REINSURANCE GROUP OF AMERICA INC
Form 10-Q
May 07, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

OR

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

Commission File Number 1-11848

REINSURANCE GROUP OF AMERICA, INCORPORATED

(Exact name of Registrant as specified in its charter)

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

1370 Timberlake Manor Parkway

Chesterfield, Missouri 63017

(Address of principal executive offices)

(636) 736-7000

(Registrant s telephone number, including area code)

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

Yes _X_ No ___

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes _X_ No ___

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer _X_ Accelerated filer ____ Non-accelerated filer ____ Smaller reporting company_____

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

Yes ___ No _X_

As of April 30, 2013, 72,499,239 shares of the registrant s common stock were outstanding.

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

	March 31, 2013	December 31, 2012
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $19,838,949 and $19,559,432 at March 31, 2013 and December 31, 2012, respectively)	$ 22,401,659	$ 22,291,614
Mortgage loans on real estate (net of allowances of $9,924 and $11,580 at March 31, 2013 and December 31, 2012, respectively)	2,325,191	2,300,587
Policy loans	1,245,812	1,278,175
Funds withheld at interest	5,698,594	5,594,182
Short-term investments	180,707	288,082
Other invested assets	1,129,651	1,159,543
Total investments	32,981,614	32,912,183
Cash and cash equivalents	1,001,841	1,259,892
Accrued investment income	230,269	201,344
Premiums receivable and other reinsurance balances	1,259,281	1,356,087
Reinsurance ceded receivables	602,373	620,901
Deferred policy acquisition costs	3,545,063	3,619,274
Other assets	576,660	390,757
Total assets	$ 40,197,101	$ 40,360,438
Liabilities and Stockholders Equity		
Future policy benefits	$ 11,355,882	$ 11,372,856
Interest-sensitive contract liabilities	13,141,402	13,353,502
Other policy claims and benefits	3,243,948	3,160,250
Other reinsurance balances	250,606	233,630
Deferred income taxes	2,105,391	2,120,501
Other liabilities	877,405	742,249
Long-term debt	1,815,392	1,815,253
Collateral finance facility	491,987	652,010
Total liabilities	33,282,013	33,450,251
Commitments and contingent liabilities (See Note 8)		
Stockholders Equity:		
Preferred stock (par value $.01 per share; 10,000,000 shares authorized; no shares issued or outstanding)	--	--
Common stock (par value $.01 per share; 140,000,000 shares authorized; shares issued: 79,137,758 at March 31, 2013 and December 31, 2012)	791	791
Additional paid-in-capital	1,765,255	1,755,421
Retained earnings	3,521,492	3,357,255
Treasury stock, at cost; 5,836,961 and 5,210,427 shares at March 31, 2013 and December 31, 2012, respectively	(349,190)	(312,182)
Accumulated other comprehensive income	1,976,740	2,108,902
Total stockholders equity	6,915,088	6,910,187

Total liabilities and stockholders equity	$ 40,197,101	$ 40,360,438

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

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Three months ended March 31, 2013	2012
Revenues:	(Dollars in thousands, except per share data)	
Net premiums	$ 1,979,693	$ 1,863,482
Investment income, net of related expenses	425,131	340,940
Investment related gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(202)	(7,607)
Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income	--	(7,221)
Other investment related gains (losses), net	94,573	58,348
Total investment related gains (losses), net	94,371	43,520
Other revenues	101,907	45,033
Total revenues	2,601,102	2,292,975
Benefits and Expenses:		
Claims and other policy benefits	1,688,910	1,580,149
Interest credited	125,483	88,042
Policy acquisition costs and other insurance expenses	357,357	307,634
Other operating expenses	119,501	110,098
Interest expense	28,486	23,322
Collateral finance facility expense	2,538	2,967
Total benefits and expenses	2,322,275	2,112,212
Income before income taxes	278,827	180,763
Provision for income taxes	93,292	57,445
Net income	$ 185,535	$ 123,318
Earnings per share:		
Basic earnings per share	$ 2.51	$ 1.68
Diluted earnings per share	$ 2.49	$ 1.67
Dividends declared per share	$ 0.24	$ 0.18

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

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(in thousands)

(Unaudited)

	Three months ended March 31, 2013	2012
Comprehensive income		
Net income	$ 185,535	$ 123,318
Other comprehensive income, net of tax:		
Change in foreign currency translation adjustments	(14,105)	24,080
Change in net unrealized gains and losses on investments	(119,333)	(35,415)
Change in other-than-temporary impairment losses on fixed maturity securities	451	4,694
Changes in pension and other postretirement plan adjustments	825	290
Total other comprehensive income (loss), net of tax	(132,162)	(6,351)
Total comprehensive income	$ 53,373	$ 116,967

See accompanying notes to condensed consolidated financial statements.

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31, 2013	Three months ended March 31, 2012
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$ 185,535	$ 123,318
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(30,083)	(28,616)
Premiums receivable and other reinsurance balances	72,864	(61,722)
Deferred policy acquisition costs	42,741	(65,583)
Reinsurance ceded receivable balances	28,131	28,686
Future policy benefits, other policy claims and benefits, and other reinsurance balances	275,091	554,354
Deferred income taxes	16,343	38,107
Other assets and other liabilities, net	(12,317)	5,944
Amortization of net investment premiums, discounts and other	(22,497)	(35,281)
Investment related gains, net	(94,371)	(43,520)
Gain on repurchase of collateral finance facility securities	(46,506)	--
Excess tax benefits from share-based payment arrangement	(143)	30
Other, net	80,142	38,938
Net cash provided by operating activities	494,930	554,655
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	795,575	47,096
Maturities of fixed maturity securities available-for-sale	36,028	36,437
Purchases of fixed maturity securities available-for-sale	(1,277,240)	(572,345)
Cash invested in mortgage loans	(79,361)	(75,081)
Cash invested in funds withheld at interest	(29,829)	(33,083)
Principal payments on mortgage loans on real estate	52,157	22,081
Principal payments on policy loans	32,378	330
Change in short-term investments and other invested assets	84,917	65,256
Net cash used in investing activities	(385,375)	(509,309)
Cash Flows from Financing Activities:		
Dividends to stockholders	(17,753)	(13,255)
Repurchase of collateral finance facility securities	(112,000)	--
Purchases of treasury stock	(47,640)	(4,118)
Excess tax benefits from share-based payment arrangement	143	(30)
Exercise of stock options, net	1,071	216
Change in cash collateral for derivative positions	11,532	(100,565)
Deposits on universal life and other investment type policies and contracts	17,241	37,303
Withdrawals on universal life and other investment type policies and contracts	(204,196)	(59,922)
Net cash used in financing activities	(351,602)	(140,371)
Effect of exchange rate changes on cash	(16,004)	6,088
Change in cash and cash equivalents	(258,051)	(88,937)
Cash and cash equivalents, beginning of period	1,259,892	962,870

Cash and cash equivalents, end of period	$	1,001,841	$	873,933
Supplementary information:				
Cash paid for interest	$	16,552	$	24,592
Cash paid for income taxes, net of refunds	$	9,125	$	15,112

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

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Organization and Basis of Presentation

Reinsurance Group of America, Incorporated (RGA) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013. There were no subsequent events that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, all intercompany accounts and transactions have been eliminated. They should be read in conjunction with the Company s 2012 Annual Report on Form 10-K (2012 Annual Report) filed with the Securities and Exchange Commission (SEC) on March 1, 2013.

2. Earnings Per Share

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

	Three months ended March 31, 2013	Three months ended March 31, 2012
Earnings:		
Net income (numerator for basic and diluted calculations)	$ 185,535	$ 123,318
Shares:		
Weighted average outstanding shares (denominator for basic calculation)	73,838	73,575
Equivalent shares from outstanding stock options	551	468
Denominator for diluted calculation	74,389	74,043
Earnings per share:		
Basic	$ 2.51	$ 1.68
Diluted	$ 2.49	$ 1.67

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended March 31, 2013, approximately 1.5 million stock options and approximately 0.9 million performance contingent shares were excluded from the calculation. For the three months ended March 31, 2012, approximately 1.4 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation.

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3. Accumulated Other Comprehensive Income

The balance of and changes in each component of accumulated other comprehensive income (loss) (AOCI) for the three months ended March 31, 2013 and 2012 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[1]	Pension and Postretirement Benefits	Total
Balance, December 31, 2012	$ 267,475	$ 1,877,657	$ (36,230)	$ 2,108,902
Other comprehensive income (loss) before reclassifications	(14,105)	(112,711)	99	(126,717)
Amounts reclassified from AOCI	--	(6,171)	726	(5,445)
Net current-period other comprehensive income (loss)	(14,105)	(118,882)	825	(132,162)
Balance, March 31, 2013	$ 253,370	$ 1,758,775	$ (35,405)	$ 1,976,740

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[1]	Pension and Postretirement Benefits	Total
Balance, December 31, 2011	$ 229,795	$ 1,419,318	$ (30,960)	$ 1,618,153
Change in component during the period	24,080	(30,721)	290	(6,351)
Balance, March 31, 2012	$ 253,875	$ 1,388,597	$ (30,670)	$ 1,611,802

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

The following table presents the amounts reclassified out of AOCI for the three months ended March 31, 2013 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI	Affected Line Item in Statement of Income
Unrealized gains and losses on available-for-sale securities	$ 10,348	Investment related gains (losses), net
Gains and losses on cash flow hedge - interest rate swap	305	Investment income
Deferred policy acquisition costs attributed to unrealized gains and losses[1]	(1,548)	
	9,105	Total before tax
	(2,934)	Tax expense
	$ 6,171	Net of tax
Amortization of unrealized pension and postretirement benefits:		
Prior service cost[2]	$ (94)	
Actuarial gains/(losses)[2]	(1,023)	
	(1,117)	Total before tax
	391	Tax benefit

	$	(726)	Net of tax
Total reclassifications for the period	$	5,445	Net of tax

(1) This AOCI component is included in the computation of the deferred policy acquisition cost. See Note 8 Deferred policy Acquisition Costs of the 2012 Annual Report for additional details.
(2) These AOCI components are included in the computation of the net periodic pension cost. See Note 9 Employee Benefit Plans for additional details.

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities by sector as of March 31, 2013 and December 31, 2012 (dollars in thousands):

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March 31, 2013:		Amortized Cost		Unrealized Gains		Unrealized Losses		Estimated Fair Value	% of Total		Other-than-temporary impairments in AOCI
Available-for-sale:											
Corporate securities	$	11,464,082	$	1,022,512	$	45,093	$	12,441,501	55.5 %	$	--
Canadian and Canadian provincial governments		2,681,603		1,261,728		1,133		3,942,198	17.6		--
Residential mortgage-backed securities		1,005,232		75,579		4,041		1,076,770	4.8		(241)
Asset-backed securities		752,280		23,333		19,069		756,544	3.4		(2,259)
Commercial mortgage-backed securities		1,596,659		143,381		41,896		1,698,144	7.6		(5,431)
U.S. government and agencies		299,395		31,938		132		331,201	1.5		--
State and political subdivisions		281,215		37,628		5,746		313,097	1.4		--
Other foreign government, supranational and foreign government-sponsored enterprises		1,758,483		87,306		3,585		1,842,204	8.2		--
Total fixed maturity securities	$	19,838,949	$	2,683,405	$	120,695	$	22,401,659	100.0 %	$	(7,931)
Non-redeemable preferred stock	$	76,179	$	7,940	$	8	$	84,111	38.1 %		
Other equity securities		138,088		295		1,829		136,554	61.9		
Total equity securities	$	214,267	$	8,235	$	1,837	$	220,665	100.0 %		

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

The Company enters into various collateral arrangements that require both the pledging and acceptance of fixed maturity securities as collateral. The Company pledged fixed maturity securities as collateral to derivative and reinsurance counterparties with an amortized cost of $25.4 million and $16.9 million, and an estimated fair value of $25.8 million and $17.0 million, as of March 31, 2013 and December 31, 2012 respectively, which are included in other invested assets in the condensed consolidated balance sheets. Securities with an amortized cost of $8,216.3 million and $7,549.0 million, and an estimated fair value of $8,889.9 million and $7,913.8 million, as of March 31, 2013 and December 31, 2012, respectively, were held in trust to satisfy collateral requirements under certain third-party reinsurance treaties.

The Company received fixed maturity securities as collateral from derivative and reinsurance counterparties with an estimated fair value of $85.4 million and $95.6 million, as of March 31, 2013 and December 31, 2012, respectively. The collateral is held in separate custodial accounts and is not recorded on the Company s condensed consolidated balance sheets. Subject to certain constraints, the Company is permitted by contract to sell or re-pledge this collateral; however, as of March 31, 2013 and December 31, 2012, none of the collateral had been sold or re-pledged.

As of March 31, 2013, the Company held securities with a fair value of $1,357.9 million that were guaranteed or issued by the Canadian province of Ontario and $1,723.9 million that were guaranteed or issued by the Canadian province of Quebec, both of which exceeded 10% of total stockholders equity. As of December 31, 2012, the Company held securities with a fair value of $1,400.0 million that were guaranteed or issued by the Canadian province of Ontario and $1,785.0 million that were guaranteed or issued by the Canadian province of Quebec, both of which exceeded 10% of total stockholders equity.

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The amortized cost and estimated fair value of fixed maturity securities available-for-sale at March 31, 2013 are shown by contractual maturity in the table below. Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date. At March 31, 2013, the contractual maturities of investments in fixed maturity securities were as follows (dollars in thousands):

	Amortized Cost	Fair Value
Available-for-sale:		
Due in one year or less	$ 348,130	$ 352,916
Due after one year through five years	3,716,625	3,917,468
Due after five years through ten years	6,922,683	7,521,433
Due after ten years	5,497,340	7,078,384
Asset and mortgage-backed securities	3,354,171	3,531,458
Total	$ 19,838,949	$ 22,401,659

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

March 31, 2013:	Amortized Cost	Estimated Fair Value	% of Total
Finance	$ 3,693,500	$ 3,978,979	32.0 %
Industrial	5,977,146	6,480,028	52.1
Utility	1,763,573	1,951,839	15.7
Other	29,863	30,655	0.2
Total	$ 11,464,082	$ 12,441,501	100.0 %

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

Other-Than-Temporary Impairments

As discussed in Note 2 Summary of Significant Accounting Policies of the 2012 Annual Report, a portion of certain other-than-temporary impairment (OTTI) losses on fixed maturity securities are recognized in AOCI. For these securities the net amount recognized in earnings (credit loss impairments) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The following table sets forth the amount of pre-tax credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts (dollars in thousands):

Three months ended March 31,

	2013	2012
Balance, beginning of period	$ 16,675	$ 63,947
Initial impairments - credit loss OTTI recognized on securities not previously impaired	--	1,902
Additional impairments - credit loss OTTI recognized on securities previously impaired	--	8,720
Credit loss OTTI previously recognized on securities impaired to fair value during the period	--	(11,381)
Credit loss OTTI previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,902)	(952)
Balance, end of period	$ 14,773	$ 62,236

Purchased Credit Impaired Fixed Maturity Securities Available-for-Sale

In the third quarter of 2012, the Company began purchasing certain residential mortgage-backed securities that had experienced deterioration in credit quality since their issuance. Securities acquired with evidence of credit quality deterioration since origination and for which it is probable at the acquisition date that the Company will be unable to collect all contractually required payments are classified as purchased credit impaired securities. For each security, the excess of the cash flows expected to be collected as of the acquisition date over its acquisition date fair value is referred to as the accretable yield and is recognized as net investment income on an effective yield basis. At the date of acquisition, the timing and

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amount of the cash flows expected to be collected was determined based on a best estimate using key assumptions, such as interest rates, default rates and prepayment speeds. If subsequently, based on current information and events, it is probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected to be collected, the accretable yield is adjusted prospectively. The excess of the contractually required payments (including interest) as of the acquisition date over the cash flows expected to be collected as of the acquisition date is referred to as the nonaccretable difference, and this amount is not expected to be realized as net investment income. Decreases in cash flows expected to be collected can result in OTTI.

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

	March 31, 2013	December 31, 2012
Outstanding principal and interest balance[1]	$ 172,800	$ 108,831
Carrying value, including accrued interest[2]	$ 134,564	$ 84,765

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

The following table presents information about purchased credit impaired investments acquired during the three months ended March 31, 2013 (dollars in thousands).

	At Date of Acquisition
Contractually required payments (including interest)	$ 91,863
Cash flows expected to be collected[1]	$ 72,940
Fair value of investments acquired	$ 50,874

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

The following table presents activity for the accretable yield on purchased credit impaired securities for the three months ended March 31, 2013 (dollars in thousands):

	Three months ended March 31, 2013
Balance, beginning of period	$ 39,239
Investments purchased	22,066
Accretion	(1,943)
Reclassification to nonaccretable difference	553
Balance, end of period	$ 59,915

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

The following table presents the total gross unrealized losses for the 667 and 567 fixed maturity and equity securities as of March 31, 2013 and December 31, 2012, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	March 31, 2013		December 31, 2012	
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total
Less than 20%	$ 66,235	54.1 %	$ 54,951	41.2 %
20% or more for less than six months	--	--	734	0.5
20% or more for six months or greater	56,297	45.9	77,873	58.3
Total	$ 122,532	100.0 %	$ 133,558	100.0 %

The Company s determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company s credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. The Company continues to consider declines in value as a potential indicator of credit deterioration. However, the Company believes that due to fluctuating market conditions and an extended period of economic uncertainty, the extent and duration of a decline in value have become less indicative of when

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there has been credit deterioration with respect to a fixed maturity security since it may not have an impact on the ability of the issuer to service all scheduled payments and the Company s evaluation of the recoverability of all contractual cash flows or the ability to recover an amount at least equal to amortized cost. In the Company s impairment review process, the duration and severity of an unrealized loss position for equity securities are given greater weight and consideration given the lack of contractual cash flows or deferability features.

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for 667 and 567 fixed maturity and equity securities that have estimated fair values below amortized cost as of March 31, 2013 and December 31, 2012, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related market value has remained below amortized cost.

	Less than 12 months		12 months or greater		Total	
March 31, 2013:	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$ 1,187,238	$ 25,066	$ 89,284	$ 11,614	$ 1,276,522	$ 36,680
Canadian and Canadian provincial governments	59,042	1,133	--	--	59,042	1,133
Residential mortgage-backed securities	54,738	469	17,664	2,920	72,402	3,389
Asset-backed securities	91,530	672	86,661	7,216	178,191	7,888
Commercial mortgage-backed securities	79,509	471	21,920	6,521	101,429	6,992
U.S. government and agencies	56,975	132	--	--	56,975	132
State and political subdivisions	30,734	266	11,463	5,480	42,197	5,746
Other foreign government, supranational and foreign government-sponsored enterprises	335,216	2,809	7,375	744	342,591	3,553
Total investment grade securities	1,894,982	31,018	234,367	34,495	2,129,349	65,513
Non-investment grade securities:						
Corporate securities	155,261	2,961	30,763	5,452	186,024	8,413
Residential mortgage-backed securities	18,215	298	4,681	354	22,896	652
Asset-backed securities	10,138	171	29,370	11,010	39,508	11,181
Commercial mortgage-backed securities	--	--	66,674	34,904	66,674	34,904
Other foreign government, supranational and foreign government-sponsored enterprises	1,034	32	--	--	1,034	32
Total non-investment grade securities	184,648	3,462	131,488	51,720	316,136	55,182
Total fixed maturity securities	$ 2,079,630	$ 34,480	$ 365,855	$ 86,215	$ 2,445,485	$ 120,695
Non-redeemable preferred stock	$ 7,885	$ 7	$ 1	$ 1	$ 7,886	$ 8
Other equity securities	110,187	1,829	--	--	110,187	1,829
Total equity securities	$ 118,072	$ 1,836	$ 1	$ 1	$ 118,073	$ 1,837

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	Less than 12 months		12 months or greater		Total	
December 31, 2012:	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$ 786,203	$ 13,276	$ 108,187	$ 17,386	$ 894,390	$ 30,662
Canadian and Canadian provincial governments	12,349	174	--	--	12,349	174
Residential mortgage-backed securities	22,288	97	19,394	3,199	41,682	3,296
Asset-backed securities	59,119	449	96,179	9,508	155,298	9,957
Commercial mortgage-backed securities	89,507	797	29,181	7,974	118,688	8,771
U.S. government and agencies	7,272	24	--	--	7,272	24
State and political subdivisions	20,602	1,514	11,736	4,132	32,338	5,646
Other foreign government, supranational and foreign government-sponsored enterprises	244,817	1,953	7,435	761	252,252	2,714
Total investment grade securities	1,242,157	18,284	272,112	42,960	1,514,269	61,244
Non-investment grade securities:						
Corporate securities	181,168	3,170	39,123	5,501	220,291	8,671
Residential mortgage-backed securities	15,199	80	2,633	347	17,832	427
Asset-backed securities	3,421	26	31,938	18,815	35,359	18,841
Commercial mortgage-backed securities	3,317	764	68,405	42,307	71,722	43,071
Total non-investment grade securities	203,105	4,040	142,099	66,970	345,204	71,010
Total fixed maturity securities	$ 1,445,262	$ 22,324	$ 414,211	$ 109,930	$ 1,859,473	$ 132,254
Non-redeemable preferred stock	$ 5,577	$ 52	$ 5,679	$ 118	$ 11,256	$ 170
Other equity securities	85,374	1,134	--	--	85,374	1,134
Total equity securities	$ 90,951	$ 1,186	$ 5,679	$ 118	$ 96,630	$ 1,304

As of March 31, 2013, the Company does not intend to sell these fixed maturity securities and does not believe it is more likely than not that it will be required to sell these fixed maturity securities before the recovery of the fair value up to the current amortized cost of the investment, which may be maturity. As of March 31, 2013, the Company has the ability and intent to hold the equity securities until the recovery of the fair value up to the current cost of the investment. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality, asset-liability management and liquidity guidelines.

Unrealized losses on non-investment grade securities are principally related to asset and mortgage-backed securities and were the result of wider credit spreads resulting from higher risk premiums since the time of initial purchase, largely due to macroeconomic conditions and credit market deterioration, including the impact of lower real estate valuations. As of March 31, 2013 and December 31, 2012, approximately $46.3 million and $61.5 million, respectively, of gross unrealized losses greater than 12 months was associated with non-investment grade asset and mortgage-backed securities. This class of securities was evaluated based on actual and projected collateral losses relative to the securities positions in the respective securitization trusts and security specific expectations of cash flows. This evaluation also takes into consideration credit enhancement, measured in terms of (i) subordination from other classes of securities in the trust that are contractually obligated to absorb losses before the class of security the Company owns, and (ii) the expected impact of other structural features embedded in the securitization trust beneficial to the class of securities the Company owns, such as overcollateralization and excess spread.

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Investment Income, Net of Related Expenses

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

	Three months ended March 31,			
	2013		2012	
Fixed maturity securities available-for-sale	$	239,244	$	191,418
Mortgage loans on real estate		28,243		14,965
Policy loans		17,910		16,783
Funds withheld at interest		137,259		115,014
Short-term investments		813		988
Other invested assets		13,922		11,322
Investment revenue		437,391		350,490
Investment expense		12,260		9,550
Investment income, net of related expenses	$	425,131	$	340,940

Investment Related Gains (Losses), Net

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

	Three months ended March 31,			
	2013		2012	
Fixed maturities and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturities	$	(202)	$	(7,607)
Portion of loss recognized in accumulated other comprehensive income (before taxes)		--		(7,221)
Net other-than-temporary impairment losses on fixed maturities recognized in earnings		(202)		(14,828)
Impairment losses on equity securities		--		(839)
Gain on investment activity		21,680		22,312
Loss on investment activity		(11,212)		(7,504)
Other impairment losses and change in mortgage loan provision		(1,626)		(5,843)
Derivatives and other, net		85,731		50,222
Total investment related gains (losses), net	$	94,371	$	43,520

The net other-than-temporary impairment losses on fixed maturity securities recognized in earnings were $0.2 million and $14.8 million in the first three months of 2013 and 2012, respectively. The other-than-temporary impairments in the first three months of 2012 were primarily due to a decline in value of structured securities with exposure to commercial mortgages and general credit deterioration in select corporate and foreign securities. The increase in derivatives and other is primarily due to an increase in the fair value of free-standing derivatives.

During the three months ended March 31, 2013 and 2012, the Company sold fixed maturity and equity securities with fair values of $204.3 million and $248.1 million at losses of $11.2 million and $7.5 million, respectively. The Company generally does not engage in short-term buying and selling of securities.

Securities Borrowing and Other

The Company participates in a securities borrowing program whereby securities, which are not reflected on the Company s condensed consolidated balance sheets, are borrowed from a third party. The Company is required to maintain a minimum of 100% of the market value of the borrowed securities as collateral, which consists of rights to reinsurance treaty cash flows. The Company had borrowed securities with an amortized cost of $87.5 million as of March 31, 2013 and December 31, 2012, which was equal to the market value in both periods. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction.

The Company also participates in a repurchase/reverse repurchase program in which securities, reflected as investments on the Company s condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives securities from the third party with an estimated fair value equal to a minimum of 100% of the securities pledged. The securities received are not reflected on the Company s condensed consolidated balance sheets. As of March 31, 2013 the Company had pledged securities with an amortized cost of $284.5 million and an estimated fair value of $309.7 million, and in return the Company received securities with an estimated fair value of $343.2 million. As of December 31, 2012 the Company had pledged securities with an amortized cost of $290.2 million and an estimated fair value of $305.9 million, and in return the Company received securities with an estimated fair value of $342.0 million.

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Mortgage Loans on Real Estate

Mortgage loans represented approximately 7.0% of the Company s total investments as of March 31, 2013 and December 31, 2012. The Company makes mortgage loans on income producing properties, such as apartments, retail and office buildings, and light industrial facilities. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans, gross of valuation allowances, by property type is as follows as of March 31, 2013 and December 31, 2012 (dollars in thousands):

	March 31, 2013		December 31, 2012	
Property type:	Recorded Investment	Percentage of Total	Recorded Investment	Percentage of Total
Apartment	$ 230,762	9.9 %	$ 229,266	9.9 %
Retail	715,036	30.6	669,958	29.0
Office building	836,332	35.8	825,406	35.7
Industrial	426,011	18.2	455,682	19.7
Other commercial	126,974	5.5	131,855	5.7
Total	$ 2,335,115	100.0 %	$ 2,312,167	100.0 %

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

	March 31, 2013		December 31, 2012	
	Recorded Investment	Percentage of Total	Recorded Investment	Percentage of Total
Pacific	$ 597,540	25.6 %	$ 593,589	25.7 %
South Atlantic	483,398	20.7	477,068	20.5
Mountain	251,406	10.8	233,174	10.1
Middle Atlantic	286,314	12.3	300,4	