REINSURANCE GROUP OF AMERICA INC
Form 10-Q
August 05, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

x	QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly period ended June 30, 2015
	OR
..	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	Commission File Number 1-11848

REINSURANCE GROUP OF AMERICA, INCORPORATED
(Exact name of Registrant as specified in its charter)

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

16600 Swingley Ridge Road
Chesterfield, Missouri 63017
(Address of principal executive offices)
(636) 736-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes X No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes X No

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No X

As of July 31, 2015, 66,467,879 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

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

	June 30, 2015	December 31, 2014
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of $26,305,332 and $23,105,597)	$ 28,063,975	$ 25,480,972
Mortgage loans on real estate (net of allowances of $5,942 and $6,471)	3,073,313	2,712,238
Policy loans	1,438,156	1,284,284
Funds withheld at interest	5,840,076	5,922,561
Short-term investments	76,118	97,694
Other invested assets	1,110,107	1,198,319
Total investments	39,601,745	36,696,068
Cash and cash equivalents	1,335,661	1,645,669
Accrued investment income	322,069	261,096
Premiums receivable and other reinsurance balances	1,518,208	1,527,729
Reinsurance ceded receivables	711,463	578,206
Deferred policy acquisition costs	3,299,541	3,342,575
Other assets	671,584	628,268
Total assets	$ 47,460,271	$ 44,679,611
Liabilities and Stockholders' Equity		
Future policy benefits	$ 16,773,035	$ 14,476,637
Interest-sensitive contract liabilities	13,516,059	12,591,497
Other policy claims and benefits	3,857,610	3,824,069
Other reinsurance balances	311,388	306,915
Deferred income taxes	2,246,086	2,365,817
Other liabilities	1,032,980	994,230
Long-term debt	2,313,470	2,314,293
Collateral finance and securitization notes	926,410	782,701
Total liabilities	40,977,038	37,656,159
Commitments and contingent liabilities (See Note 8)		
Stockholders' Equity:		
Preferred stock - par value $.01 per share, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock - par value $.01 per share, 140,000,000 shares authorized, 79,137,758 shares issued at June 30, 2015 and December 31, 2014	791	791
Additional paid-in-capital	1,805,858	1,798,279
Retained earnings	4,425,302	4,239,647
Treasury stock, at cost - 12,716,098 and 10,364,797 shares	(898,082)	(672,394)
Accumulated other comprehensive income	1,149,364	1,657,129
Total stockholders' equity	6,483,233	7,023,452
Total liabilities and stockholders' equity	$ 47,460,271	$ 44,679,611

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

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Revenues:	(Dollars in thousands, except per share data)			
Net premiums	$2,129,043	$2,183,160	$4,152,895	$4,283,797
Investment income, net of related expenses	450,539	410,607	877,430	814,982
Investment related gains (losses), net:				
Other-than-temporary impairments on fixed maturity securities	(4,137)	(870)	(6,664)	(1,173)
Other investment related gains (losses), net	(12,041)	119,397	(1,931)	204,271
Total investment related gains (losses), net	(16,178)	118,527	(8,595)	203,098
Other revenues	66,936	120,726	129,223	188,316
Total revenues	2,630,340	2,833,020	5,150,953	5,490,193
Benefits and Expenses:				
Claims and other policy benefits	1,866,183	1,841,885	3,641,634	3,685,562
Interest credited	77,246	115,962	197,924	226,556
Policy acquisition costs and other insurance expenses	300,412	409,374	577,455	764,247
Other operating expenses	131,600	127,462	253,218	238,398
Interest expense	35,851	35,211	71,478	70,295
Collateral finance and securitization expense	5,258	2,591	11,329	5,160
Total benefits and expenses	2,416,550	2,532,485	4,753,038	4,990,218
Income before income taxes	213,790	300,535	397,915	499,975
Provision for income taxes	83,399	102,239	142,410	165,015
Net income	$130,391	$198,296	$255,505	$334,960
Earnings per share:				
Basic earnings per share	$1.97	$2.87	$3.80	$4.80
Diluted earnings per share	$1.94	$2.84	$3.76	$4.75
Dividends declared per share	$0.33	$0.30	$0.66	$0.60

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
(Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Comprehensive income (loss)	(Dollars in thousands)			
Net income	$130,391	$198,296	$255,505	$334,960
Other comprehensive income (loss), net of tax:				
Change in foreign currency translation adjustments	21,935	42,643	(95,836)	(40)
Change in net unrealized gains and losses on investments	(757,641)	304,997	(413,717)	620,381
Change in other-than-temporary impairment losses on fixed maturity securities	—	1,248	—	1,698
Changes in pension and other postretirement plan adjustments	834	273	1,788	1,014
Total other comprehensive income (loss), net of tax	(734,872)	349,161	(507,765)	623,053
Total comprehensive income (loss)	$(604,481)	$547,457	$(252,260)	$958,013

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

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

	Six months ended June 30,	
	2015	2014
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	$255,505	$334,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities, net of acquisition:		
Accrued investment income	(26,656)	(9,588)
Premiums receivable and other reinsurance balances	(19,683)	(104,002)
Deferred policy acquisition costs	5,136	165,257
Reinsurance ceded receivable balances	(115,355)	(27,310)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	353,946	581,812
Deferred income taxes	77,047	111,735
Other assets and other liabilities, net	42,363	34,577
Amortization of net investment premiums, discounts and other	(39,021)	(51,521)
Investment related gains, net	8,595	(203,098)
Excess tax benefits from share-based payment arrangement	—	(1,268)
Other, net	63,815	76,256
Net cash provided by operating activities	605,692	907,810
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	2,742,814	2,756,942
Maturities of fixed maturity securities available-for-sale	232,712	239,279
Principal payments on mortgage loans on real estate	166,583	200,601
Principal payments on policy loans	441	46,747
Purchases of fixed maturity securities available-for-sale	(2,806,351)	(3,302,047)
Cash invested in mortgage loans on real estate	(531,317)	(266,002)
Cash invested in policy loans	(686)	(52,913)
Cash invested in funds withheld at interest	(57,708)	(39,856)
Purchase of business, net of cash acquired of $19,377	(191,450)	—
Purchases of property and equipment	(22,944)	(43,295)
Cash paid under securities repurchase agreements	(101,203)	—
Change in short-term investments	22,543	93,798
Change in other invested assets	73,529	271,373
Net cash used in investing activities	(473,037)	(95,373)
Cash Flows from Financing Activities:		
Dividends to stockholders	(44,519)	(41,955)
Repayment of collateral finance and securitization notes	(17,632)	—
Net change in short-term debt	—	110,000
Proceeds from collateral finance transactions	160,060	—
Debt issuance costs	(1,170)	—
Principal payments of long-term debt	(1,178)	—
Purchases of treasury stock	(262,515)	(179,592)
Excess tax benefits from share-based payment arrangement	—	1,268
Exercise of stock options, net	12,641	9,578
Change in cash collateral for derivative positions and other arrangements	(31,244)	47,561

Deposits on universal life and other investment type policies and contracts	132,679	51,257
Withdrawals on universal life and other investment type policies and contracts	(363,600)	(374,567)
Net cash used in financing activities	(416,478)	(376,450)
Effect of exchange rate changes on cash	(26,185)	18,483
Change in cash and cash equivalents	(310,008)	454,470
Cash and cash equivalents, beginning of period	1,645,669	923,647
Cash and cash equivalents, end of period	$1,335,661	$1,378,117
Supplemental disclosures of cash flow information:		
Interest paid	$74,637	$67,258
Income taxes paid, net of refunds	$(19,307)	$26,732
Non-cash transactions:		
Transfer of invested assets	$118	$1,580,080
Accrual for capitalized assets	$2,121	$—
Purchase of a business:		
Assets acquired, excluding cash acquired	$3,681,699	$—
Liabilities assumed	(3,490,249)	—
Net cash paid on purchase	$191,450	$—

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. Business and Basis of Presentation

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

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

2. Earnings Per Share

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Earnings:				
Net income (numerator for basic and diluted calculations)	$130,391	$198,296	$255,505	$334,960
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	66,351	69,076	67,246	69,823
Equivalent shares from outstanding stock options	769	642	785	666
Denominator for diluted calculation	67,120	69,718	68,031	70,489
Earnings per share:				
Basic	$1.97	$2.87	$3.80	$4.80
Diluted	$1.94	$2.84	$3.76	$4.75

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended June 30, 2015, no stock options and approximately 0.7 million performance contingent shares were excluded from the calculation. For the three months ended June 30, 2014, approximately 0.3 million stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. Year-to-date amounts for equivalent shares from outstanding stock options and performance contingent shares are the weighted average of the individual quarterly amounts.

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3. Accumulated Other Comprehensive Income

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

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[(1)]	Pension and Postretirement Benefits	Total
Balance, December 31, 2014	$81,847	$ 1,624,773	$(49,491)	$1,657,129
Other comprehensive income (loss) before reclassifications	(89,220)	(612,314)	733	(700,801)
Deferred income tax benefit (expense)	(6,616)	204,252	(222)	197,414
Other comprehensive income (loss) before reclassifications, net of income tax	(95,836)	(408,062)	511	(503,387)
Amounts reclassified to (from) AOCI	—	(6,192)	1,965	(4,227)
Deferred income tax benefit (expense)	—	537	(688)	(151)
Amounts reclassified to (from) AOCI, net of income tax	—	(5,655)	1,277	(4,378)
Balance, June 30, 2015	$(13,989)	$ 1,211,056	$(47,703)	$1,149,364

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments[(1)]	Pension and Postretirement Benefits	Total
Balance, December 31, 2013	$207,083	$ 820,245	$(21,721)	$1,005,607
Other comprehensive income (loss) before reclassifications	(9,162)	949,650	(257)	940,231
Deferred income tax benefit (expense)	9,122	(302,873)	251	(293,500)
Other comprehensive income (loss) before reclassifications, net of income tax	(40)	646,777	(6)	646,731
Amounts reclassified to (from) AOCI	—	(37,661)	1,570	(36,091)
Deferred income tax benefit (expense)	—	12,963	(550)	12,413
Amounts reclassified to (from) AOCI, net of income tax	—	(24,698)	1,020	(23,678)
Balance, June 30, 2014	$207,043	$ 1,442,324	$(20,707)	$1,628,660

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

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

	Amount Reclassified from AOCI				
	Three months ended June 30,		Six months ended June 30,		
Details about AOCI Components	2015	2014	2015	2014	Affected Line Item in Statement of Income
Unrealized gains and losses on available-for-sale securities	$1,829	$27,142	$4,908	$28,331	Investment related gains (losses), net
Gains and losses on cash flow hedges	543	321	603	539	Investment income

Gains and losses on cash flow hedges	1,495	—	655	—	Investment related gains (losses), net
Deferred policy acquisition costs attributed to unrealized gains and losses[1]	(4,307)	4,370	26	8,791	
Total	(440)	31,833	6,192	37,661	
Provision for income taxes	(245)	(11,059)	(537)	(12,963)	
Net unrealized gains (losses), net of tax	$(685)	$20,774	$5,655	$24,698	
Amortization of unrealized pension and postretirement benefits:					
Prior service cost[2]	$(80)	$(216)	$(163)	$(218)	
Actuarial gains/(losses)[2]	(1,098)	(462)	(1,802)	(1,352)	
Total	(1,178)	(678)	(1,965)	(1,570)	
Provision for income taxes	413	238	688	550	
Amortization of unrealized pension and postretirement benefits, net of tax	$(765)	$(440)	$(1,277)	$(1,020)	
Total reclassifications, net of tax	$(1,450)	$20,334	$4,378	$23,678	

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

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

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4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

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

June 30, 2015:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total		Other-than-temporary impairments in AOCI	
Available-for-sale:								
Corporate securities	$16,000,887	$730,409	$241,890	$16,489,406	58.8	%	$—	
Canadian and Canadian provincial governments	2,655,763	1,140,904	2,860	3,793,807	13.5		—	
Residential mortgage-backed securities	1,154,732	47,241	11,094	1,190,879	4.2		(300	)
Asset-backed securities	1,051,093	19,915	8,384	1,062,624	3.8		354	
Commercial mortgage-backed securities	1,471,419	63,699	9,649	1,525,469	5.4		(1,609	)
U.S. government and agencies	1,332,518	18,149	86,669	1,263,998	4.5		—	
State and political subdivisions	478,262	38,891	10,981	506,172	1.8		—	
Other foreign government, supranational and foreign government-sponsored enterprises	2,160,658	88,674	17,712	2,231,620	8.0		—	
Total fixed maturity securities	$26,305,332	$2,147,882	$389,239	$28,063,975	100.0	%	$(1,555	)
Non-redeemable preferred stock	$91,717	$2,477	$3,620	$90,574	70.9	%		
Other equity securities	37,642	434	982	37,094	29.1			
Total equity securities	$129,359	$2,911	$4,602	$127,668	100.0	%		

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

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

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

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	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities pledged as collateral	$181,681	$190,298	$127,229	$134,863
Fixed maturity securities received as collateral	n/a	126,422	n/a	117,227
Securities held in trust	9,948,045	10,501,206	10,197,489	10,922,947

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

	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities guaranteed or issued by:				
Canadian province of Ontario	$921,150	$1,295,793	$979,908	$1,359,339
Canadian province of Quebec	1,012,835	1,560,409	1,006,315	1,599,673

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

	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due in one year or less	$686,582	$696,191
Due after one year through five years	4,882,381	5,118,186
Due after five years through ten years	7,920,478	8,213,365
Due after ten years	9,138,647	10,257,261
Asset and mortgage-backed securities	3,677,244	3,778,972
Total	$26,305,332	$28,063,975

Corporate Fixed Maturity Securities

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

June 30, 2015:	Amortized Cost	Estimated Fair Value	% of Total	
Finance	$ 5,238,400	$5,419,421	32.9	%
Industrial	9,057,282	9,281,262	56.2	
Utility	1,705,205	1,788,723	10.9	
Total	$ 16,000,887	$16,489,406	100.0	%

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

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

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

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

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

The following table presents the total gross unrealized losses for the 1,566 and 932 fixed maturity and equity securities as of June 30, 2015 and December 31, 2014, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	June 30, 2015		December 31, 2014	
	Gross Unrealized Losses	% of Total	Gross Unrealized Losses	% of Total
Less than 20%	$373,312	94.8 %	$111,965	83.0 %
20% or more for less than six months	10,201	2.6	13,698	10.1
20% or more for six months or greater	10,328	2.6	9,256	6.9
Total	$393,841	100.0 %	$134,919	100.0 %

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

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for 1,566 and 932 fixed maturity and equity securities that have estimated fair values below amortized cost as of June 30, 2015 and December 31, 2014, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related fair value has remained below amortized cost.

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June 30, 2015:	Less than 12 months Estimated Fair Value	Less than 12 months Gross Unrealized Losses	12 months or greater Estimated Fair Value	12 months or greater Gross Unrealized Losses	Total Estimated Fair Value	Total Gross Unrealized Losses
Investment grade securities:						
Corporate securities	$4,719,168	$194,881	$299,379	$17,451	$5,018,547	$212,332
Canadian and Canadian provincial governments	117,996	2,860	—	—	117,996	2,860
Residential mortgage-backed securities	309,772	6,659	64,855	3,772	374,627	10,431
Asset-backed securities	294,220	3,101	126,602	3,504	420,822	6,605
Commercial mortgage-backed securities	220,262	4,376	22,831	1,392	243,093	5,768
U.S. government and agencies	862,953	86,669	—	—	862,953	86,669
State and political subdivisions	157,210	7,399	13,180	3,582	170,390	10,981
Other foreign government, supranational and foreign government-sponsored enterprises	402,345	13,050	33,829	1,988	436,174	15,038
Total investment grade securities	7,083,926	318,995	560,676	31,689	7,644,602	350,684
Below investment grade securities:						
Corporate securities	553,615	23,667	58,910	5,891	612,525	29,558
Residential mortgage-backed securities	31,443	268	11,779	395	43,222	663
Asset-backed securities	5,305	84	12,102	1,695	17,407	1,779
Commercial mortgage-backed securities	6,523	534	7,544	3,347	14,067	3,881
Other foreign government, supranational and foreign government-sponsored enterprises	62,974	2,502	3,921	172	66,895	2,674
Total below investment grade securities	659,860	27,055	94,256	11,500	754,116	38,555
Total fixed maturity securities	$7,743,786	$346,050	$654,932	$43,189	$8,398,718	$389,239
Non-redeemable preferred stock	$39,466	$2,178	$6,225	$1,442	$45,691	$3,620
Other equity securities	26,791	982	—	—	26,791	982
Total equity securities	$66,257	$3,160	$6,225	$1,442	$72,482	$4,602

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

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

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The Company has no intention to sell nor does it expect to be required to sell the securities outlined in the table above, as of the dates indicated. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity and equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

Unrealized losses on below investment grade securities as of June 30, 2015 are primarily related to high-yield corporate securities and commercial mortgage-backed securities. Unrealized losses increased across most security types as interest rates increased during the first six months of 2015.

Investment Income, Net of Related Expenses

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Fixed maturity securities available-for-sale	$303,792	$253,456	$573,560	$497,418
Mortgage loans on real estate	37,121	30,373	71,893	63,465
Policy loans	16,248	13,751	30,288	27,189
Funds withheld at interest	87,325	108,059	199,585	220,798
Short-term investments	814	80	1,509	1,045
Other invested assets	22,418	19,021	34,445	33,522
Investment income	467,718	424,740	911,280	843,437
Investment expense	(17,179)	(14,133)	(33,850)	(28,455)
Investment income, net of related expenses	$450,539	$410,607	$877,430	$814,982

Investment Related Gains (Losses), Net

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Fixed maturity and equity securities available for sale:				
Other-than-temporary impairment losses on fixed maturity securities recognized in earnings	$(4,137)	$(870)	$(6,664)	$(1,173)
Gain on investment activity	20,009	34,887	39,210	42,954
Loss on investment activity	(14,475)	(6,877)	(28,071)	(13,460)
Other impairment losses and change in mortgage loan provision	143	(5,309)	(4,025)	(3,645)
Derivatives and other, net	(17,718)	96,696	(9,045)	178,422
Total investment related gains (losses), net	$(16,178)	$118,527	$(8,595)	$203,098

The fluctuations in investment related gains (losses) for derivatives and other for the three and six months ended June 30, 2015, compared to the same periods in 2014, are primarily due to changes in the fair value of interest rate swaps and the embedded derivatives related to modified coinsurance and funds withheld treaties, as a result of changes in interest rates.

During the three months ended June 30, 2015 and 2014, the Company sold fixed maturity and equity securities with fair values of $651.3 million and $222.8 million at losses of $14.5 million and $6.9 million, respectively. During the six months ended June 30, 2015 and 2014, the Company sold fixed maturity and equity securities with fair values of $850.9 million and $457.9 million at losses of $28.1 million and $13.5 million, respectively. The Company generally does not engage in short-term buying and selling of securities.

Securities Borrowing and Other

The Company participates in securities borrowing programs whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from third parties. The borrowed securities are used to provide collateral under affiliated reinsurance transactions. The Company is required to maintain a minimum of

100% of the fair value, or par value under certain programs, of the borrowed securities as collateral. The collateral consists of rights to reinsurance treaty cash flows. If cash flows from the reinsurance treaties are insufficient to maintain the minimum collateral requirement, the Company may substitute cash or securities to meet the requirement. No cash or securities have been pledged by the Company for this purpose.

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During the year, the Company participated in a repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, were pledged to a third party. In return, the Company received cash from the third party, reflected as a payable to the third party, included in other liabilities on the condensed consolidated balance sheets. The Company was required to maintain a minimum collateral balance with a fair value of 105% of the cash received. The Company terminated the program and all cash was returned prior to June 30, 2015. The gross balance of the repurchase agreement payable was $101.4 million as of December 31, 2014. This was fully collateralized by securities with a fair value of $107.2 million as of December 31, 2014.

Additionally, the Company participates in a repurchase/reverse repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives securities from the third party with an estimated fair value equal to a minimum of 100% of the securities pledged. The securities received are not reflected on the Company's condensed consolidated balance sheets.

The following table includes the amount of borrowed securities, repurchased securities pledged and repurchased/reverse repurchased securities pledged and received as of June 30, 2015 and December 31, 2014 (dollars in thousands).

	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Borrowed securities	$275,060	$284,602	$201,050	$212,946
Repurchase program securities pledged	—	—	92,446	107,158
Repurchase program/reverse repurchase program:				
Securities pledged	298,900	313,771	298,466	314,160
Securities received	n/a	340,201	n/a	338,929

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

	June 30, 2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Collateral on repurchase program					
U.S. treasury and agency securities	$—	$—	$23,237	$177,294	$200,531
Residential mortgage-backed securities	—	—	—	104,144	104,144
Other debt instruments	9,096	—	—	—	9,096
Total borrowings	$9,096	$—	$23,237	$281,438	$313,771

Gross amount of recognized liabilities for repurchase agreement in preceding table	$340,201
Amounts related to agreements not included in offsetting disclosure	$26,430

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Mortgage Loans on Real Estate

Mortgage loans represented approximately 7.8% and 7.4% of the Company's total investments as of June 30, 2015 and December 31, 2014. The Company makes mortgage loans on income producing properties that are geographically diversified throughout the U.S., with the largest concentration being in California, which represented 20.6% and 18.7% of mortgage loans on real estate as of June 30, 2015 and December 31, 2014, respectively. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans, gross of valuation allowances, by property type is as follows as of June 30, 2015 and December 31, 2014 (dollars in thousands):

	June 30, 2015			December 31, 2014		
Property type:	Recorded Investment	% of Total		Recorded Investment	% of Total	
Office building	$957,724	31.1	%	$851,749	31.3	%
Retail	964,540	31.4		802,466	29.6	
Industrial	535,856	17.4		466,583	17.2	
Apartment	410,213	13.3		376,430	13.8	
Other commercial	210,922	6.8		221,481	8.1	
Total	$3,079,255	100.0	%	$2,718,709	100.0	%

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

	June 30, 2015			December 31, 2014		
	Recorded Investment	% of Total		Recorded Investment	% of Total	
Due within five years	$877,270	28.5	%	$860,362	31.6	%
Due after five years through ten years	1,459,108	47.4		1,165,530	42.9	
Due after ten years	742,877	24.1		692,817	25.5	
Total	$3,079,255	100.0	%	$2,718,709	100.0	%

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

	June 30, 2015			December 31, 2014		
Internal credit quality grade:	Recorded Investment	% of Total		Recorded Investment	% of Total	
High investment grade	$1,553,149	50.5	%	$1,326,199	48.8	%
Investment grade	1,405,901	45.7		1,235,046	45.4	
Average	81,284	2.6		118,152	4.4	
Watch list	22,036	0.7		22,285	0.8	
In or near default	16,885	0.5		17,027	0.6	
Total	$3,079,255	100.0	%	$2,718,709	100.0	%

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

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

	June 30, 2015	December 31, 2014
Mortgage loans:		
Individually measured for impairment	$16,885	$17,027
Collectively measured for impairment	3,062,370	2,701,682
Mortgage loans, gross of valuation allowances	3,079,255	2,718,709
Valuation allowances:		
Individually measured for impairment	671	816
Collectively measured for impairment	5,271	5,655
Total valuation allowances	5,942	6,471
Mortgage loans, net of valuation allowances	$3,073,313	$2,712,238

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

	Three months ended June 30,		Six months ended June 30,	
	2015	2014	2015	2014
Balance, beginning of period	$6,130	$8,466	$6,471	$10,106
Charge-offs, net of recoveries	—	—	—	24
Provision (release)	(188)	1,226	(529)	(438)
Balance, end of period	$5,942	$9,692	$5,942	$9,692

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

	Unpaid Principal Balance	Recorded Investment	Related Allowance	Carrying Value
June 30, 2015:				
Impaired mortgage loans with no valuation allowance recorded	$4,414	$4,354	$—	$4,354
Impaired mortgage loans with valuation allowance recorded	13,039	12,531	671	11,860
Total impaired mortgage loans	$17,453	$16,885	$671	$16,214
December 31, 2014:				
Impaired mortgage loans with no valuation allowance recorded	$7,314	$6,711	$—	$6,711
Impaired mortgage loans with valuation allowance recorded	10,279	10,316	816	9,500
Total impaired mortgage loans	$17,593	$17,027	$816	$16,211

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

	Three months ended June 30,			
	2015		2014	
	Average Recorded Investment(1)	Interest Income	Average Recorded Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$5,524	$35	$14,589	$71
	11,397	229	15,855	259

Impaired mortgage loans with valuation allowance recorded				
Total impaired mortgage loans	$16,921	$264	$30,444	$330

	Six months ended June 30,			
	2015		2014	
	Average Recorded Investment(1)	Interest Income	Average Recorded Investment(1)	Interest Income
Impaired mortgage loans with no valuation allowance recorded	$5,920	$141	$16,759	$389
Impaired mortgage loans with valuation allowance recorded	11,036	384	16,151	452
Total impaired mortgage loans	$16,956	$525	$32,910	$841

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

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The Company did not acquire any impaired mortgage loans during the six months ended June 30, 2015 and 2014. The Company had no mortgage loans that were on a nonaccrual status at June 30, 2015 and December 31, 2014.

Policy Loans

Policy loans comprised approximately 3.6% and 3.5% of the Company's total investments as of June 30, 2015 and December 31, 2014, respectively, the majority of which are associated with one client. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due to the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. As policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

Funds Withheld at Interest

Funds withheld at interest comprised approximately 14.7% and 16.1% of the Company's total investments as of June 30, 2015 and December 31, 2014, respectively. Of the $5.8 billion funds withheld at interest balance, net of embedded derivatives, as of June 30, 2015, $4.2 billion of the balance is associated with one client. For reinsurance agreements written on a modified coinsurance basis and certain agreements written on a coinsurance funds withheld basis, assets equal to the net statutory reserves are withheld and legally owned and managed by the ceding company and are reflected as funds withheld at interest on the Company's condensed consolidated balance sheets. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances against amounts owed to the Company from the ceding company.

Other Invested Assets

Other invested assets include equity securities, limited partnership interests, joint ventures (other than operating joint ventures), structured loans, derivative contracts, fair value option ("FVO") contractholder-directed unit-linked investments, Federal Home Loan Bank of Des Moines ("FHLB") common stock (included in other in the table below), real estate held-for-investment (included in other in the table below), and equity release mortgages (included in other in the table below). The fair value option was elected for contractholder-directed investments supporting unit-linked variable annuity type liabilities which do not qualify for presentation and reporting as separate accounts. Other invested assets represented approximately 2.8% and 3.3% of the Company's total investments as of June 30, 2015 and December 31, 2014, respectively. Carrying values of these assets as of June 30, 2015 and December 31, 2014 are as follows (dollars in thousands):

	June 30, 2015	December 31, 2014
Equity securities	$127,668	$126,860
Limited partnerships and real estate joint ventures	492,465	446,604
Structured loans	52,185	164,309
Derivatives	194,276	216,966
FVO contractholder-directed unit-linked investments	137,529	140,344
Other	105,984	103,236
Total other invested assets	$1,110,107	$1,198,319

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5. Derivative Instruments

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

	June 30, 2015			December 31, 2014		
	Notional	Carrying Value/Fair Value		Notional	Carrying Value/Fair Value	
	Amount	Assets	Liabilities	Amount	Assets	Liabilities
Derivatives not designated as hedging instruments:						
Interest rate swaps	$966,658	$71,399	$11,025	$1,144,661	$93,783	$3,934
Interest rate options	—	—	—	240,000	18,195	—
Financial futures	313,905	—	—	275,983	—	—
Foreign currency forwards	60,000	129	7,551	67,967	87	15,098
Consumer price index swaps	39,537	34	57	41,938	—	561
Credit default swaps	891,700	11,757	3,937	805,700	11,689	3,502
Equity options	483,830	44,883	—	555,361	35,242	—
Longevity swaps	891,760	10,853	—	450,000	7,727	—
Mortality swaps	50,000	—	1,754	50,000	—	797
Synthetic guaranteed investment contracts	6,594,770	—	—	6,500,942	—	—
Embedded derivatives in:						
Modified coinsurance or funds withheld arrangements	—	—	3,329	—	22,094	—
Indexed annuity products	—	—	935,619	—	—	925,887
Variable annuity products	—	—	133,535	—	—	159,279
Total non-hedging derivatives	10,292,160	139,055	1,096,807	10,132,552	188,817	1,109,058
Derivatives designated as hedging instruments:						
Interest rate swaps	120,000	—	23,662	120,000	—	18,228
Foreign currency swaps	715,641	88,303	413	676,972	70,906	—
Forward bond purchase commitments	—	—	—	196,452	1,175	14,545
Total hedging derivatives	835,641	88,303	24,075	993,424	72,081	32,773
Total derivatives	$11,127,801	$227,358	$1,120,882	$11,125,976	$260,898	$1,141,831

Netting Arrangements

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

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

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

	Gross Amounts Recognized	Gross Amounts Offset in the Balance Sheet	Net Amounts Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet: Financial Instruments	Gross Amounts Not Offset in the Balance Sheet: Cash Collateral Pledged/ Received	Net Amount
June 30, 2015:						
Derivative assets	$ 227,358	$ (22,230)	$ 205,128	$(15,587)	$ (160,768)	$28,773
Derivative liabilities	48,399	(22,230)	26,169	(54,692)	(4,940)	(33,463)
December 31, 2014:						
Derivative assets	$ 238,804	$ (14,111)	$ 224,693	$(20,260)	$ (178,141)	$26,292
Derivative liabilities	56,665	(14,111)	42,554	(47,222)	—	(4,668)

Accounting for Derivative Instruments and Hedging Activities

The Company does not enter into derivative instruments for speculative purposes. As discussed below under “Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging,” the Company uses various derivative instruments for risk management purposes that either do not qualify or have not been qualified for hedge accounting treatment, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. As of June 30, 2015 and December 31, 2014, the Company held interest rate swaps that were designated and qualified as cash flow hedges of interest rate risk, held foreign currency swaps that were designated and qualified as hedges of a portion of its net investment in its foreign operations, had derivative instruments that were not designated as hedging instruments and, as of December 31, 2014, the Company had forward bond purchase commitments that qualified as cash flow hedges. See Note 2 – “Summary of Significant Accounting Policies” of the Company’s 2014 Annual Report for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. Derivative instruments are carried at fair value and generally require an insignificant amount of cash at inception of the contracts.

Cash Flow Hedges

Certain derivative instruments are designated as cash flow hedges when they meet the requirements of the general accounting principles for Derivatives and Hedging. The Company designates and accounts for certain interest rate swaps, in which the cash flows are denominated in different currencies, commonly referred to as cross-currency swaps, as cash flow hedges. In addition, the Company designates and accounts for its forward bond purchase commitments as cash flow hedges.

The following table presents the components of AOCI, before income tax, and the condensed consolidated income statement classification where the gain or loss is recognized related to cash flow hedges for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Three months ended June 30, 2015	Three months ended June 30, 2014
Accumulated other comprehensive income (loss), balance beginning of period	$(30,598)	$(4,020)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	8,735	4,798
Amounts reclassified to investment related gains (losses), net	(1,495)	—
Amounts reclassified to investment income	(543)	(321)
Accumulated other comprehensive income (loss), balance end of period	$(23,901)	$457

	Six months ended June 30, 2015	Six months ended June 30, 2014
Accumulated other comprehensive income (loss), balance beginning of period	$(31,591)	$(4,578)
Gains (losses) deferred in other comprehensive income (loss) on the effective portion of cash flow hedges	8,948	5,574

Amounts reclassified to investment related gains (losses), net	(655)	—
Amounts reclassified to investment income	(603)	(539)
Accumulated other comprehensive income (loss), balance end of period	$(23,901)	$457

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As of June 30, 2015, the before-tax deferred net gains on derivative instruments recorded in AOCI that are expected to be reclassified to earnings during the next twelve months are approximately $0.5 million. This expectation is based on the anticipated interest payments on hedged investments in fixed maturity securities that will occur over the next twelve months, at which time the Company will recognize the deferred net gains (losses) as an adjustment to investment income over the term of the investment cash flows.

The following table presents the effects of derivatives in cash flow hedging relationships on the condensed consolidated statements of income and AOCI for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

	Effective Portion			Ineffective Portion	
Derivative Type	Gain (Loss) Recognized in OCI	Gain (Loss) Reclassified into Income from OCI	Classification of Gain (Loss) Reclassified into Net Income	Gain (Loss) Recognized in Income	Classification of Gain (Loss) Recognized in Net Income
For the three months ended June 30, 2015:					
Interest rate swaps	$2,417	$231	Investment Income	$—	Investment related gains (losses)
Forward bond purchase commitments:					
Principal	6,318	1,495	Investment related gains (losses)	—	Investment related gains (losses)
Interest	—	312	Investment Income	—	Investment related gains (losses)
Total	$8,735	$2,038		$—	
For the three months ended June 30, 2014:					
Interest rate swaps	$4,798	$321	Investment Income	$7	Investment related gains (losses)
For the six months ended June 30, 2015:					
Interest rate swaps	$(5,150)	$291	Investment Income	$7	Investment related gains (losses)
Forward bond purchase commitments:					
Principal	14,098	655	Investment related gains (losses)	—	Investment related gains (losses)
Interest	—	312	Investment Income	—	Investment related gains (losses)
Total	$8,948	$1,258		$7	
For the six months ended June 30, 2014:					
Interest rate swaps	$5,574	$539	Investment Income	$1	Investment related gains (losses)

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

Hedges of Net Investments in Foreign Operations

The Company uses foreign currency swaps to hedge a portion of its net investment in certain foreign operations against adverse movements in exchange rates. The following table illustrates the Company’s net investments in foreign operations (“NIFO”) hedges for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

Derivative Gains (Losses) Deferred in AOCI

Type of NIFO Hedge [1] [2]	For the three months ended June 30, 2015	2014	For the six months ended June 30, 2015	2014
Foreign currency swaps	$(12,945)	$(22,335)	$37,021	$744

(1) There were no sales or substantial liquidations of net investments in foreign operations that would have required the reclassification of gains or losses from accumulated other comprehensive income (loss) into investment income during the periods presented.
(2) There was no ineffectiveness recognized for the Company's hedges of net investments in foreign operations.

The cumulative foreign currency translation gain recorded in AOCI related to these hedges was $112.9 million and $75.8 million at June 30, 2015 and December 31, 2014, respectively. If a foreign operation was sold or substantially liquidated, the amounts in AOCI would be reclassified to the condensed consolidated statements of income. A pro rata portion would be reclassified upon partial sale of a foreign operation.

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Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging

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

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

		Gain (Loss) for the three months ended June 30,	
Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	2015	2014
Interest rate swaps	Investment related gains (losses), net	$ (41,729)	$ 22,251
Interest rate options	Investment related gains (losses), net	—	2,004
Financial futures	Investment related gains (losses), net	(2,183)	(7,684)
Foreign currency forwards	Investment related gains (losses), net	(1,433)	1,178
CPI swaps	Investment related gains (losses), net	168	114
Credit default swaps	Investment related gains (losses), net	(187)	4,783
Equity options	Investment related gains (losses), net	(2,606)	(8,800)
Longevity swaps	Other revenues	1,911	—
Mortality swaps	Other revenues	(478)	—
Subtotal		(46,537)	13,846
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	(23,098)	78,835
Indexed annuity products	Interest credited	8,080	(27,285)
Variable annuity products	Investment related gains (losses), net	50,878	(5,183)
Total non-hedging derivatives		$ (10,677)	$ 60,213

		Gain (Loss) for the six months ended June 30,	
Type of Non-hedging Derivative	Income Statement Location of Gain (Loss)	2015	2014
Interest rate swaps	Investment related gains (losses), net	$ (12,385)	$ 51,904
Interest rate options	Investment related gains (losses), net	3,275	3,286
Financial futures	Investment related gains (losses), net	(9,514)	(9,268)
Foreign currency forwards	Investment related gains (losses), net	(1,653)	2,332
CPI swaps	Investment related gains (losses), net	97	467
Credit default swaps	Investment related gains (losses), net	2,471	2,669
Equity options	Investment related gains (losses), net	(10,672)	(17,765)
Longevity swaps	Other revenues	3,731	—
Mortality swaps	Other revenues	(957)	—
Subtotal		(25,607)	33,625
Embedded derivatives in:			
Modified coinsurance or funds withheld arrangements	Investment related gains (losses), net	(25,423)	156,076
Indexed annuity products	Interest credited	(21,246)	(51,125)
Variable annuity products	Investment related gains (losses), net	25,745	(28,844)
Total non-hedging derivatives		$ (46,531)	$ 109,732

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Types of Derivatives Used by the Company

Interest Rate Swaps

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

Interest Rate Options

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

Financial Futures

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

Equity Options

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

Consumer Price Index Swaps

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

Foreign Currency Swaps

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

Foreign Currency Forwards

Foreign currency forwards are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. With a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency at the specified future date.

Forward Bond Purchase Commitments

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

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Credit Default Swaps

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

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

June 30, 2015