held bonds posted as collateral from counterparties of \$3.5 million and \$22.5 million as of December 31, 2013 and 2012, respectively. The collateral is held in separate custodial accounts and is not recorded on the Company's statutory-basis statements of admitted assets, liabilities, and capital and surplus. The Company posted \$8.9 million of securities as collateral to counterparties as of December 31, 2013. No securities were pledged as collateral to counterparties as of December 31, 2012.

The table below summarizes the notional and admitted value of the Company's derivatives as of December 31, 2013 and 2012 (in thousands).

	December 31, 2013			December 31, 2012*		
	Notional	Admitted Value		Notional	Admitted Value	
		Asset	Liability		Asset	Liability
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$2,551,400	\$49,779	\$ 49,983	\$3,753,200	\$131,497	\$131,602
CPI swaps	59,922	-	309	85,135	1,446	-
Credit default swaps	241,700	947	5,492	248,000	402	6,201
Options	1,994,703	36,455	36,455	1,393,552	62,514	62,514
Total non-hedging derivatives	4,847,725	87,181	92,239	5,479,887	195,859	200,317
Derivatives designated as hedging instruments — interest rate swaps	49,131	-	7,872	57,275	560	289
Total hedging derivatives	49,131	-	7,872	57,275	560	289
Total derivatives	\$4,896,856	\$87,181	\$100,111	\$5,537,162	\$196,419	\$200,606

*During 2013, the Company determined the notional on affiliated options was excluded in the tables above for 2012 resulting in an understatement of the notional by \$696,776 thousand. The 2012 notional for equity index options has been corrected in the table above changing the previously disclosed options from \$696,776 thousand to \$1,393,552 thousand to reflect notional with all counterparties.

Loan-Backed Securities — The estimated fair value of loan-backed securities at December 31, 2013 and 2012, was \$2,390.8 million and \$2,393.7 million respectively. The valuation of loan-backed securities 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.

The following table represents securities within the scope of *SSAP No. 43R, Loan-Backed and Structured Securities* (SSAP 43R), disclosed in the aggregate, for which an other-than-temporary impairment has been recognized as of December 31, 2013 and 2012, respectively (in thousands). These securities have been classified on the basis for the other-than-temporary impairment recognized.

	Aggregate Other-Than-Temporary Impairment	
	2013	2012
Intent to sell	\$ 9,732	\$ 4,863
Inability or lack of intent to retain the investment security for a period of time sufficient to recover the amortized cost basis	-	-
Present value of cash flows expected to be collected is less than the amortized cost basis of the security	-	12,555
Total	<u>\$ 9,732</u>	<u>\$ 17,418</u>

The following table represents securities within the scope of *SSAP No. 43R*, disclosed in the aggregate, for which an other-than-temporary impairment has been recognized as of December 31, 2013 based upon an intent to sell or an inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis (in thousands):

	Amortized Cost Basis Before Other- Than- Temporary Impairment	OTTI Recognized in Loss		Fair Value
		Interest	Non- Interest	
OTTI recognized First Quarter:				
Intent to sell	\$ -	\$ -	\$ -	\$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total first quarter	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
OTTI recognized Second Quarter:				
Intent to sell	\$21,135	\$9,517	\$215	\$11,403
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total second quarter	<u>\$21,135</u>	<u>9,517</u>	<u>215</u>	<u>\$11,403</u>
OTTI recognized Third Quarter:				
Intent to sell	\$ -	\$ -	\$ -	\$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total third quarter	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
OTTI recognized Fourth Quarter:				
Intent to sell	\$ -	\$ -	\$ -	\$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total fourth quarter	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Annual aggregate total		<u>\$9,517</u>	<u>\$215</u>	

The Company did not have securities within the scope of *SSAP No. 43R* as of December 31, 2013 for which an other-than-temporary impairment has been recognized and where the present value of cash flows expected to be collected is less than the amortized cost basis of the securities. The following table represent securities within the scope of *SSAP No. 43R* as of December 31, 2012 for which an other-than-temporary impairment has been recognized, where the present value of cash flows expected to be collected is less than the amortized cost basis of the securities (in thousands):

2012 CUSIP	Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized in Earnings in 2012	Amortized Cost After Current Period OTTI	Fair Value of Security After Current Period OTTI
05948KX87	03/31/12	\$1,549	\$ 104	\$1,444	\$1,327
70069FMV6	03/31/12	44	4	40	11
964041AJ6	03/31/12	4,657	607	4,050	3,000
07401DAP6	03/31/12	3,455	1,911	1,544	851
07401DAQ4	03/31/12	933	329	604	841
20173QAM3	03/31/12	1,857	1,459	398	514
55312YAL6	03/31/12	2,703	2,703	-	497
55312YAL6	03/31/12	3,514	3,514	-	645
05948KX87	06/30/12	1,414	161	1,253	1,211
5899296C7	06/30/12	655	60	595	359
22540VHF2	09/30/12	569	242	327	405
07388QAU3	09/30/12	1,857	1,063	793	649
20173QAM3	09/30/12	398	398	-	384
Total impairments			<u>\$12,555</u>		

The aggregate amount of unrealized losses and estimated fair values for all impaired securities within the scope of *SSAP No. 43R* for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2013 and 2012, respectively, are as follows (in thousands):

	2013	
	Aggregate Unrealized Losses	Aggregate Estimated Fair Value
Securities that have been in a continuous unrealized loss position for less than 12 months	\$ 15,120	\$ 580,435
Securities that have been in a continuous unrealized loss position for 12 months or longer	<u>7,643</u>	<u>158,103</u>
Total	<u>\$22,763</u>	<u>\$ 738,538</u>
	2012	
	Aggregate Unrealized Losses	Aggregate Estimated Fair Value
Securities that have been in a continuous unrealized loss position for less than 12 months	\$ 1,785	\$ 113,181
Securities that have been in a continuous unrealized loss position for 12 months or longer	<u>15,019</u>	<u>89,999</u>
Total	<u>\$ 16,804</u>	<u>\$ 203,180</u>

The Company considers the following in reaching the conclusion that the impairments are not other-than-temporary for loan-backed securities: the length of time and the extent to which the estimated fair value has been less than the amortized cost basis; adverse conditions specifically related to the

security, its industry, or its geographic area; the historical and implied volatility of the fair value of the security; the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; failure of the issuer of the security to make scheduled interest or principal payments; changes to the rating of the security by a rating agency; and recoveries of additional declines in estimated fair value subsequent to the balance sheet date and any other such factors that may revise or otherwise alter management's view regarding the ultimate recoverability of the amortized cost basis.

4. SECURITIES LENDING

The Company did not participate in a securities lending program during 2013 and 2012.

5. REVERSE REPURCHASE AGREEMENTS

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities. At December 31, 2013 and 2012, the Company did not have any reverse repurchase agreements outstanding. The Company did not participate in reverse repurchase agreements or incur interest expense related to such agreements during 2013 or 2012.

6. STATUTORY-BASIS FAIR VALUE OF FINANCIAL INSTRUMENTS

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.

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. Level 2 valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through analytical reviews and assessment of current market activity.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using market standard valuation techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on

inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. 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.

When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest priority level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such assets and liabilities categorized within Level 3 may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Assets carried at estimated fair value as of December 31, 2013 and 2012, are summarized below (in thousands).

December 31, 2013	Level 1	Level 2	Level 3	Total
Assets at estimated fair value:				
Bonds — mortgage-backed/asset-backed securities	\$ -	\$ -	\$12,204	\$ 12,204
Total bonds	-	-	12,204	12,204
Stock:				
Common stock			4,164	4,164
Preferred stock	-	-	1	1
Total stock	-	-	4,165	4,165
Derivative assets:				
Interest rate swaps		49,779		49,779
Equity options	-	36,455	-	36,455
Total derivatives	-	86,234	-	86,234
Total assets at estimated fair value	<u>\$ -</u>	<u>\$86,234</u>	<u>\$16,369</u>	<u>\$102,603</u>
Liabilities at estimated fair values — derivative liabilities:				
Interest rate swaps	\$ -	\$49,983	\$ -	\$ 49,983
CPI swaps	-	309	-	309
Equity options	-	36,455	-	36,455
Total liabilities at estimated fair value	<u>\$ -</u>	<u>\$86,747</u>	<u>\$ -</u>	<u>\$ 86,747</u>

December 31, 2012	Level 1	Level 2	Level 3	Total
Assets at estimated fair value:				
Bonds — mortgage-backed/asset-backed securities	\$ -	\$ -	\$19,079	\$ 19,079
Total bonds	-	-	19,079	19,079
Stock:				
Common stock	-	-	14,934	14,934
Preferred stock	-	-	183	183
Total stock	-	-	15,117	15,117
Derivative assets:				
Interest rate swaps	-	131,494	-	131,494
CPI swaps	-	1,446	-	1,446
Equity options	-	62,513	-	62,513
Total derivatives	-	195,453	-	195,453
Total assets at estimated fair value	<u>\$ -</u>	<u>\$195,453</u>	<u>\$34,196</u>	<u>\$229,649</u>
Liabilities at estimated fair values — derivative liabilities:				
Interest rate swaps	\$ -	\$131,600	\$ -	\$131,600
Equity options	-	62,513	-	62,513
Total liabilities at estimated fair value	<u>\$ -</u>	<u>\$194,113</u>	<u>\$ -</u>	<u>\$194,113</u>

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.

The assumptions and inputs used by management in applying these techniques include, but are not limited to interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, maturity, estimated duration and assumptions regarding liquidity and future cash flows. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

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 table below provides a summary of the changes in fair value of Level 3 assets, as well as the portion of gains or losses included in income for the year attributable to unrealized gains or losses related to those assets still held at December 31, 2013 and 2012 (in thousands):

For the Year Ended December 31, 2013	Balance January 1, 2013	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Sales	Settlement	Balance December 31, 2013
Mortgage-backed/asset-backed securities	\$19,079	\$ -	\$ (5,488)	\$(9,415)	\$15,457	\$12,466	\$(19,714)	\$(181)	\$12,204
Common stock	14,934	-	(12,159)	-	498	1,062	(117)	(54)	4,164
Preferred stock	183	-	(182)	-	-	-	-	-	1
Total	\$34,196	\$ -	\$(17,829)	\$(9,415)	\$15,955	\$13,528	\$(19,831)	\$(235)	\$16,369

For the Year Ended December 31, 2012	Balance January 1, 2012	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Sales	Settlement	Balance December 31, 2012
Corporate securities	\$ -	\$ -	\$ -	\$ 20	\$ -	\$ -	\$ -	\$ (20)	\$ -
Mortgage-backed/asset-backed securities	22,761	21,816	(4,039)	(10,939)	(503)	298	(10,092)	(223)	19,079
Common stock	-	1,993	-	(183)	1,195	11,929	-	-	14,934
Preferred stock	-	-	-	-	-	183	-	-	183
Total	\$22,761	\$23,809	\$(4,039)	\$(11,102)	\$ 692	\$12,410	\$(10,092)	\$(243)	\$34,196

The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the year in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market data for these securities or when the ratings of certain securities fall to a level requiring them to be carried at lower of cost or market. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable or when the ratings of certain securities rise to a level no longer requiring the security to be carried at lower of cost or market. There were no transfers between Level 1 and Level 2 during 2013.

Fair values have been determined by using available market information and the valuation methodologies described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not necessarily be indicative of amounts that could be realized in a current market exchange. The use of different assumptions or valuation methodologies may have a material effect on the estimated fair value.

The following table presents the admitted values and the estimated statutory-basis fair values of the Company's financial instruments at December 31, 2013 and 2012 (in thousands):

Type of Financial Instrument	Admitted Assets	Aggregate Fair Value	2013		
			Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets:					
Bonds - affiliated	\$ 330,497	\$ 327,346	\$ -	\$ -	\$ 327,346
Bonds - unaffiliated	\$11,060,553	\$11,465,385	\$564,500	\$8,915,725	\$1,985,160
Preferred stocks — unaffiliated	65,473	63,882	60,997	2,678	207
Common stocks — affiliated	960	960	-	-	960
Common stocks — unaffiliated	38,050	38,050	-	33,886	4,164
Mortgage loans on real estate	2,492,217	2,483,971	-	-	2,483,971
Policy loans	1,224,184	1,224,184	-	1,224,184	-
Derivative assets	87,181	87,719	-	87,719	-
Real estate	1,500	1,500	-	-	1,500
Other invested assets	11,929	14,015	-	14,015	-
Cash, cash equivalents, and short-term investments	376,708	376,708	376,708	-	-
Accrued investment income	184,027	184,027	-	184,027	-
Receivables for securities	17,487	17,487	-	17,487	-
Liabilities:					
Liability for deposit-type contracts	\$ 297,015	\$ 297,015	\$ -	\$ -	\$ 297,015
Derivative instruments	100,111	91,888	-	91,888	-
Type of Financial Instrument	Admitted Assets	Aggregate Fair Value	2012		
			Fair Value Measurement Using:		
			Level 1	Level 2	Level 3
Assets:					
Bonds	\$11,284,765	\$12,240,951	\$465,226	\$9,475,320	\$2,300,405
Preferred stocks — unaffiliated	51,224	55,132	46,058	8,891	183
Common stocks — affiliated	849	849	-	-	849
Common stocks — unaffiliated	47,184	47,184	-	32,250	14,934
Mortgage loans on real estate	2,301,594	2,419,875	-	-	2,419,875
Policy loans	1,256,560	1,256,560	-	1,256,560	-
Derivative assets	196,419	196,812	-	196,812	-
Real estate	14,922	15,100	-	-	15,100
Other invested assets	14,936	14,936	-	-	14,936
Cash, cash equivalents, and short-term investments	586,572	586,596	547,087	17,478	22,031
Accrued investment income	126,620	126,620	-	126,620	-
Liabilities:					
Liability for deposit-type contracts	\$ 200,003	\$ 200,003	\$ -	\$ -	\$ 200,003
Derivative instruments	200,606	200,642	-	200,642	-

The Company held bonds issued by affiliated companies with an admitted value of approximately \$330.5 million and an estimated fair value of approximately \$327.3 million at December 31, 2013. The Company held bonds issued by affiliated companies with an admitted value of approximately \$213.5 million and an estimated fair value of approximately \$219.2 million at December 31, 2012. The affiliated amounts are included in the above tables.

7. FEDERAL INCOME TAXES

The components of the net deferred tax assets at December 31, 2013 and 2012 are as follows (in thousands):

	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax asset	\$231,294	\$ -	\$231,294	\$202,394	\$ 7,600	\$209,994
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax assets	231,294	-	231,294	202,394	7,600	209,994
Deferred tax assets nonadmitted	128,667	-	128,667	120,851	-	120,851
Subtotal net admitted deferred tax asset	102,627	-	102,627	81,543	7,600	89,143
Gross deferred tax liabilities	32,591	9,928	42,519	27,206	13,270	40,476
Net admitted deferred tax assets/(net deferred tax liabilities)	<u>\$ 70,036</u>	<u>\$(9,928)</u>	<u>\$ 60,108</u>	<u>\$ 54,337</u>	<u>\$(5,670)</u>	<u>\$ 48,667</u>
	Change					
	Ordinary	Capital	Total			
Gross deferred tax asset	\$ 28,900	\$(7,600)	\$ 21,300			
Statutory valuation allowance adjustment	-	-	-			
Adjusted gross deferred tax assets	28,900	(7,600)	21,300			
Deferred tax assets nonadmitted	7,816	-	7,816			
Subtotal net admitted deferred tax asset	21,084	(7,600)	13,484			
Gross deferred tax liabilities	5,385	(3,342)	2,043			
Net admitted deferred tax assets/(net deferred tax liabilities)	<u>\$ 15,699</u>	<u>\$(4,258)</u>	<u>\$ 11,441</u>			

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 101 as of December 31, 2013 and 2012 are as follows (in thousands):

SSAP 101, paragraphs 11a, 11b, and 11c:	2013			2012		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Admitted pursuant to 11a	\$42,981	\$ -	\$ 42,981	\$48,667	\$ -	\$ 48,667
Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	17,127	-	17,127	-	-	-
11.b.i.	17,127	-	17,127	-	-	-
11.b.ii.	N/A	N/A	222,954	N/A	N/A	238,745
Admitted pursuant to 11.c.	32,591	9,928	42,519	27,206	13,270	40,476
Total admitted under 11.a. - 11.c.	92,699	9,928	102,627	75,873	13,270	89,143
Total deferred tax liabilities	32,591	9,928	42,519	27,206	13,270	40,476
Net admitted deferred tax assets/liabilities	<u>\$60,108</u>	<u>\$ -</u>	<u>\$ 60,108</u>	<u>\$48,667</u>	<u>\$ -</u>	<u>\$ 48,667</u>
	Change					
	Ordinary	Capital	Total			
Admitted pursuant to 11a	\$ (5,686)	\$ -	\$ (5,686)			
Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	17,127	-	17,127			
11.b.i.	17,127	-	17,127			
11.b.ii.	N/A	N/A	(15,791)			
Admitted pursuant to 11.c.	5,385	(3,342)	2,043			
Total admitted under 11.a. - 11.c.	16,826	(3,342)	13,484			
Total deferred tax liabilities	5,385	(3,342)	2,043			
Net admitted deferred tax assets/liabilities	<u>\$11,441</u>	<u>\$ -</u>	<u>\$ 11,441</u>			

	2013	2012
(a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount (ExDTA ACL RBC ratio)	706 %	701 %
(b) Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation above	\$1,683,068	\$1,754,182

	December 31, 2013		December 31, 2012		Change	
	(1) Ordinary	(2) Capital	(1) Ordinary	(2) Capital	(1) Ordinary	(2) Capital
Impact of Tax Planning Strategies						
(a) Determination Of Adjusted Gross Deferred Tax Assets and Net Admitted Deferred Tax Assets, By Tax Character As A Percentage.						
1. Adjusted Gross DTAs Amount	\$231,294	\$ -	\$202,394	\$7,600	\$28,900	\$(7,600)
2. Percentage Of Adjusted Gross DTAs By Tax Character Attributable To The Impact Of Tax Planning Strategies	-	-	-	-	-	-
3. Net Admitted Adjusted Gross DTAs Amount	\$102,627	\$ -	\$ 81,543	\$7,600	\$21,084	\$(7,600)
4. Percentage Of Net Admitted Adjusted Gross DTAs By Tax Character Admitted Because Of The Impact Of Tax Planning Strategies	-	-	-	-	-	-

Current income taxes incurred consist of the following major components as of December 31, 2013 and 2012 (in thousands):

Current Income Tax	2013	2012	Change
Federal	\$ (18,825)	\$ 87,868	\$ (106,693)
Foreign	-	-	-
Subtotal	(18,825)	87,868	(106,693)
Federal income tax on net capital gains	-	-	-
Utilization of capital loss carry-forwards	-	-	-
Other — including prior year over/(under) accrual	35	(13,658)	13,693
Federal and foreign income taxes incurred	<u>\$ (18,790)</u>	<u>\$ 74,210</u>	<u>\$ (93,000)</u>

A reconciliation of the beginning and ending amount of income tax contingencies for the years ended December 31, 2013 and 2012 is as follows (in thousands):

	2013	2012
Beginning balance — January 1	\$26,834	\$22,842
Additions for tax positions of prior years	-	54
Reductions for tax positions of prior years	(765)	-
Additions for tax positions of current year	3,337	3,938
Reductions for tax positions of current year	-	-
Ending balance — December 31	<u>\$29,406</u>	<u>\$26,834</u>

Management believes there will be no material impact to the Company's effective tax rate related to unrecognized tax benefits over the next 12 months.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012	Change
Deferred income tax assets:			
Ordinary:			
Policyholder reserves	\$ 73,864	\$ 49,758	\$ 24,106
Investments	26,132	18,012	8,120
Non deductible accruals	37,369	26,817	10,552
Deferred acquisition costs capitalized for tax	63,769	68,927	(5,158)
Tax credit carry-forward	-	5,773	(5,773)
Section 197 intangibles	<u>30,160</u>	<u>33,107</u>	<u>(2,947)</u>
Gross ordinary deferred tax assets	231,294	202,394	28,900
Statutory valuation allowance adjustment	-	-	-
Nonadmitted deferred tax assets	<u>128,667</u>	<u>120,851</u>	<u>7,816</u>
Admitted ordinary deferred tax assets	<u>102,627</u>	<u>81,543</u>	<u>21,084</u>
Capital:			
Investments	-	-	-
Capital loss carry-forward	-	7,600	(7,600)
Other	<u>-</u>	<u>-</u>	<u>-</u>
Gross capital deferred tax assets	-	7,600	(7,600)
Nonadmitted deferred tax assets	<u>-</u>	<u>-</u>	<u>-</u>
Admitted capital deferred tax assets	<u>-</u>	<u>7,600</u>	<u>(7,600)</u>
Total admitted deferred tax assets	<u>102,627</u>	<u>89,143</u>	<u>13,484</u>
Deferred income tax liabilities:			
Ordinary:			
Investments	25,798	20,510	5,288
Other	<u>6,793</u>	<u>6,696</u>	<u>97</u>
Ordinary deferred tax liability	<u>32,591</u>	<u>27,206</u>	<u>5,385</u>
Capital:			
Investments	-	-	-
Other	-	-	-
Tax effect on unrealized capital gains	<u>9,928</u>	<u>13,270</u>	<u>(3,342)</u>
Capital deferred tax liabilities	<u>9,928</u>	<u>13,270</u>	<u>(3,342)</u>
Total deferred tax liabilities	<u>42,519</u>	<u>40,476</u>	<u>2,043</u>
Net deferred income tax asset	<u>\$ 60,108</u>	<u>\$ 48,667</u>	<u>\$ 11,441</u>

The change in the net deferred income taxes is comprised of the following as of December 31, 2013 and 2012. Note: this analysis is exclusive of nonadmitted deferred tax assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the statutory-basis statements of operations and changes in capital and surplus (in thousands):

	2013	2012	Change
Total deferred tax assets	\$231,294	\$209,994	\$ 21,300
Total deferred tax liabilities	<u>(42,519)</u>	<u>(40,476)</u>	<u>(2,043)</u>
Net deferred tax assets/liabilities	188,775	169,518	19,257
Statutory valuation allowance	<u>-</u>	<u>-</u>	<u>-</u>
Net deferred tax assets/liabilities after valuation allowance	188,775	169,518	19,257
Tax effect of unrealized gains/(losses)	9,928	13,270	(3,342)
Statutory valuation allowance on unrealized	<u>-</u>	<u>-</u>	<u>-</u>
Change in net deferred income tax benefit	<u>\$198,703</u>	<u>\$182,788</u>	<u>\$ 15,915</u>

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory-basis federal income tax rate to pre-tax income as a result of the following (in thousands):

	Amount	Tax Effect	Percent of Pre-tax Income
Income before taxes	\$ 83,653	\$ 29,279	35.0 %
Policy reserves	60,253	21,089	25.2
Interest maintenance reserve	(49,315)	(17,260)	(20.6)
In-force reinsurance	(142,257)	(49,790)	(59.5)
Other, including prior year true-up	(6,018)	(2,107)	(2.5)
Change in net deferred income taxes	<u>(45,471)</u>	<u>(15,915)</u>	<u>(19.0)</u>
Total statutory income taxes	<u>\$ (99,155)</u>	<u>\$ (34,705)</u>	<u>(41.5)%</u>
Federal and foreign income taxes incurred		\$ (18,790)	(22.5)%
Change in net deferred income taxes		<u>(15,915)</u>	<u>(19.0)%</u>
Total statutory income taxes		<u>\$ (34,705)</u>	<u>(41.5)%</u>

The Company's carry-forwards as of December 31, 2013 and 2012 are as follows (in thousands):

	2013	2012
Net operating losses carry-forwards	\$ -	\$ -
Capital loss carry-forwards	-	21,714
Foreign tax credit carry-forwards	-	5,773
AMT credit carry-forwards	-	-

The following is the income tax expense for 2013, 2012 and 2011, which is available for recoupment in the event of future net losses (in thousands):

Year	Amount
2013	\$ -
2012	83,260
2011	55,812

The Company has no deposits admitted under Section 6603 of the Internal Revenue Service Code.

The Company is included in a consolidated federal income tax return with the following entities:

Castlewood Reinsurance Company
Parkway Reinsurance Company
Reinsurance Company of Missouri, Incorporated
Reinsurance Group of America, Incorporated
Reinsurance Partners, Inc.
RGA Americas Reinsurance Company, Ltd.
RGA Reinsurance Company (Barbados) Ltd.
RGA Technology Partners, Inc.
RGA Worldwide Reinsurance Company Ltd.
Rockwood Reinsurance Company
Timberlake Reinsurance Company II
RGA Capital LLC

The method of allocation is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually. When available, the Company utilizes net operating loss carry-forwards to offset taxable income under terms of the tax sharing agreement.

The Company files income tax returns with the U.S. federal government and various state jurisdictions. As a result of being included in the consolidated federal income tax return of RGA, Inc., the Company is under continuous examination by the Internal Revenue Service (IRS) and is subject to audit by taxing authorities in state jurisdictions where the Company has significant business operations. The income tax years under examination vary by jurisdiction.

The Internal Revenue Service (IRS) has examined the Company's tax returns for the years through and including 2005. With a few exceptions, the Company is no longer subject to U.S. federal, state and foreign tax examinations by tax authorities for years prior to 2006. The Company believes that any adjustments that might be required for open years will not have a material effect on the Company's statutory-basis financial statements.

8. EMPLOYEE BENEFIT PLANS

Most of the Company's U.S. employees participate in a non-contributory qualified defined benefit pension plan sponsored by the Company. The benefits under the pension plan are based on years of service and compensation levels. Certain management individuals participate in several nonqualified defined benefit and defined contribution plans sponsored by the Company. Those plans are unfunded and are deductible for federal income tax purposes when the benefits are paid. The projected obligation was approximately \$91.9 million and \$92.3 million as of December 31, 2013 and 2012, respectively.

The Company's full time U.S. employees may participate in a defined contribution profit sharing plan. The plan also has a cash or deferred option under Internal Revenue Code section 401(k). The Company's contributions, which are partially tied to RGA, Inc.'s financial results and employee 401(k) contributions, were approximately \$2.5 million and \$6.4 million in 2013 and 2012, respectively.

The Company also provides certain health care and life insurance benefits for retired employees. The health care benefits are provided through a self-insured welfare benefit plan. Employees become eligible for these benefits if they meet minimum age and service requirements. The retiree's cost for health care benefits varies depending upon the credited years of service. The Company recorded benefits expense of approximately \$5.4 million and \$2.0 million for 2013 and 2012, respectively, related to these postretirement plans. Effective January 1, 2013, the Company adopted SSAP 92, Accounting for Postretirement Benefits Other than Pensions, A Replacement of SSAP No. 14. SSAP 92 requires that estimates of accumulated benefit obligations ("ABO") include future obligations due to non-vested participants. The projected obligation was approximately \$30.8 million and \$12.1 million as of December 31, 2013 and 2012, respectively (in thousands).

Projected Benefit Obligations and Plan Assets — The changes in the projected benefit obligation, plan assets and funded status as of December 31, the measurement date, and components of net periodic benefit costs for the years ended December 31, were as follows:

	Pension Benefits Underfunded		Other Benefits Underfunded	
	2013	2012	2013	2012
Pension Benefits				
Benefit obligation at beginning of year	\$ 92,263	\$ 74,173	\$ 12,116	\$ 9,697
Service cost	6,004	5,580	1,881	1,481
Interest cost	3,231	3,223	1,353	433
Contribution by plan participants	-	-	128	122
Actuarial (gain) loss	(6,757)	10,961	(5,949)	634
Benefits paid	(2,844)	(1,674)	(607)	(251)
Plan amendments	-	-	-	-
Transition obligation	-	-	21,837	-
Benefit obligation at end of year	<u>\$ 91,897</u>	<u>\$ 92,263</u>	<u>\$ 30,759</u>	<u>\$ 12,116</u>

The Company has no overfunded pension benefits and other benefits. The Company accrues for postemployment benefits and compensated absences.

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
CHANGE IN PLAN ASSETS:				
Fair value of plan assets at beginning of year	\$ 49,516	\$ 41,300	\$ -	\$ -
Actual return on plan assets	6,027	5,448	-	-
Employer contribution	6,859	4,442	479	129
Plan participants' contribution	-	-	128	122
Benefits paid	(2,844)	(1,674)	(607)	(251)
Fair value of plan assets at end of year	<u>\$ 59,558</u>	<u>\$ 49,516</u>	<u>\$ -</u>	<u>\$ -</u>
FUNDED STATUS:				
Overfunded:				
Assets (nonadmitted)	\$ -	\$ -	\$ -	\$ -
Prepaid benefit costs	-	-	-	-
Total assets (nonadmitted)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Underfunded:				
Liabilities recognized:				
Accrued benefit costs	\$ (1,976)	\$ (1,662)	\$ (420)	\$ (343)
Liability for pension benefits	(30,362)	(41,085)	(30,339)	(33,610)
Total liabilities recognized	<u>\$(32,338)</u>	<u>\$(42,747)</u>	<u>\$(30,759)</u>	<u>\$(33,953)</u>
COMPONENTS OF NET PERIODIC BENEFIT COST:				
Service cost	\$ 6,004	\$ 5,580	\$ 1,881	\$ 1,481
Interest cost	3,231	3,223	1,353	433
Expected return on plan assets	(3,734)	(3,066)	-	-
Amortization of unrecognized transition	-	-	-	-
Obligation or transition asset	-	-	2,184	-
Amount of recognized gains and losses	2,694	2,881	-	53
Amount of prior service cost recognized	10	11	-	-
Total net periodic benefit cost	<u>\$ 8,205</u>	<u>\$ 8,629</u>	<u>\$ 5,418</u>	<u>\$ 1,967</u>
	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
AMOUNTS IN UNASSIGNED FUNDS (SURPLUS) RECOGNIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST:				
Items not yet recognized as a component of net periodic cost — prior year	\$31,692	\$26,006	\$ -	\$ -
Net transition asset or obligation recognized	-	-	13,704	-
Net prior service cost or credit arising during the period	-	-	-	-
Net prior service cost or credit recognized	(10)	(11)	-	-
Net gain and loss arising during the period	(9,051)	8,578	-	-
Net gain and loss recognized	<u>(2,694)</u>	<u>(2,881)</u>	<u>-</u>	<u>-</u>
Items not yet recognized as a component of net periodic cost — current year	<u>\$19,937</u>	<u>\$31,692</u>	<u>\$13,704</u>	<u>\$ -</u>
AMOUNTS IN UNASSIGNED FUNDS (SURPLUS) EXPECTED TO BE RECOGNIZED IN THE NEXT FISCAL YEAR AS COMPONENTS OF NET PERIODIC BENEFIT COST:				
Net prior service cost or credit	\$ 10	\$ 10	\$ 1,523	\$ -
Net recognized gains and losses	1,343	2,722	-	-
AMOUNTS IN UNASSIGNED FUNDS (SURPLUS) THAT HAVE NOT YET BEEN RECOGNIZED AS COMPONENTS OF NET PERIODIC BENEFIT COST:				
Net prior service cost or credit	\$ 19	\$ 29	\$13,704	\$ -
Net recognized gains and losses	19,918	31,663	-	-

The following benefit payments are expected to be paid (in thousands):

	2014	2015	2016	2017	2018	2019–2022
Pension benefits	<u>\$ 5,101</u>	<u>\$ 5,255</u>	<u>\$ 7,892</u>	<u>\$ 6,418</u>	<u>\$ 7,008</u>	<u>\$ 37,216</u>
Other postretirement benefits	<u>\$ 431</u>	<u>\$ 502</u>	<u>\$ 594</u>	<u>\$ 685</u>	<u>\$ 776</u>	<u>\$ 5,388</u>

The estimated fair values of each class of plan assets as of December 31 were as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2013				
Mutual funds:				
Fixed income	\$ 20,101	\$ -	\$ -	\$ 20,101
International	14,745	-	-	14,745
Blend	19,759	-	-	19,759
Commodities	3,250	-	-	3,250
Real estate	<u>1,704</u>	<u>-</u>	<u>-</u>	<u>1,704</u>
Total plan assets	<u>\$ 59,559</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 59,559</u>
	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
2012				
Mutual funds:				
Fixed income	\$ 19,092	\$ -	\$ -	\$ 19,092
International	8,023	-	-	\$ 8,023
Blend	20,936	-	-	\$ 20,936
Commodities	3	-	-	\$ 3
Real estate	<u>1,462</u>	<u>-</u>	<u>-</u>	<u>\$ 1,462</u>
Total plan assets	<u>\$ 49,516</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 49,516</u>

The Company's overall investment strategy is to achieve a mix of approximately 52% of investments for long-term growth, 9.5% alternative investments and 38.5% for near-term benefit payment. Target allocation of assets is determined with the objective of maximizing returns and minimizing volatility of net assets through adequate asset diversification and partial liability immunization. Adjustments are made to target allocations based on the Company's assessment of the effect of economic factors and market conditions. The target allocations for plan assets for 2013 are 60% equity securities and 40% debt securities. The Company's plan assets are primarily invested in mutual funds. The mutual funds include holdings of S&P 500 securities, large-cap securities, midcap securities, small-cap securities,

international securities, corporate debt securities, U.S. and other government securities, and mortgage-related securities.

Actuarial Assumptions — Actuarial assumptions related to the plans as of December 31, are set forth in the following table:

	Pension Benefits		Other Benefits	
	2013	2012	2013	2012
Discount rate	3.65 %	4.15 %	4.15 %	4.50 %
Rate of increase in compensation levels	4.25 %	4.25 %	4.25 %	4.25 %
Expected long-term rate of return on plan assets	7.35 %	7.35 %	-	-

For measurement purposes, a 9% annual rate of increase in the per capita cost of covered health care benefits assumed for 2013. The rate was assumed to decrease gradually to 5% for 2017 and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate by one percentage point in each year would increase the Company's postretirement benefit obligation as of December 31, 2013 by approximately \$6,812,687 and the net periodic postretirement benefit costs for 2013 by approximately \$869,107. Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the Company's postretirement benefit obligation as of December 31, 2013 by approximately \$5,227,536 and the net periodic postretirement benefit costs for 2013 by approximately \$648,258.

The Company participates in the RGA Flexible Stock Plan (the "Plan") sponsored by the parent company, RGA Inc. The Plan provides for the award of benefits including stock options, stock appreciation rights and performance shares to key employees performing significant services for the benefit of the parent company or its subsidiaries. The Company has no legal obligation for benefits under these plans. The Company's share of equity-based compensation expense for 2013 was \$8.5 million, an amount based upon awards granted to employees of the Company. Equity-based compensation expense is principally related to the issuance of stock options, performance contingent restricted units, and stock appreciation rights. In general, options granted under the Plan become exercisable over vesting periods ranging from one to five years. Options are generally granted with an exercise price equal to the stock's fair value at the date of the grant and expire 10 years after the date of the grant. The majority of the awards granted each year under the RGA, Inc. board approved incentive compensation package are made in the first quarter of each year.

9. RELATED-PARTY TRANSACTIONS

The Company is an indirect subsidiary of RGA, Inc. and has numerous reinsurance and non-reinsurance transactions with related parties. Excluding reinsurance agreements and cost allocation transactions, the Company has no transactions with any related party that exceed 1/2 of 1% of the Company's total admitted assets as of December 31, 2013 and 2012.

On March 22, 2012, the Company paid an ordinary cash stockholder dividend, declared December 30, 2011, in the amount of \$40.0 million to its Parent, RCM.

On December 30, 2013, the Company declared an ordinary stockholder dividend, in the amount of \$100.0 million, payable to its parent, RCM. The dividend was paid March 14, 2014.

On October 12, 2012, the Company received a cash surplus contribution of \$150.0 million from its Parent, RCM.

On September 25, 2013, the Company received a cash surplus contribution of \$75.0 million from its Parent, RCM.

During 2013, the Company provided cash and noncash surplus contributions of \$.1 million and \$13.8 million, respectively, to RGA Real Estate Holdings, LLC. Non-cash surplus contributions include \$9.0 million in real estate properties and \$4.8 million in loans.

The Company provided cash contributions of \$74.0 million to RGA Real Estate Investments, LLC, during 2013.

The Company had \$3.5 million and \$4.2 million payable to affiliates as of December 31, 2013 and 2012, respectively, and had \$4.2 million and \$25.5 million receivable from related parties as of December 31, 2013 and 2012, respectively. It is the policy of the Company and all related parties to settle all outstanding balances within ninety days.

The Company did not have material management or service contracts and cost-sharing arrangements with a related party as of December 31, 2013 and 2012.

RGA, Inc. established an intercompany revolving credit facility where certain subsidiaries can lend to or borrow from each other and from RGA, Inc. in order to manage capital and liquidity more efficiently. The intercompany revolving credit facility, which is a series of demand loans among RGA, Inc. and its subsidiaries, is permitted under applicable insurance laws and has been approved by the MDOI. This facility reduces overall borrowing costs by allowing RGA, Inc. and its operating companies to access internal cash resources instead of incurring third-party transaction costs. The statutory borrowing and lending limit for RGA, Inc.'s Missouri-domiciled insurance subsidiaries is currently the lesser of 3% of the insurance company's net admitted assets and 25% of its surplus, in both cases, as of its most recent year-end. There were no amounts outstanding under the intercompany revolving credit facility as of December 31, 2013.

The Company did not have an investment in a related party in excess of 10% of the Company's admitted assets as of December 31, 2013 and 2012.

The Company did not own shares of any upstream or intermediate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company as of December 31, 2013 and 2012.

The Company did not recognize any impairment write-down for its investment in a related party for the years ended December 31, 2013 and 2012.

The Company did not have any investments in any related foreign insurance companies as of December 31, 2013 and 2012.

The Company utilizes the look-through approach in valuing its investment in its downstream noninsurance company, RGA Real Estate Investments, LLC that had a carrying value of \$72.4 million as of December 31, 2013. The Company does not obtain audited financial statements for this downstream entity and has limited the value of the investment in RGA Real Estate Investments, LLC to the value contained in the audited financial statements, including adjustments required by SSAP No. 97, Investments in Subsidiaries, Controlled and Affiliated Entities, A Replacement of SSAP No. 88 ("SSAP

97”) of SCA entities and/or non-SCA SSAP 48 entities, that are owned by the downstream noninsurance company and valued in accordance with paragraphs 21 through 24 of SSAP No. 97.

The Company does obtain audited financial statements to value the investment in its downstream noninsurance company, RGA Real Estate Holdings, LLC that had a carrying value of \$13.5 million as of December 31, 2013. All liabilities, commitments, contingencies, guarantees or obligations of RGA Real Estate Investments, LLC and RGA Real Estate Holdings, LLC, which are required to be recorded as liabilities, commitments, contingencies, guarantees, or obligations under the applicable accounting guidance, are reflected in the Company’s determination of the carrying value of the investment in RGA Real Estate Investments, LLC and RGA Real Estate Holdings, LLC, if not already recorded in the financial statements RGA Real Estate Investments, LLC and RGA Real Estate Holdings, LLC.

The Company did not hold any investments in a downstream noninsurance holding company as of December 31, 2012.

RGA, Inc. (the Company’s ultimate Parent) and its affiliates (collectively, the “Group”) provide services and pay certain expenses on behalf of the Company. Certain other services and administrative costs are provided by the Group at no cost to the Company. These expenses are not allocated to the Company due to insignificance.

The Company is under common ownership and control of RGA, Inc. The existence of the common control could result in operating results or financial position of the Company significantly different from those that would have been obtained if the enterprise was autonomous.

Management does not believe that the various amounts earned or incurred on transactions with related parties would be materially different if they had been earned or incurred with an unrelated third party.

10. LEASE COMMITMENTS

The Company leases office space, automobiles and furniture and equipment under non-cancelable operating lease agreements which expire at various dates.

Future minimum annual rentals under non-cancelable operating leases at December 31, 2013, are as follows (in thousands):

2014	\$9,281
2015	3,636
2016	1,946
2017	584
2018	520
Thereafter	987

Rent expenses amounted to approximately \$10.1 million and \$10.2 million for the years ended December 31, 2013 and 2012, respectively.

11. REINSURANCE

Retrocession reinsurance treaties do not relieve the Company from its obligations to policyholders or ceding companies. Failure of retrocessionaires to honor their obligations could result in losses to the Company; consequently, allowances would be established for amounts deemed uncollectible. At December 31, 2013 and 2012, no allowances were deemed necessary. The Company regularly evaluates the financial condition of its reinsurers/retrocessionaires. At December 31, 2013 and 2012, there were no

reinsurance receivables associated with a single nonaffiliated reinsurer with a carrying value in excess of 5% of admitted assets.

The effect of reinsurance on premiums, annuity considerations, and deposit type funds and amounts earned is as follows (in thousands):

	2013	2012
Direct premiums and amounts assessed against policyholders	\$ 12,562	\$ 5,732
Reinsurance assumed	6,325,665	12,644,379
Reinsurance ceded	<u>(4,032,597)</u>	<u>(7,436,299)</u>
Net premiums and amounts earned	<u>\$ 2,305,630</u>	<u>\$ 5,213,812</u>

The effect of reinsurance on policyholder benefits and dividends to policyholders (in thousands):

	2013	2012
Direct	\$ 14,002	\$ 8,599
Reinsurance assumed	7,257,915	6,436,672
Reinsurance ceded	<u>(4,039,611)</u>	<u>(3,644,382)</u>
Net policyholder benefits and dividends to policyholders	<u>\$ 3,232,306</u>	<u>\$ 2,800,889</u>

The impact of reinsurance on life insurance in-force is shown in the following schedule (in millions):

	Life Insurance in Force				Assumed/ Net Percent
	Direct	Assumed	Ceded	Net	
December 31, 2013	\$ 77	\$ 1,802,908	\$ (1,318,419)	\$ 484,566	372.07 %
December 31, 2012	77	1,813,985	(1,255,018)	559,044	324.48

On December 31, 2013, a reinsurance agreement was terminated, wherein the Company had ceded a quota share of ordinary life business to RCM. As a result of this termination, the Company reported a \$33.6 million increase in policy reserves and a pre-tax loss of \$33.6 million related to the termination of this reinsurance agreement.

In the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus, policy and claim reserves are net of reinsurance ceded of \$13.8 billion and \$13.2 billion at December 31, 2013 and 2012, respectively.

Reinsurance agreements, whether facultative or automatic, may provide for recapture rights on the part of the ceding company. Recapture rights permit the ceding company to reassume all or a portion of the risk formerly ceded to the reinsurer after an agreed-upon period of time, generally at least ten years, or in some cases due to changes in the financial condition or ratings of the reinsurer. Recapture of business previously ceded does not affect premiums ceded prior to the recapture of such business, but would reduce premiums in subsequent periods. Additionally, some treaties give the ceding company the right to request the Company to place assets in trust for their benefit to support their reserve credits.

The Company maintains an ongoing effort to alleviate strain on ordinary life business assumed by the Company that is subject to the Valuation of Life Insurance Policies Model Regulation, commonly referred to as Regulation XXX. The Company has numerous significant retrocession agreements, with both affiliated and non-affiliated companies and consisting of both new and inforce business, designed to offset the impact of this strain. Current treaties undergo periodic modification and the Company continues to both enter new agreements and recapture existing treaties. At December 31, 2013 and 2012, these treaties produced \$902.0 billion and \$890.4 billion of ceded ordinary life insurance inforce and \$4.6 billion and \$4.7 billion of pre-tax surplus, respectively. For the years ended December 31, 2013 and 2012, these treaties generated \$187.1 million and \$173.8 million of pre-tax surplus, respectively.

The Company has both assumed and ceded reinsurance agreements with related parties, including the XXX financing agreements discussed above. The Company reflected the following on these related party reinsurance agreements (dollars in millions):

	2013	2012
Net policy and claim reserves	\$ (8,953.3)	\$ (8,537.0)
Net premium income	(2,483.8)	(5,182.2)
Net pre-tax gain (loss)	(87.4)	1,053.5

On June 29, 2012, the Company entered into a reinsurance agreement, effective April 1, 2012, wherein the Company assumed, on a coinsurance basis, a quota share of a block of ordinary fixed deferred annuity business written by John Hancock Life Insurance Company. Under the terms of this agreement, as of December 31, 2012, the Company reported a \$4.7 billion increase in policy reserves, a \$5.4 billion increase in premium income and a \$256.4 million increase in pre-tax net income. In addition, as a result of this agreement, the Company's asset valuation reserve experienced a \$44.2 million increase and the capital gains realized by John Hancock Life Insurance Company of the transfer of securities under the terms of this agreement produced a \$133.3 million transfer into the Company's interest maintenance reserve and was reflected in the Company's net gain from operations before income tax expense. On September 25, 2012, the Company entered into a reinsurance agreement, effective April 1, 2012, with an affiliated domestic company, wherein the Company retroceded, on a coinsurance/funds withheld basis, a 50% quota share of the ordinary fixed deferred annuity business assumed from John Hancock Life Insurance Company under the reinsurance agreement detailed above. Under the terms of this agreement, as of December 31, 2012, the Company reported a \$2.4 billion reduction of policy reserves, a \$2.4 billion increase in funds withheld liabilities, a \$2.7 billion decrease in premium income and a \$208.8 million decrease in pre-tax net income. On December 20, 2012, the Company entered into a reinsurance agreement, effective October 1, 2012, with an unaffiliated domestic company, wherein the Company retroceded, on a coinsurance/funds withheld basis, a 10% quota share of the ordinary fixed deferred annuity business assumed from John Hancock Life Insurance Company under the reinsurance agreement detailed above. Under the terms of this agreement, as of December 31, 2012, the Company reported a \$0.5 billion reduction of policy reserves and premium income, a \$0.5 billion increase in funds withheld liabilities and a \$1.4 million increase in pre-tax net income. Neither of the aforementioned retrocession agreements had an impact on either the asset valuation reserve or the interest maintenance reserve. As of December 31, 2013, the Company reported, under the terms of the above agreements, premium income of \$8.8 million, net investment income of \$214.9 million, policyholder benefits of \$207.1 million, interest on ceded funds withheld of \$130.1 million, a decrease in policy reserves of \$137.0 million, pre-tax net income of \$50.2 million (including \$28.7 million of interest maintenance reserve amortization), a \$30.9 million decrease in the interest maintenance reserve and a \$11.6 million increase in the asset valuation reserve.

As a part of its risk and capital management strategy, the Company has reinsurance agreements wherein it cedes business to related parties licensed and regulated under captive insurance laws. The NAIC has been analyzing the industry's use of affiliated captive reinsurers to satisfy certain reserve requirements and considering ways to promote uniformity in both the approval and supervision of such reinsurers. If the MDOI were to restrict the use of captive reinsurers or makes them a less effective capital management option, the Company's ability to reinsure certain products and maintain risk based capital ratios could be adversely affected. To date, no changes in the use or regulation of captives have been proposed. The Company expects to continue its use of captives to enhance its capital efficiency while monitoring the regulations related to captives and any proposed changes in such regulations.

12. RESTRICTIONS OF SURPLUS

Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company's state of incorporation, Missouri, to \$155.0 million in 2014, an amount based upon the greater of a) the prior year's statutory net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses or b) 10% of prior year statutory-basis capital and surplus, but not exceeding current unassigned surplus.

The Company has a licensed branch office to conduct business in Hong Kong. In connection with this licensing, the Company agreed to internally allocate assets, as of December 31, 2013 and 2012, with a carrying value totaling \$403.0 million and \$368.5 million, respectively, to support the Hong Kong branch's reinsurance operations.

The Company has a licensed branch office to conduct business in Japan. In connection with this licensing, the Company was required to maintain capital and surplus of no less than 200.0 million yen or \$1.9 million and 200.0 million yen or \$2.5 million, as of December 31, 2013 and 2012, respectively.

The Company has a licensed branch office to conduct business in South Korea. In connection with this licensing, the Company was required to maintain capital and surplus of no less than 41.8 billion Korean won, or \$39.7 million, and 39.1 billion Korean won, or \$36.8 million, as of December 31, 2013 and 2012, respectively.

As of December 31, 2012, the Company had a licensed branch office to conduct business in New Zealand. In connection with this licensing, the Company was required to maintain deposits held in public trust of no less than 1.0 million New Zealand dollars, or \$0.8 million as of December 31, 2012. The Company had also agreed to internally allocate assets with a carrying value totaling \$95.8 million as of December 31, 2012 to support the New Zealand branch's reinsurance operations. As of December 31, 2013 the New Zealand branch of the Company has no license, the Government bonds that were held in trust were released by the Public Trust of New Zealand back to the Company and the internal assets are no longer allocated to the branch to support operations.

13. RISK-BASED CAPITAL

The insurance departments of various states, including the Company's domiciliary state of Missouri, impose Risk-Based Capital (RBC) requirements on insurance enterprises. The RBC calculation serves as a benchmark for the regulation of life insurance companies by state insurance regulators. The requirements apply various weighted factors to financial balances or activity levels based on their perceived degree of risk.

The RBC guidelines define specific capital levels where action by the Company or regulatory intervention is required based on the ratio of a Company's actual total adjusted capital (sum of capital

and surplus and AVR) to control levels determined by the RBC formula. At December 31, 2013, the Company's actual total adjusted capital exceeded all regulatory requirements; thus, no action by the Company or its regulators is required.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has agreed, under certain conditions, to assume life reinsurance business currently written by affiliated reinsurance companies under certain reinsurance agreements. These conditions generally include unusual or remote circumstances, such as change of control, insolvency, nonperformance under the reinsurance treaty, or loss of reinsurance license of such affiliate. Total net liabilities recorded by the affiliated entities associated with these reinsurance agreements were approximately \$1.1 billion at December 31, 2013 and 2012.

The Company has commitments to fund investments in limited partnerships in the amount of \$234.7 million and \$171.1 million at December 31, 2013 and 2012, respectively. The Company anticipates that the majority of this amount will be invested over the next seven years; however, contractually these commitments could become due at the request of the counterparties. Investments in limited partnerships are carried at statement value and are included in other invested assets in the statutory-basis statement of admitted assets, liabilities, and capital and surplus.

The Company had contingent commitments to funds commercial mortgage loans of \$4.6 million and \$22.2 million at December 31, 2013 and 2012, respectively. The Company had contingent commitments of \$37.0 million and \$68.5 million to fund bank loans and other investments at December 31, 2013 and 2012, respectively. The Company had contingent commitments of \$22.0 million and \$0 to fund private placement securities at December 31, 2013 and 2012, respectively.

The Company has obtained letters of credit, issued by banks, in favor of various affiliated and unaffiliated insurance companies and pools of unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements. There were approximately \$133.8 million and \$0 of outstanding bank letters of credit in favor of affiliated entities as of December 31, 2013 and 2012, respectively. There were approximately \$1.3 million of outstanding bank letters of credit in favor of unaffiliated entities as of December 31, 2013 and 2012. In addition, at December 31, 2013 and 2012, respectively, the Company had a \$750,000 and \$500,000 bank letter of credit to the benefit of the California Department of Insurance securing the Company's California Workers Compensation Carve-out reinsurance business.

The Company is subject to litigation in the normal course of its business. The Company currently has no material litigation. A legal reserve is established when the Company is notified of an arbitration demand or litigation or is notified that an arbitration demand or litigation is imminent, it is probable that the Company will incur a loss as a result and the amount of the probable loss is reasonably capable of being estimated.

15. SURPLUS AND SURPLUS NOTES

As of December 31, 2013 and 2012, unassigned surplus was increased (decreased) by the following cumulative changes (in thousands):

	2013	2012
Unrealized gains and losses — net of deferred income taxes	\$ 18,437	\$ 24,645
Nonadmitted assets	(187,275)	(175,372)
Asset valuation reserve	(193,106)	(158,260)
Provision for reinsurance	(27,685)	(23,070)

On December 15, 1997, the Company issued \$40.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2027, and bear an interest rate of 7.35%, with interest payable annually on December 15. Total interest paid related to this surplus note was \$2.9 million in 2013 and 2012. As of December 31, 2013 and 2012, interest in the amount of \$0.1 million was payable on this note.

On December 11, 1998, the Company issued \$60.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2028, and bear an interest rate of 7.08% with interest payable annually on December 15. Total interest paid related to this surplus note was \$4.2 million in 2013 and 2012. As of December 31, 2013 and 2012, interest in the amount of \$0.2 million was payable on this note.

On March 10, 2010, the Company issued \$100.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2040, and bear an interest rate of 7.15%, with interest payable annually on December 15. Total interest paid related to this surplus note was \$7.2 million in 2013 and 2012. As of December 31, 2013 and 2012, interest in the amount of \$0.3 million was payable on this note.

The surplus notes are not subject to redemption prior to maturity and any payment of principal or interest may be made only with the approval of the Director of the MDOI. The surplus notes will rank pari passu with any other future surplus notes of RGA Reinsurance and with all other similarly subordinated claims. In the event that the Company is subject to such an insurance solvency proceedings, holders of indebtedness, policy claims and prior claims would be afforded a greater priority under the laws of the State of Missouri (RSMo 375.1218) and the terms of the surplus notes and, accordingly, would have the right to be paid in full before any payments of interest or principal are made to RGA, Inc.

16. ELECTRONIC DATA PROCESSING EQUIPMENT

Depreciation and amortization of major classes of EDP assets for the year ended December 31, 2013 and 2012 are as follows (in thousands):

2013	Accumulated Depreciation December 31, 2012	Depreciation Expense 2013	Disposals 2013	Accumulated Depreciation December 31, 2013
Servers and components	\$ 12,880	\$ 2,067	\$ (5,775)	\$ 9,172
Personal computers	<u>2,040</u>	<u>588</u>	<u>(716)</u>	<u>1,912</u>
	<u>\$ 14,920</u>	<u>\$ 2,655</u>	<u>\$ (6,491)</u>	<u>\$ 11,084</u>
	Accumulated Amortization December 31, 2012	Amortization Expense 2013	Impairments 2013	Accumulated Amortization December 31, 2013
Nonadmitted software	<u>\$ 33,918</u>	<u>\$ 2,985</u>	<u>\$ -</u>	<u>\$ 36,903</u>
2012	Accumulated Depreciation December 31, 2011	Depreciation Expense 2012	Disposals 2012	Accumulated Depreciation December 31, 2012
Servers and components	\$ 10,655	\$ 2,290	\$ (65)	\$ 12,880
Personal computers	<u>1,873</u>	<u>550</u>	<u>(383)</u>	<u>2,040</u>
	<u>\$ 12,528</u>	<u>\$ 2,840</u>	<u>\$ (448)</u>	<u>\$ 14,920</u>
	Accumulated Amortization December 31, 2011	Amortization Expense 2012	Impairments 2012	Accumulated Amortization December 31, 2012
Nonadmitted software	<u>\$ 31,383</u>	<u>\$ 2,535</u>	<u>\$ -</u>	<u>\$ 33,918</u>

17. SUBSEQUENT EVENTS

The Company has determined that there were no subsequent events that would require disclosures or adjustment to the statutory-basis financial statements through May 28, 2014, the date the statutory-basis financial statements were available to be issued.

* * * * *

SUPPLEMENTAL INFORMATION
(See Independent Auditors' Report)



SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For the year ended December 31, 2013

(To be filed by April 1)

Of RGA REINSURANCE COMPANY

Address (City, State, Zip Code): Chesterfield MO 63017-6039

NAIC Group Code.....4639

NAIC Company Code.....93572

Employer's ID Number.....43-1235868

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U.S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement. \$23,259,758,919

2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	JAPAN (GOVERNMENT OF).....	BONDS.....	\$ 299,744,723	1.289 %
2.02	TIMBR-A - AFFILIATED.....	BONDS.....	\$ 250,496,931	1.077 %
2.03	ONE HUNDRED TOWERS LLC.....	MORTGAGE LOANS.....	\$ 106,834,701	0.459 %
2.04	FHLMC STRUCTURED.....	BONDS.....	\$ 111,162,134	0.478 %
2.05	FNMA STRUCTURED.....	BONDS.....	\$ 98,805,321	0.425 %
2.06	ISHARES IBOXX INVESTMENT GRADE CORPORATE BOND FUND.....	BONDS.....	\$ 90,521,571	0.389 %
2.07	VERIZON COMMUNICATIONS INC.....	BONDS.....	\$ 86,176,921	0.370 %
2.08	REINSURANCE GROUP OF AMERICA INCORPORATED.....	BONDS.....	\$ 80,000,000	0.344 %
2.09	BANK OF AMERICA CORP.....	BONDS.....	\$ 76,921,740	0.331 %
2.10	RGA REAL ESTATE INVESTMENTS LLC - AFFILIATED.....	OTHER INVESTED ASSET.....	\$ 72,416,357	0.311 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC designation.

	1	2
	Bonds	
3.01	NAIC-1.....	\$ 5,565,704,463 23.928 %
3.02	NAIC-2.....	\$ 4,788,520,235 20.587 %
3.03	NAIC-3.....	\$ 755,524,631 3.248 %
3.04	NAIC-4.....	\$ 412,550,063 1.774 %
3.05	NAIC-5.....	\$ 88,744,356 0.382 %
3.06	NAIC-6.....	\$ 11,991,333 0.052 %
	Preferred Stocks	
3.07	P/RP-1.....	\$ 18,705,834 0.080 %
3.08	P/RP-2.....	\$ 35,000,543 0.150 %
3.09	P/RP-3.....	\$ 11,583,259 0.050 %
3.10	P/RP-4.....	\$ 0.000 %
3.11	P/RP-5.....	\$ 182,725 0.001 %
3.12	P/RP-6.....	\$ 500 0.000 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.		
4.02	Total admitted assets held in foreign investments	\$ 2,561,853,336 11.014 %
4.03	Foreign-currency-denominated investments	\$ 510,424,589 2.194 %
4.04	Insurance liabilities denominated in that same foreign currency	\$ 1,103,718,590 4.745 %

5. Aggregate foreign investment exposure categorized by NAIC sovereign designation:

	1	2
5.01	Countries designated NAIC-1.....	\$ 2,213,917,523 9.518 %
5.02	Countries designated NAIC-2.....	\$ 322,128,837 1.385 %
5.03	Countries designated NAIC-3 or below.....	\$ 25,806,976 0.111 %

6. Largest foreign investment exposures by country, categorized by the country's NAIC sovereign designation:

	1	2
Countries designated NAIC-1:		
6.01	Country 1: JAPAN.....	\$ 323,747,188 1.392 %
6.02	Country 2: AUSTRALIA.....	\$ 304,949,253 1.311 %
Countries designated NAIC-2:		
6.03	Country 1: BRAZIL.....	\$ 65,342,114 0.281 %
6.04	Country 2: IRELAND.....	\$ 52,778,081 0.227 %
Countries designated NAIC-3 or below:		
6.05	Country 1: SUPRANATIONAL.....	\$ 10,402,792 0.045 %
6.06	Country 2: BARBADOS.....	\$ 8,840,335 0.038 %

	1	2
7. Aggregate unhedged foreign currency exposure.....	\$...510,424,589	2.194 %
8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign designation:	1	2
8.01 Countries designated NAIC-1.....	\$...496,465,206	2.134 %
8.02 Countries designated NAIC-2.....	\$...13,959,383	0.060 %
8.03 Countries designated NAIC-3 or below.....	\$.....	0.000 %
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign designation:		
Countries designated NAIC-1:	1	2
9.01 Country 1: JAPAN.....	\$...299,744,723	1.289 %
9.02 Country 2: AUSTRALIA.....	\$...96,661,108	0.416 %
Countries designated NAIC-2:		
9.03 Country 1: MEXICO.....	\$...5,653,527	0.024 %
9.04 Country 2: PHILIPPINES.....	\$...4,504,625	0.019 %
Countries designated NAIC-3 or below:		
9.05 Country 1:	\$.....	0.000 %
9.06 Country 2:	\$.....	0.000 %
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:	1	2
	Issuer	NAIC Designation
10.01 DEUTSCHE TELEKOM AG.....	2	3
10.02 SOCIETE GENERALE SA.....	1, 2	4
10.03 BARCLAYS PLC.....	2, P3	0.204 %
10.04 UNICREDIT SPA.....	1, 2	0.178 %
10.05 ARCELORMITTAL.....	3	0.166 %
10.06 APA GROUP.....	2	0.142 %
10.07 LLOYDS BANKING GROUP PLC.....	1, 2, 3	0.141 %
10.08 GDF SUEZ.....	1	0.124 %
10.09 RIO TINTO LIMITED.....	1	0.123 %
10.10 NORDEA BANK AB.....	1	0.120 %
		0.115 %
		0.113 %
11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:		
11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.		
11.02 Total admitted assets held in Canadian Investments.....	\$.....	0.000 %
11.03 Canadian currency-denominated investments.....	\$.....	0.000 %
11.04 Canadian-denominated insurance liabilities.....	\$.....	0.000 %
11.05 Unhedged Canadian currency exposure.....	\$.....	0.000 %
12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.		
12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.		
	1	2
12.02 Aggregate statement value of investments with contractual sales restrictions.....	\$.....	0.000 %
Largest three investments with contractual sales restrictions:		
12.03	\$.....	0.000 %
12.04	\$.....	0.000 %
12.05	\$.....	0.000 %
13. Amounts and percentages of admitted assets held in the ten largest equity interests:		
13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets?		Yes [X] No []
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.		
	1	2
	Name of Issuer	3
13.02	\$.....	0.000 %
13.03	\$.....	0.000 %
13.04	\$.....	0.000 %
13.05	\$.....	0.000 %
13.06	\$.....	0.000 %
13.07	\$.....	0.000 %
13.08	\$.....	0.000 %
13.09	\$.....	0.000 %
13.10	\$.....	0.000 %
13.11	\$.....	0.000 %

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:

14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.

1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities.....	\$.....	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:		
14.03	\$.....	0.000 %
14.04	\$.....	0.000 %
14.05	\$.....	0.000 %

15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:

15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 15.01 above is yes, responses are not required for the remainder of Interrogatory 15.

1	2	3
15.02 Aggregate statement value of investments held in general partnership interests.....	\$.....	0.000 %
Largest three investments in general partnership interests:		
15.03	\$.....	0.000 %
15.04	\$.....	0.000 %
15.05	\$.....	0.000 %

16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:

16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets?

Yes [] No [X]

If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

1	2	3
Type (Residential, Commercial, Agricultural)		
16.02 ONE HUNDRED TOWERS LLC.....	\$...106,834,701	0.459 %
16.03 TWO LOGAN SQUARE ASSOCIATES.....	\$...64,975,770	0.279 %
16.04 800-60 WESTCHESTER AVENUE LLC.....	\$...62,538,677	0.269 %
16.05 RODEO COLLECTION LTD. RODEO-SANTA MONICA.....	\$...44,055,830	0.189 %
16.06 FR JH 12 LLC.....	\$...42,241,374	0.182 %
16.07 KENNESAW 450, LLC.....	\$...35,900,000	0.154 %
16.08 LIBERTY PROPERTY LIMITED PARTNERSHIP.....	\$...38,961,149	0.168 %
16.09 OAKWOOD PLAZA LIMITED PARTNERSHIP.....	\$...32,727,717	0.141 %
16.10 COURTNEY STATION 300, LLC.....	\$...26,400,000	0.114 %
16.11 P2J2 SHADLE ASSOCIATES, LLC.....	\$...24,787,767	0.107 %

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

	Loans	
16.12 Construction loans.....	\$.....	0.000 %
16.13 Mortgage loans over 90 days past due.....	\$.....	0.000 %
16.14 Mortgage loans in the process of foreclosure.....	\$.....	0.000 %
16.15 Mortgage loans foreclosed.....	\$.....	0.000 %
16.16 Restructured mortgage loans.....	\$...16,368,489	0.070 %

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%.....	\$.....	0.000 %	\$.....10,097,361	0.043 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....	0.000 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....3,744,940	0.016 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....277,439,321	1.193 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....2,204,146,522	9.476 %	\$.....	0.000 %

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets?

Yes [X] No []

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

Largest five investments in any one parcel or group of contiguous parcels of real estate:

Description	2	3
18.02	\$.....	0.000 %
18.03	\$.....	0.000 %
18.04	\$.....	0.000 %
18.05	\$.....	0.000 %
18.06	\$.....	0.000 %

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans.

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's admitted assets?

Yes [X] No []

If response to 19.01 is yes, responses are not required for the remainder of Interrogatory 19.

1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans.....	\$.....	0.000 %
Largest three investments held in mezzanine real estate loans:		
19.03	\$.....	0.000 %
19.04	\$.....	0.000 %
19.05	\$.....	0.000 %

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps and floors:

	<u>Owed</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....36,455,192	0.157 %	\$.....36,455,192	0.157 %

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging.....	\$.....1,327,296	0.006 %	\$.....1,350,026	\$.....1,342,564	\$.....1,334,960
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....241,700,000	1.039 %	\$.....250,700,000	\$.....243,700,000	\$.....238,700,000
22.04 Other.....	\$.....32,349,192	0.139 %	\$.....34,493,885	\$.....32,228,615	\$.....30,649,687

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

Annual Statement for the year 2013 of the **RGA REINSURANCE COMPANY**
SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities.....	66,217,188	0.4	66,217,188		66,217,188	0.4
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies.....	3,300,000	0.0	3,300,000		3,300,000	0.0
1.22 Issued by U.S. government sponsored agencies.....	54,624,991	0.3	54,624,991		54,624,991	0.3
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....	824,325,166	5.1	824,325,166		824,325,166	5.1
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations.....	30,389,446	0.2	30,389,446		30,389,446	0.2
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations.....	75,687,032	0.5	75,687,032		75,687,032	0.5
1.43 Revenue and assessment obligations.....	161,551,187	1.0	161,551,187		161,551,187	1.0
1.44 Industrial development and similar obligations.....		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA.....	9,751,340	0.1	9,751,340		9,751,340	0.1
1.512 Issued or guaranteed by FNMA and FHLMC.....	26,765,726	0.2	26,765,726		26,765,726	0.2
1.513 All other.....		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	270,815,142	1.7	270,815,142		270,815,142	1.7
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521.....		0.0			0	0.0
1.523 All other.....	1,120,564,506	6.9	1,120,564,506		1,120,564,506	6.9
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....	6,209,217,248	38.4	6,209,217,248		6,209,217,248	38.4
2.2 Unaffiliated non-U.S. securities (including Canada).....	2,207,343,738	13.7	2,207,343,738		2,207,343,738	13.7
2.3 Affiliated securities.....	330,496,931	2.0	330,496,931		330,496,931	2.0
3. Equity interests:						
3.1 Investments in mutual funds.....		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated.....		0.0			0	0.0
3.22 Unaffiliated.....	65,472,861	0.4	65,472,861		65,472,861	0.4
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated.....		0.0			0	0.0
3.32 Unaffiliated.....		0.0			0	0.0
3.4 Other equity securities:						
3.41 Affiliated.....	960,213	0.0	960,213		960,213	0.0
3.42 Unaffiliated.....	38,049,556	0.2	38,049,556		38,049,556	0.2
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated.....		0.0			0	0.0
3.52 Unaffiliated.....		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development.....		0.0			0	0.0
4.2 Agricultural.....		0.0			0	0.0
4.3 Single family residential properties.....		0.0			0	0.0
4.4 Multifamily residential properties.....		0.0			0	0.0
4.5 Commercial loans.....	2,492,216,654	15.4	2,492,216,654		2,492,216,654	15.4
4.6 Mezzanine real estate loans.....		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company.....		0.0			0	0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....	1,499,823	0.0	1,499,823		1,499,823	0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0			0	0.0
6. Contract loans.....	1,224,183,791	7.6	1,224,183,791		1,224,183,791	7.6
7. Derivatives.....	87,181,508	0.5	87,181,508		87,181,508	0.5
8. Receivables for securities.....	17,487,396	0.1	17,487,396		17,487,396	0.1
9. Securities lending (Line 10, Asset Page reinvested collateral).....		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments.....	376,708,138	2.3	376,708,138		376,708,138	2.3
11. Other invested assets.....	462,605,720	2.9	462,605,720		462,605,720	2.9
12. Total invested assets.....	16,157,415,301	100.0	16,157,415,301	0	16,157,415,301	100.0

RG A REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

Investment income earned:	
Government bonds	\$ 6,539,845
Other bonds (unaffiliated)	561,238,511
Bonds of affiliates	17,192,075
Preferred stocks (unaffiliated)	3,735,432
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	1,173,868
Common stocks of affiliates	-
Mortgage loans	123,272,842
Real estate	1,152,165
Premium notes, policy loans, and liens	55,809,653
Collateral loans	-
Cash and cash equivalents	2,481,881
Short-term investments	-
Other invested assets	32,398,656
Derivative instruments	1,012,000
Aggregate write-ins for investment income	-
Gross investment income	<u>\$ 806,006,928</u>
Real estate owned — book value less encumbrances	<u>\$ 1,499,823</u>
Mortgage loans — book value:	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	<u>2,495,428,144</u>
Total mortgage loans	<u>\$ 2,495,428,144</u>
Mortgage loans by standing — book value:	
Good standing	\$ 2,479,059,655
Good standing with restructured terms	16,368,489
Interest overdue more than ninety days — not in foreclosure	-
Foreclosure in process	-
Other long-term assets — statement value	-
Collateral loans	-
Bonds and stocks of parents, subsidiaries, and affiliates — book value:	
Bonds	\$ 330,496,931
Preferred stocks	-
Common stocks	960,213

(Continued)

RGa REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

Bonds, short-term investments, and cash equivalents by class and maturity:

Bonds, short-term investments, and cash equivalents

by maturity — statement value:

Due within one year or less	\$ 761,985,313
Over 1 year through 5 years	3,136,225,318
Over 5 years through 10 years	5,076,070,766
Over 10 years through 20 years	1,160,353,506
Over 20 years	1,488,400,178

Total by maturity \$ 11,623,035,081

Bonds, short-term investments, and cash equivalents by

class — statement value:

Class 1	\$ 5,565,704,463
Class 2	4,788,520,235
Class 3	755,524,631
Class 4	412,550,063
Class 5	88,744,356
Class 6	11,991,333

Total by class \$ 11,623,035,081

Total bonds, short-term investments, and cash equivalents publicly traded \$ 7,912,144,815

Total bonds, short-term investments, and cash equivalents privately traded 3,710,890,266

Preferred stocks — statement value 65,472,861

Common stocks — market value 39,009,769

Short-term investments — book value 202,647,707

Financial options owned — statement value -

Financial options written and in force — statement value -

Financial options open — statement value -

Financial futures contracts open — current price -

Cash on deposit 142,238,509

Life insurance in force:

Industrial -

Ordinary 462,857,258,751

Credit Life 5,598,040,734

Group Life 16,110,755,221

Amount of accidental death insurance in force under ordinary policies -

Life insurance policies with disability provisions in force:

Industrial -

Ordinary 32,960,970,957

Credit Life -

Group Life 44,823,186,000

(Continued)

RGA REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2013

Supplementary contracts in force:		
Ordinary — not involving life contingencies:		
Amount on deposit	\$	-
Income payable		-
Ordinary — involving life contingencies — income payable		-
Group — not involving life contingencies:		
Amount of deposit		-
Income payable		-
Group — involving life contingencies — income payable		-
Annuities:		
Ordinary:		
Immediate — amount of income payable		-
Deferred — fully paid account balance		7,315,198,784
Deferred — not fully paid — account balance		-
Group:		
Amount of income payable		-
Fully paid account balance		-
Not fully paid — account balance		-
Accident and health insurance — premiums in force:		
Ordinary		503,403,788
Group		20,428,279
Credit		-
Deposit funds and dividend accumulations:		
Deposit funds — account balance		297,136,040
Dividend accumulations — account balance		-
Claim payments 2013:		
Group accident and health — year ended December 31, 2013:		
2013		-
2012		-
2011		-
Other accident and health:		
2013		-
2012		-
2011		-
Other coverages that use developmental methods to evaluate claims reserves:		
2013		-
2012		-
2011		-

(Concluded)