Mutual of Omaha Insurance Company and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2014 and 2013, and Independent Auditors' Report

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Mutual of Omaha Insurance Company
Omaha, Nebraska

We have audited the accompanying consolidated financial statements of Mutual of Omaha Insurance Company and Subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Mutual of Omaha Insurance Company and Subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

March 6, 2015

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
ASSETS		
INVESTMENTS:		
Fixed maturities — available-for-sale — at fair value	$17,870,525	$16,005,952
Fixed maturities — trading — at fair value	153,243	140,119
Equity securities — available-for-sale — at fair value	12,397	11,459
Equity securities — trading — at fair value	41,149	38,006
Equity securities — at cost	49,080	38,565
Loans — net	7,086,612	7,178,918
Loans held for sale — at fair value	419	44,374
Real estate	198,982	241,629
Limited partnerships	496,483	574,774
Other invested assets	17,401	23,062
Policy loans	213,862	210,363
Short-term investments	136,765	193,833
Total investments	26,276,918	24,701,054
CASH AND CASH EQUIVALENTS	483,583	265,202
ACCRUED INVESTMENT INCOME	166,081	159,569
PREMIUMS AND OTHER RECEIVABLES	105,052	99,010
DEFERRED POLICY ACQUISITION COSTS	2,727,128	2,498,136
REINSURANCE RECOVERABLE	436,591	402,077
CURRENT INCOME TAXES RECEIVABLE	1,441	14,059
GOODWILL AND INTANGIBLE ASSETS	186,318	191,662
COMPANY OWNED LIFE INSURANCE	377,896	317,218
OTHER ASSETS	348,652	356,801
SEPARATE ACCOUNT ASSETS	3,371,510	3,229,211
TOTAL	$34,481,170	$32,233,999
LIABILITIES AND EQUITY		
LIABILITIES:		
Future policy benefits	$ 8,489,989	$ 7,497,626
Policyholder account balances	7,036,876	7,039,156
Unpaid claims	1,651,300	1,572,469
Unearned revenues	403,429	375,262
Deposits	5,107,154	5,021,484
Deferred income taxes payable	833,082	699,936
Borrowings	1,391,066	1,156,686
Other liabilities	1,056,904	907,951
Separate account liabilities	3,371,510	3,229,211
Total liabilities	29,341,310	27,499,781
EQUITY:		
Retained earnings	4,864,110	4,572,409
Accumulated other comprehensive income	275,750	161,809
Total equity	5,139,860	4,734,218
TOTAL	$34,481,170	$32,233,999

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
REVENUES:		
Health and accident	$ 3,637,994	$ 3,570,421
Life and annuity	1,990,659	1,710,632
Net investment income	1,123,857	1,121,344
Other	95,882	147,991
Net realized investment gains (losses):		
Other-than-temporary impairments on fixed maturities	(6,604)	(26,608)
Other-than-temporary impairments on fixed maturities transferred to other comprehensive income	5,004	6,825
Other net realized investment gains	31,229	71,547
Total net realized investment gains	29,629	51,764
Total revenues	6,878,021	6,602,152
BENEFITS AND EXPENSES:		
Health and accident benefits	2,693,796	2,650,988
Life and annuity benefits	1,793,268	1,475,131
Interest credited	214,380	237,059
Policy acquisition costs	694,227	734,013
General insurance expenses	732,661	713,546
General bank expenses	202,873	207,814
Nonoperating loss on extinguishment of debt	63,643	-
Other	32,682	41,552
Total benefits and expenses	6,427,530	6,060,103
INCOME BEFORE INCOME TAXES	450,491	542,049
INCOME TAXES	158,790	182,801
NET INCOME	291,701	359,248
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX:		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during the year net of related policyholder amounts (net of taxes of $133,457 and $(212,361), respectively)	247,848	(394,385)
Reclassification adjustments for realized holding losses (gains) (net of taxes of $2,336 and $(571), respectively)	4,338	(1,060)
Change in net unrealized gains	252,186	(395,445)
Unrealized holding gains (losses) arising during the year on other-than-temporarily impaired securities (net of taxes of $(3,098) and $2,062, respectively)	(5,753)	3,830
Defined benefit plans:		
Unrecognized post-retirement benefit net gains (costs) arising during the year (net of taxes of ($84,472) and $75,480, respectively)	(156,876)	140,178
Less amounts recognized due to settlement (net of taxes of $7,752)	14,397	-
Less amortization of unrecognized post-retirement benefit costs (net of taxes of $5,378 and $13,389, respectively)	9,987	24,866
Unrecognized post-retirement benefit net gains (costs) arising during the year	(132,492)	165,044
OTHER COMPREHENSIVE INCOME (LOSS)	113,941	(226,571)
COMPREHENSIVE INCOME	$ 405,642	$ 132,677

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

		Accumulated Other Comprehensive Income (Loss)			
	Retained Earnings	Net Unrealized Investment Gains (Losses)	Unrealized Gains (Losses) on Other-Than-Temporarily Impaired Securities	Benefit Plans Adjustments	Total
BALANCE — January 1, 2013	$4,213,161	$ 681,844	$5,990	$ (299,454)	$4,601,541
Net income	359,248	-	-	-	359,248
Other comprehensive income (loss)	-	(395,445)	3,830	165,044	(226,571)
BALANCE — December 31, 2013	4,572,409	286,399	9,820	(134,410)	4,734,218
Net income	291,701	-	-	-	291,701
Other comprehensive income (loss)	-	252,186	(5,753)	(132,492)	113,941
BALANCE — December 31, 2014	$4,864,110	$ 538,585	$4,067	$ (266,902)	$5,139,860

See notes to consolidated financial statements.

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES:		
Net income	$ 291,701	$ 359,248
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	45,965	46,570
Amortization	(7,970)	(18,031)
Change in fair value of derivatives	(503)	(2,520)
Undistributed equity (earnings) losses of limited partnerships	(1,778)	1,356
Provision for bank loan losses	3,030	11,927
Change in fair value of mortgage servicing rights	3,969	(988)
Amortization of deferred policy acquisition costs	395,983	450,910
Increase in cash surrender value of company owned life insurance	(10,678)	(21,413)
Net realized investment gains	(29,629)	(51,764)
Deferred tax provision	71,907	101,651
Interest credited	197,126	219,955
Policy charges and fee income	(287,851)	(273,502)
Gain on sale of loans	(6,424)	(17,169)
Proceeds from loans sold	270,198	616,494
Origination of loans held for sale	(222,167)	(548,750)
Change in:		
Accrued investment income	(6,488)	(6,944)
Premiums and other receivables	(6,042)	13,387
Reinsurance recoverable	(34,514)	(14,731)
Current income taxes payable	12,618	10,666
Trading securities	(12,481)	5,472
Other assets	(18,263)	3,899
Insurance liabilities	882,723	502,068
Other liabilities	(58,052)	122,841
Capitalization of deferred policy acquisition costs	(645,306)	(640,328)
Other — net	8,233	1,003
Cash flows from operating activities	835,307	871,307
CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES:		
Proceeds from sales or maturities of fixed maturities	1,969,550	2,240,792
Proceeds from payments of mortgage loans	326,679	333,268
Proceeds from equity securities and other invested assets	20,626	23,413
Proceeds from time deposit maturities	259,000	67,033
Proceeds from limited partnerships	142,678	132,122
Proceeds from sales of real estate	40,902	42,964
Proceeds from sales of property and equipment	28,948	12
Purchases of fixed maturities	(3,215,582)	(3,352,307)
Purchases of mortgage loans	(203,726)	(348,665)
Purchases of equity securities and other invested assets	(30,177)	(21,283)
Purchases of time deposits	(264,000)	(65,000)
Purchases of limited partnerships	(27,462)	(34,436)
Purchases of real estate	(1,942)	(6,809)
Purchases of company owned life insurance	(50,000)	-
Purchases of property and equipment	(42,175)	(41,883)
FDIC loss share reimbursements	3,204	3,861
Net change in loans from banking activities	(37,297)	(427,695)
Net change in policy loans	(3,499)	(2,255)
Net change in short-term investments	178	(105)
Cash flows used for investing activities	(1,084,095)	(1,456,973)

(Continued)

MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014 AND 2013
(In thousands)

	2014	2013
CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES:		
Deposits to policyholder account balances	$ 1,645,346	$ 1,780,564
Net proceeds from issuance of surplus notes	300,000	-
Payments on surplus notes	(165,041)	-
Net transfers to separate accounts	(47,498)	(119,352)
Withdrawals from policyholder account balances	(1,509,404)	(1,388,645)
Payments on FHLB advances	(13,575)	(14,031)
Net increase in FHLB LOC borrowings	185,000	115,000
Net change in deposits	85,670	231,109
Net change in short-term borrowings	(13,329)	(95,274)
Cash flows from financing activities	467,169	509,371
CHANGE IN CASH AND CASH EQUIVALENTS	218,381	(76,295)
CASH AND CASH EQUIVALENTS — Beginning of year	265,202	341,497
CASH AND CASH EQUIVALENTS — End of year	$ 483,583	$ 265,202
SUPPLEMENTAL CASH FLOW INFORMATION:		
Net cash paid during the year for:		
Interest	$ 64,480	$ 68,153
Income taxes	$ 72,132	$ 68,535
Noncash transactions during the year:		
Purchases of property and equipment financed through other liabilities	$ 246	$ 1,076
Transfer of loans to other real estate owned	$ 2,907	$ 12,707
Noncash FHLB stock dividends	$ 694	$ 359
Change in securities lending	$ (61,890)	$ (3,041)

See notes to consolidated financial statements. (Concluded)

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation — The accompanying consolidated financial statements include the accounts of Mutual of Omaha Insurance Company ("Mutual"), a mutual insurance company domiciled in the state of Nebraska, and its subsidiaries (the "Company"). The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP"). Intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations — The Company provides a wide array of financial products and services to a broad range of institutional and individual customers in the United States. Principal products and services provided include individual health and accident insurance, individual and group life insurance and annuities, retirement plans, and banking services. Insurance services are primarily provided through Mutual and United of Omaha Life Insurance Company ("United"), a subsidiary of Mutual. Banking services are provided through Omaha Financial Holdings, Inc. (the "Bank"), a subsidiary bank holding company of Mutual.

Use of Estimates — The preparation of the Company's financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The most significant estimates and assumptions include those used in determining:

(i) investment valuation in the absence of quoted market values,
(ii) investment impairments,
(iii) expected cash flows on loans acquired with evidence of credit deterioration,
(iv) allowance for loan losses,
(v) deferred policy acquisition costs,
(vi) goodwill and intangible assets and related impairments,
(vii) mortgage servicing rights valuation,
(viii) liability for future policy benefits,
(ix) liability for unpaid claims,
(x) accounting for income taxes and the valuation of deferred income tax assets, and
(xi) pension plan valuation.

Fixed Maturities and Equity Securities — With the exception of the Company's trading securities and Federal Home Loan Bank of Topeka ("FHLB") equity securities, all of the Company's fixed maturities and equity securities are classified as available-for-sale and are reported at their estimated fair values. The Company's available-for-sale equity security investments in real estate investment trusts are accounted for based on the Company's share of the net asset value as provided in the financial statements of the investees. The Company's FHLB equity securities are carried at cost, which approximates fair value due to the redemption provisions.

The Company's trading securities are recorded at fair value with changes in fair value recorded in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income. Investments for which the fair value option was elected are classified as trading securities.

The Company regularly reviews its fixed maturities and equity securities portfolios for declines in fair value below amortized cost that may be other than temporary. When a decline is deemed to be an other-than-temporary impairment ("OTTI"), the loss is reported in the period in which the determination is made. When it is anticipated that (i) the amortized cost of fixed maturities will not be recovered due to a credit loss or (ii) the Company has the intent to sell the fixed maturity; or (iii) it is more likely than not that the Company will be required to sell the fixed maturity before recovery of the decline in fair value below amortized cost, the OTTI is included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income and the amortized cost basis of the fixed maturities is reduced accordingly. The portion of OTTI related to any non-credit portion is included in unrealized gains (losses) in accumulated other comprehensive income (loss). The Company does not change the revised cost basis for subsequent recoveries in value. For fixed maturities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates to reflect adjustments to the effective yield.

Unrealized gains and losses on available-for-sale securities are included in accumulated other comprehensive income (loss), net of income taxes and the impact on policyholder related amounts as if the gains and losses had been realized. Subsequent changes in unrealized gains (losses) for investments previously designated as other than temporarily impaired are included in unrealized investment gains (losses) on OTTI securities in accumulated other comprehensive income (loss), net of income taxes.

Interest income is recognized on an accrual basis and reflects amortization of premiums and accretion of discounts on an effective-yield basis, based upon expected cash flows. Net realized investment gains or losses are determined using the specific identification basis. All publicly traded security transactions are recorded on a trade-date basis. All private placement security transactions are recorded on a settlement-date basis. For structured securities, the Company recognizes income using a constant effective yield based on anticipated prepayments and the estimated economic life of the securities. When estimates of prepayments change, the effective yield is recalculated to reflect actual payments to date and anticipated future payments and any resulting adjustment is included in net investment income in the consolidated statements of operations and comprehensive income.

Loans — Loans held for investment that are not impaired are carried at the aggregate unpaid principal balance adjusted for any charge-offs, unamortized premium or discount, deferred fees or expenses, and the allowance for estimated uncollectible amounts. Impaired loans are carried at the lower of the principal balance, the present value of expected future cash flows discounted at the loan's effective interest rate, or fair value of the collateral less costs to sell if collateral dependent. Interest income is accrued on the unpaid principal balance based on the loan's contractual interest rate. Loan origination and commitment fees and direct loan origination costs are deferred and amortized over the estimated life of the related loans or commitments as a yield adjustment.

An allowance for loan losses represents the estimate of probable losses inherent in the loan portfolio and is established through the provision for loan losses included in general bank expenses for bank loans and net realized investment gains (losses) for loans held by the insurance operations. The Company calculates historical loss factors by loan segment, except the covered loan segment for which the Company is indemnified against losses by the Federal Deposit Insurance Corporation ("FDIC"), based on the proportion of net charge-offs and recoveries to the average of the total loans outstanding in that loan segment. Historical loss rates are adjusted for qualitative factors that, in management's judgment, are necessary to reflect losses inherent in the loan portfolio. Factors that management considers in this analysis include concentration and growth rates, performance trends, economic conditions, industry trends, credit administration practices, recency of charge-offs, and the change in average risk ratings.

The Company calculates specific reserves on loans identified individually as impaired. Pools of small balance, homogeneous loans are not evaluated for impairment individually. Loans evaluated individually are considered impaired when, based on current information and events, it is probable that the Company will be unable to collect principal or interest amounts according to the contractual terms of the loan agreement. Interest income earned on impaired loans is accrued on the principal amount of the loan based on the loan's contractual interest rate until the loan is placed on nonaccrual status.

Loan losses are charged against the allowance for loan losses when the uncollectibility of a loan balance is confirmed. All loans, except construction - residential, residential real estate, and consumer loans, are reviewed on an individual basis to identify charge-offs. Construction - residential and residential real estate loans are charged-off or charged-down to the fair value of the collateral, less costs to sell, at 180 days past due, unless the loan is both well secured by real and/or personal property and in the process of collection. Consumer loans are charged-off at 120 days past due or sooner if deemed uncollectible, unless the loan is both well secured and in the process of collection. Charge-offs, net of recoveries, are deducted from the allowance.

Loans are considered past due when required principal and interest payments are not received by the date specified in the contract. Commercial, construction - residential, residential real estate and consumer loans are placed on nonaccrual (accrual of interest has stopped) at 90 days past due, unless the loan is well secured and in the process of collection. Well secured construction - residential, residential real estate and consumer loans are placed on nonaccrual at 180 days past due. For all other loan segments, loans are placed on nonaccrual when it becomes probable that the borrower will be unable to make all principal and interest payments as specified in the contract or when it becomes 90 days past due, unless the loan is well secured and in the process of collection. Cash payments on loans where the accrual of interest has ceased are applied entirely to the unpaid principal balance until such time as management determines that it is probable all principal balance amounts will be recovered. Loans are returned to accrual status when all the principal and interest amounts contractually due have been brought current and future payments are reasonably assured.

A loan is considered a troubled debt restructuring ("TDR") if the borrower is experiencing financial difficulties and the Company has granted a concession it would not otherwise grant. A TDR typically involves a modification of terms such as a change to a below market interest rate, a forgiveness of principal or interest, an extended repayment period (maturity date) at a contractual interest rate lower than the current interest rate for comparable new debt, or deferral of interest payments.

Loans acquired with evidence of credit deterioration for which it is probable the Company will be unable to collect all contractually required payments are recorded at fair value based on expected future cash flows. Such loans with similar risk characteristics are aggregated into pools, with each pool accounted for as a single asset with a single interest rate, cumulative loss rate, and cash flow expectations. Expected cash flows at the acquisition date in excess of the fair value are considered to be accretable yield, which is recognized in net investment income over their expected lives using a level yield method if the amount and timing of expected future cash flows are reasonably estimable. Subsequent to acquisition, any increases in cash flows over those expected at acquisition are recognized in net investment income prospectively. Any decreases in cash flows over those expected at acquisition are recognized in the allowance for loan losses through a charge to general bank expenses.

The Company values its loans originated and intended for sale on the secondary market at fair value. Changes in fair value are included in other income in the consolidated statements of operations and comprehensive income.

Loan Servicing — Mortgage loans serviced for others (primarily without recourse) are not included in the consolidated balance sheets. The unpaid principal balances of mortgage loans serviced by the Bank for others as of December 31, 2014 and 2013, were $1,964,301,000 and $1,978,031,000, respectively. Custodial escrow balances of $24,535,000 and $23,790,000 as of December 31, 2014 and 2013, respectively, were maintained in connection with the foregoing loan servicing and are included in other liabilities in the consolidated balance sheets. The Bank records its mortgage servicing rights at fair value. Mortgage servicing rights of $18,710,000 and $20,094,000 as of December 31, 2014 and 2013, respectively, are included in other assets in the consolidated balance sheets. Income generated as a result of new mortgage servicing rights, changes in fair value, and servicing income are included in other income in the consolidated statements of operations and comprehensive income.

Real Estate — Real estate primarily includes properties owned by East Campus Realty, LLC ("ECR"), a subsidiary of Mutual, and other real estate owned ("OREO") acquired through foreclosure. ECR's results of operations are reported in net investment income and real estate impairments are included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income. ECR properties and OREO held for investment are carried at cost, adjusted for impairment, if any, less accumulated depreciation. OREO held for sale is carried at the lower of cost or fair value less estimated costs to sell. Real estate excluding OREO held for sale is tested for impairment whenever events or changes in circumstances, such as operating losses or adverse changes in the use of the real estate, indicate that its carrying amount may not be recoverable. Real estate as of December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013
ECR properties held for investment	$ 203,679	$ 214,088
Other properties held for investment	9,197	7,395
Accumulated depreciation	(45,144)	(37,814)
ECR properties held for sale	6,305	6,038
	174,037	189,707
OREO held for investment	15,804	34,015
Accumulated depreciation and allowance	(4,003)	(5,014)
OREO held for sale	13,144	22,921
	24,945	51,922
	$ 198,982	$ 241,629

Limited Partnerships — The carrying value of limited partnerships is determined using the equity method using a one-quarter lag adjusted for all capital contributions, certain distributions, and impairment charges for the most recent quarter. Equity in earnings is included in net investment income for partnerships that invest primarily in income producing investments and in net realized investment gains (losses) for partnerships that invest primarily in equity-like investments. The limited partnership agreements restrict investment redemptions prior to the termination of the partnership.

The Company owns approximately 80% of Fulcrum Growth Partners, L.L.C. and Fulcrum Growth Partners III, L.L.C. (collectively "Fulcrum"). The Company currently recognizes 80% of the contributions and distributions of Fulcrum in its investment in Fulcrum and 72% of net income (losses) based on the partnership agreement provisions. Both Fulcrum entities were established for the purpose of investing in nontraditional assets, including private equities, public equities, special situation real estate equities, and mezzanine debt. Fulcrum is capitalized through the contributions of the Company and one other owner which has significant participation in Fulcrum's operations. The Company's investment in Fulcrum on the consolidated balance sheets and net realized investment gains in the consolidated statements of operations and comprehensive income were as follows (in thousands):

	2014	2013
As of and for the year ended December 31:		
Investment in Fulcrum	$ 172,095	$ 181,293
Net realized investment gains	$ 28,305	$ 53,464

Fulcrum's assets, liabilities and results of operations as of and for the nine months ended September 30, were as follows (in thousands):

	2014	2013
Assets	$ 242,990	$ 252,168
Liabilities	$ 116	$ 117
Net income	$ 30,760	$ 50,374

Variable Interest Entities ("VIE") — The Company holds investments in certain entities that are VIEs. Such entities include limited partnerships, joint ventures, limited liability companies, and certain structured securities. The primary beneficiary of a VIE is required to consolidate the VIE and is the enterprise with (1) the power to direct the activities of a VIE that most significantly impact the entity's economic performance and (2) the obligation to absorb losses of the entity or the right to receive benefits from the entity that could potentially be significant to the VIE.

Determining whether the Company is the primary beneficiary involves performing a qualitative analysis of the VIE. Factors assessed in the analysis include the purpose, design, capital structure and activities of the VIE; the contractual terms and rights of each variable interest holder; related party relationships; and other factors that would indicate that the Company has decision making powers that most significantly impact the VIE's economic performance.

The Company determines whether it is the primary beneficiary of a VIE upon its initial involvement with the VIE and when circumstances change that affect the Company's obligations to absorb losses or receive benefits from the VIE. The Company has determined that it is not required to consolidate any VIEs.

Unconsolidated VIEs — In the normal course of its investing activities, the Company invests in privately-placed limited partnerships, including its investment in Fulcrum, joint ventures, and limited liability companies. These ventures include private equity funds, partnerships for the purpose of receiving Low Income Housing Tax Credits, and real estate related funds that make investments at the direction of the general partner. The Company holds only limited partnership interests in these investments. The Company's maximum exposure to loss on these investments is limited to the amount of its investment. The Company has determined that it is not the primary beneficiary of these entities. The maximum exposure to loss relating to the other limited partnership interests and real estate joint ventures is equal to the carrying amounts plus any unfunded commitments. Such a maximum loss would be expected to occur only upon bankruptcy of the issuer or investee. The Company classifies these investments as limited partnerships on the consolidated balance sheets.

In the normal course of its investing activities, the Company invests in structured investments, including residential mortgage-backed securities ("MBS"), commercial MBS, and other asset-backed securities ("ABS"), some of which are VIEs. The Company's maximum exposure to loss on these structured investments is limited to the amount of its investment. The Company does not provide material financial or other support to these structures that was not contractually required. The Company does not consolidate these structures because it does not have the power to direct the activities of the VIEs that most significantly impact the economic performance of the entity. The Company classifies these investments as fixed maturities — available-for-sale — at fair value on the consolidated balance sheets.

Policy Loans — Policy loans are stated at the aggregate unpaid balance. Policy loans are an integral component of insurance contracts and have no maturity dates.

Derivatives — The Company is exposed to various risks relating to ongoing business operations including interest rate risk, foreign currency risk, credit risk, and equity market risk. The Company uses derivatives to reduce exposure to market volatility associated with assets held or liabilities incurred and to change the characteristics of the Company's asset/liability mix, consistent with the Company's risk management activities. Each derivative is evaluated for hedge accounting at inception. In general, if the derivative qualifies as a hedge, the change in the fair value of the derivative is recorded in net investment income or other comprehensive income (loss) depending upon the type of hedge, while the change in fair value of derivatives that do not qualify as hedges is recorded in net realized investment gains (losses) or, for certain non-hedge Bank derivatives where the counterparty is the customer, in other income. The Company has policies regarding the financial stability and credit standing of its counterparties. The Company attempts to limit its credit risk by dealing with creditworthy counterparties and obtaining collateral where appropriate.

The credit quality of the Company and the derivative counterparties has been considered in the valuation of derivatives. Derivatives are reported at estimated fair value based upon quotations obtained from external pricing services and vendors or other reliable sources. Derivatives in an asset position are included in other invested assets and derivatives in a liability position are included in other liabilities. As of December 31, 2014 and 2013, derivatives included foreign currency swaps on bonds, interest rate swaps and caps on bonds and mortgage loans, forwards and warrants, synthetic guaranteed investment contracts ("synthetic GICs"), mortgage commitments, and swaptions.

The Company designates certain of its foreign currency swaps as cash flow hedges when they are highly effective in offsetting the exposure of variations in cash flows for the hedged item. The Company designates certain of its interest rate swaps as fair value hedges when they are highly effective in offsetting the risk of changes in the fair value of the hedged item. The hedged item may be either all or a specific portion of a recognized asset or liability attributable to foreign currency and interest rate risk. The forwards and warrants are non-hedge derivatives.

For foreign currency swaps and interest rate swaps and caps to qualify for hedge accounting treatment, they must be highly effective in mitigating the designated changes in value or cash flow of the foreign currency on bonds and interest rates on bonds and mortgage loans. Senior management monitors the Company's derivatives and at inception of the hedge the Company formally documents the hedging relationship and risk management objective and strategy. The Company also formally assesses, on an ongoing basis, whether the derivatives used in hedging transactions have been and are expected to continue to be highly effective in offsetting changes in fair value or cash flows of hedged items. Risk arises from changes in the fair value of the underlying derivatives and, with respect to over-the-counter transactions, from the possible inability of counterparties to meet the terms of the transactions. The Company's risk of loss is typically limited to the fair value of its derivative assets and not to the notional or contractual value. Losses on derivatives due to the underlying prices and indexes are expected to be offset by gains in the hedged items, to the extent that the hedges are effective. The Company measures the hedge's effectiveness and records any ineffectiveness in net investment income in the consolidated statements of operations and comprehensive income. Any gains or losses on derivatives that are no longer highly effective are reclassified from other comprehensive income (loss) to net realized investment gains (losses).

Changes in fair value for foreign currency swaps are included in other comprehensive income (loss) for hedged derivatives and net realized investment gains (losses) for non-hedged derivatives along with the offsetting changes to the associated hedged items to the extent that the hedge is effective. Changes in interest rate swaps and caps are included in net investment income for hedged derivatives along with the offsetting changes to the associated hedged items to the extent that the hedge is effective and to net realized investment gains (losses) for non-hedged derivatives. Changes in fair value for forwards and warrants are included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income.

The Company uses swaptions to mitigate interest rate risk. Under a swaption, the Company pays a one time premium to the counterparty while the counterparty agrees to deliver at expiration the value of the underlying swap if that value is positive. The Company's swaptions are not highly correlated or effective so they do not qualify for hedge accounting. Changes in the fair value of swaptions are included in net realized investment gains (losses).

The Company offers certain insurance products, referred to as synthetic GICs, which contain features that are accounted for as derivatives. Synthetic GICs are issued to Employee Retirement Income Security Act of 1974 ("ERISA") qualified defined contribution employee benefit plans ("ERISA Plans") and commingled or pooled funds that are available to ERISA Plans ("Funds").

The ERISA Plans and Funds use the contracts in their stable value fixed option offered to plan participants. The Company receives a fee for providing a product that allows plan participants to invest and withdraw funds in their stable value fixed option at book value. The Company does not manage the assets underlying the synthetic GICs. In the event that plan participant elections exceed the estimated fair value of the assets, or if the contract is terminated and at the end of the termination period the book value under the contract exceeds the estimated fair value of the assets, then the Company is required to pay the ERISA Plan or Fund the difference between the book value and estimated fair value. The Company mitigates risk through underwriting, monitoring of the underlying assets of the ERISA Plans and Funds, by requiring adjustments to the plan crediting rates to compensate for all realized and unrealized gains or losses in the portfolios, and by excluding any employer driven withdrawals from coverage. The market values of the underlying assets were greater than the book value of the contracts as of December 31, 2014 and 2013.

Forward commitments to sell mortgage loans and MBS are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale. Gains and losses on loans sold are determined by the difference between the selling price and the carrying amount of the loans sold, net of discounts collected or paid and considering a normal servicing rate. Fees received from borrowers to guarantee the funding of mortgage loans held for sale and fees paid to investors to ensure the ultimate sale of such mortgage loans are recognized as income or expense when the loans are sold or when it became evident that the commitment will not be used. See Note 2, Investments, for further information.

Short-Term Investments — Short-term investments include certificates of deposit and fixed maturities purchased with an original maturity between three months and one year and are stated at amortized cost.

Cash Equivalents — Cash equivalents include money market accounts and all highly-liquid debt securities purchased with an original maturity of less than three months. The Federal Reserve System requires banks to maintain minimum average cash balances. The amount of the minimum average cash balance requirement was $21,649,000 and $26,749,000 as of December 31, 2014 and 2013, respectively.

Fair Value — Financial assets and liabilities have been categorized into a three level fair value hierarchy, based on the priority of the inputs to the respective valuation technique. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). An asset or liability's classification within the fair value hierarchy is based on the lowest level of significant input to its valuation. The input levels are as follows:

Level 1 — Fair value is based on unadjusted quoted prices in active markets that are accessible to the Company for identical assets or liabilities. These generally provide the most reliable evidence and are used to measure fair value whenever available.

Level 2 — Fair value is based on significant inputs that are observable for the asset or liability, either directly or indirectly, through corroboration with observable market data. Level 2 inputs include quoted market prices in active markets for similar assets and liabilities, quoted market prices in markets that are not active for identical or similar assets or liabilities and other market observable inputs. Valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities and validated or determined through use of valuation methodologies using observable market inputs.

Level 3 — Fair value is based on significant unobservable inputs for the asset or liability. These inputs reflect assumptions about what market participants would use in pricing the asset or liability. Prices are determined using valuation methodologies such as option pricing models, discounted cash flow models and other similar techniques.

The process of determining fair value requires considerable judgment and relies on projections of future cash flows, investment operating results, and market conditions. Projections are inherently uncertain and, accordingly, actual future cash flows may differ materially from projected cash flows. As a result, the Company's valuations are susceptible to the risk inherent in making such projections. Estimates used are not necessarily indicative of the amounts the Company could realize in a market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Deferred Policy Acquisition Costs — The direct costs of acquiring new insurance contracts are deferred to the extent such costs relate to successful acquisitions and are deemed recoverable from future premiums or profits. Such costs include: (1) incremental direct costs of contract acquisition, such as commissions, (2) the portion of an employee's total compensation and benefits related to time spent selling, underwriting, or processing the issuance of new and renewal insurance business only with respect to actual contracts acquired or renewed, (3) other direct costs essential to contract acquisition that would not have been incurred had a policy not been acquired or renewed, and (4) the costs of direct-response advertising the primary purpose of which is to elicit sales to customers who could be shown to have responded specifically to the advertising and that results in probable future benefits. All other acquisition-related costs, including those related to general advertising and solicitation, market research, agent training, product development, unsuccessful sales and underwriting efforts, as well as all indirect costs, are expensed as incurred. The portion of renewal commissions in excess of ultimate levels are also deferred to the extent they are deemed recoverable from future premiums or profits.

For health and disability insurance contracts, policy acquisition costs are amortized over the period of time the majority of premiums are expected to be earned. For term and traditional life insurance contracts, such costs are amortized over the premium-paying period of the related contracts in proportion to estimated premium revenues recognized, using assumptions consistent with those used in computing policy reserves.

For universal life, annuity, and other investment contracts, such costs are generally amortized in proportion to the estimated gross profits from investment margins, mortality margins, expense margins, and surrender charges. The Company updates assumptions underlying gross profit estimates on at least an annual basis.

Deferred policy acquisition costs related to policies issued during the current calendar year are subject to recoverability testing at the end of each year. When future gross premiums and the related policy liabilities are insufficient to cover deferred policy acquisition costs and expected future benefits determined using current assumptions, deferred acquisition costs are charged to expense to the extent they are not recoverable.

Deferred policy acquisition costs for universal life, annuity, and other investment contracts are also adjusted by a credit or charge to unrealized gains (losses), net of income taxes, to reflect the impact on estimated gross profits and recoverability testing as if unrealized investment gains and losses had been realized.

Modifications to the terms of in-force contracts may occur as the result of an amendment, policy rider, or the policyholder's election of a feature. Policy acquisition costs related to internal replacements of policyholder contracts that cause the contract to be substantially changed are charged to expense when the contract is modified.

Goodwill and Intangible Assets — Goodwill is the excess of cost over the fair value of net assets acquired in a merger or acquisition transaction. Goodwill is not amortized but is tested for impairment annually, or more frequently if events or circumstances, such as adverse changes in the business climate, require an interim test. Impairment testing is performed using the fair value approach, which requires the use of estimates and judgment.

Intangible assets consist of core deposit intangibles which represent the present value of core deposits acquired in a bank acquisition transaction. Core deposit intangibles are reviewed periodically for indicators of impairment of value. If facts and circumstances suggest possible impairment, the sum of the estimated undiscounted future cash flows expected to result from the use of the asset is compared to the current carrying value of the asset. If the undiscounted future cash flows are less than the carrying value, an impairment loss is recognized for the excess of the carrying amount of assets over their fair value. There were no indicators of impairment of intangible assets as of December 31, 2014 or 2013.

Company-Owned Life Insurance — Company-owned life insurance represents individual life insurance contracts on the lives of certain officers and other key employees who have provided positive consent allowing the Company to be the beneficiary of such contracts and is carried at cash surrender value. Gains of $10,678,000 and $21,413,000 in the surrender value associated with these contracts for the years ended December 31, 2014 and 2013, respectively, are included in other revenues.

Property and Equipment — Property and equipment are carried at cost less accumulated depreciation and are included in other assets. The Company provides for depreciation of property and equipment using the straight-line method over the estimated useful lives of the assets. Property and equipment is tested for impairment whenever events or changes in circumstances, such as adverse changes in the use of the property and equipment, indicate that its carrying amount may not be recoverable.

Property and equipment as of December 31, 2014 and 2013, consisted of the following (in thousands):

	2014	2013	Range of Useful Lives
Land and buildings	$ 224,981	$ 245,667	5–50 years
Furniture and equipment	158,630	152,282	2–20 years
Software and other	268,062	243,006	1–10 years
	651,673	640,955	
Accumulated depreciation	(480,188)	(449,112)	
Total	$ 171,485	$ 191,843	

Future Policy Benefits, Policyholder Account Balances and Unpaid Claims — Future policy benefits include reserves for certain life insurance, certain health coverages, and annuities in payout status. Reserves for term, non-interest-sensitive permanent life contracts, and certain health coverages are calculated using the net level premium method. Mortality, morbidity, and persistency assumptions are generally based on the Company's experience, including provisions for adverse deviations. Reserves for certain universal life insurance contracts are calculated using the expected life of the contract using estimated assessment charges for administration, mortality, surrenders, and investment margin. The reserves for annuities in payout status are calculated as the present value of expected future payments with mortality assumptions based on the Company's experience. Interest rates used in establishing such liabilities as of December 31, 2014, range from 2.50% to 10.00% for term and non-interest sensitive permanent-life contracts, from 3.00% to 9.00% for certain health coverages, and from 1.55% to 11.60% for annuities in payout status.

Policyholder account balances for individual interest-sensitive life and investment-type contracts are equal to policy account values. The policy account values represent an accumulation of gross premium payments plus credited interest less withdrawals, expense charges, and mortality charges. Interest rates credited to policyholder account balances during 2014 range from 1.00% to 7.50% for individual interest-sensitive life and deferred annuity contracts and from 0.10% to 6.84% for group annuities and guaranteed investment contracts.

Due to the length of annuity and life insurance contracts, the length of benefit payment periods of health and accident insurance contracts, and the risks involved, the process of estimating reserves for future policy benefits is inherently uncertain. Reserves for future policy benefits are estimated using a variety of factors including, but not limited to, expected mortality, morbidity, interest, and withdrawal rates generally based on the Company's experience. Actual mortality, morbidity, interest, and withdrawal rates are likely to differ from expected rates. Accordingly, the timing and amount of actual cash flows for any given period may differ materially from the timing and amount of expected cash flows.

The Company annually establishes assumptions used in determining actuarial liabilities for future policy benefits for the current year's issues. Differences between the assumptions used in pricing these contracts and establishing the related policy liabilities and the Company's actual experience result in variances in profit and could result in losses. The effects of these differences are included in the consolidated statements of operations and comprehensive income in the period in which they occur. On an annual basis, the Company performs loss recognition testing by comparing the net policy liabilities held in the financial statement to a gross premium reserve using current assumptions. Significant assumptions considered in loss recognition testing include interest rates, morbidity, mortality, policyholder behavior, and commissions and expenses to administer the business. If loss recognition testing shows the net liabilities are not adequate, then additional liabilities may be required, resulting in a charge to benefits expense. In addition, future policy benefits are adjusted for the impact of unrealized investment gains with the corresponding credits or charges reported in unrealized gains (losses), net of income taxes, if the impact of such gains, had they been realized, would have caused a loss recognition event for the line of business being tested.

The liability for unpaid claims represents the amounts estimated for claims that have been reported but not settled and estimates for claims incurred but not reported. Liabilities for unpaid claims are estimated based upon the Company's historical experience and other actuarial assumptions that consider the effects of current developments and anticipated trends. Revisions of these estimates are reflected in operations in the year revised. Claim adjustment expenses are accrued and included in other liabilities.

Deposits — Deposits held by the Bank, including interest and non-interest bearing demand, savings and money-market accounts, and fixed and variable rate certificates of deposit, are carried at the amount payable on demand.

Retail Repurchase Agreements — Securities sold under agreements to repurchase, which are included in borrowings in the consolidated balance sheets, generally mature within one day from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Reinsurance — In the normal course of business, the Company assumes and cedes insurance business in order to limit its maximum loss, provide greater diversification of risk, minimize exposures on larger risks, and expand certain business lines. The ceding of insurance business does not discharge an insurer from its primary legal liability to a policyholder. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. Reinsurance premiums, expenses, recoveries and reserves related to reinsured business are accounted for on a basis consistent with that used in accounting for the original contracts issued and the terms of the reinsurance contracts. These amounts are included on a gross basis in the consolidated balance sheets and net in the consolidated statements of operations and comprehensive income. Amounts recoverable from reinsurers are reviewed for collectibility on a quarterly basis. An allowance is established for all amounts deemed uncollectible and losses are charged against the allowance when the uncollectibility of amounts recoverable from reinsurers is confirmed. If the Company determines that a reinsurance agreement does not expose the reinsurer to a reasonable possibility of a significant loss from insurance risk, the agreement is recorded using the deposit method of accounting.

Federal Income Taxes — The provision for income taxes includes amounts currently paid and accrued, and deferred income taxes. The Company accounts for deferred income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that it believes these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations

The Company records uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) it determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority. The Company recognizes interest accrued related to uncertain tax positions and penalties as income tax expense. The liability for uncertain tax positions and the associated interest liability are netted against other tax receivables and included in current income taxes receivable in the consolidated balance sheets.

Insurance Revenue and Expense Recognition — Health and accident premiums are recognized as revenue over the terms of the contracts. Unearned premiums represent the pro rata portion of health premiums written which are applicable to the unexpired terms of contracts in force and are included in unearned revenues. Also included in unearned revenues are unearned revenue from universal life and investment-type products of $118,046,900 and $89,969,000 as of December 31, 2014 and 2013, respectively, which represents certain policy charges for services to be provided in future periods. The charges are deferred and amortized over the expected life of the contract using the product’s estimated gross profits, similar to deferred policy acquisition costs. Such amortization is recorded in life and annuity revenues. Unearned revenue liabilities are adjusted for the impact of unrealized investment gains and losses on certain investments, as if these gains and losses had been realized, with the corresponding credits or charges reported in other comprehensive income (loss), net of tax.

Premiums for traditional life and payout annuity contracts with life contingencies are recognized as revenue when due. Benefits and expenses, other than deferred policy acquisition costs, are recognized when incurred. Receipts for universal life, deferred annuities, payout annuities without life contingencies and other investment contracts are classified as deposits to policyholders' account balances. Policy fees from these contracts include mortality charges, surrender charges, and earned policy service fees. Those mortality charges and service fees that are charged in advance are deferred and amortized into revenues in proportion to estimated gross profits similar to deferred policy acquisition costs. All other policy fees are included within life and annuity revenues when charged. Expenses related to these products, which include interest credited to policyholders' account balances and benefit amounts in excess of account balances, are charged to expense when incurred.

Separate Accounts — Separate accounts are established in conformity with insurance laws and are subject to general account claims only to the extent the value of separate account assets exceed separate account liabilities. The Company operates separate accounts on which investment gains or losses accrue exclusively to policyholders. Investments held in the separate accounts (primarily common collective trusts, common stocks and mutual funds) and liabilities of the separate accounts are reported separately as assets and liabilities. Investments held in separate accounts are stated at fair value based on the estimated fair value of the underlying assets comprising the portfolios of each individual separate account. Mortality, policy administration, and surrender charges from all separate accounts are included in life and annuity revenues.

Subsequent Events — The Company has evaluated subsequent events through March 6, 2015, the date the financial statements were available to be issued and has determined that there are no material events that require adjustment to or disclosure in these financial statements.

Adoption of New Accounting Pronouncements — Effective January 1, 2014, the Company adopted ASU 2013-02 *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*, which requires disclosures on amounts reclassified in their entirety out of accumulated other comprehensive income and into net income. The guidance is effective for reporting periods beginning on or after December 15, 2013. The adoption of this guidance effective January 1, 2014 did not have a material impact on the Company's consolidated financial statements. See Note 12, Accumulated Other Comprehensive Income (Loss), for the required disclosures.

Future Adoption of New Accounting Pronouncements — In May 2014, the FASB issued ASU 2014-09 *Revenue from Contracts with Customers*, which will supersede nearly all current revenue recognition guidance. It will not impact the accounting for insurance contracts, financial instruments, guarantees, or leases. For contracts affected by the new standard, the guidance will require an entity to recognize revenue upon the transfer of goods or services to customers in amounts that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance is effective for annual periods beginning after December 15, 2017. Early adoption is permitted for nonpublic entities. The Company is currently evaluating the impact of this guidance on its consolidated financial statements.

2. INVESTMENTS

Available-for-Sale Securities — The amortized cost and fair value for both fixed maturities and equity securities by type as of December 31, 2014 and 2013, were as follows (in thousands):

2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Temporary Losses	Gross Unrealized Other-Than Temporary Gains (Losses)	Fair Value
Fixed maturities:					
U.S. Government	$ 71,972	$ 9,942	$ (318)	$ -	$ 81,596
States and political subdivisions	208,846	14,167	(146)	-	222,867
U.S. and Canadian corporate	8,132,650	740,893	(18,524)	12,653	8,867,672
Foreign corporate	2,770,080	226,514	(9,781)	1,000	2,987,813
Commercial MBS	1,960,238	160,184	(3,267)	(8,195)	2,108,960
Residential MBS	1,924,550	97,182	(7,143)	190	2,014,779
Other ABS	1,550,083	40,925	(4,779)	609	1,586,838
Total fixed maturities	$ 16,618,419	$ 1,289,807	$ (43,958)	$ 6,257	$ 17,870,525
Equity securities	$ 7,192	$ 5,205	$ -	$ -	$ 12,397

2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Temporary Losses	Gross Unrealized Other-Than Temporary Gains (Losses)	Fair Value
Fixed maturities:					
U.S. Government	$ 75,972	$ 8,804	$ (1,740)	$ -	$ 83,036
States and political subdivisions	166,939	505	(8,570)	-	158,874
U.S. and Canadian corporate	7,392,589	472,635	(135,232)	12,542	7,742,534
Foreign corporate	2,483,610	147,663	(35,742)	1,200	2,596,731
Commercial MBS	1,655,568	107,293	(16,182)	(4,802)	1,741,877
Residential MBS	2,099,876	86,332	(25,576)	197	2,160,829
Other ABS	1,484,774	38,777	(7,450)	5,970	1,522,071
Total fixed maturities	$ 15,359,328	$ 862,009	$ (230,492)	$ 15,107	$ 16,005,952
Equity securities	$ 7,490	$ 3,969	$ -	$ -	$ 11,459

Other than temporary gains (losses) as included above represent the initial non-credit portion of OTTI losses and the subsequent increases and decreases in estimated fair value for those fixed maturities for which a non-credit OTTI loss was previously recognized.

The Company's fixed maturities portfolio was primarily comprised of investment grade securities. Based upon designations by the National Association of Insurance Commissioners ("NAIC"), investment grade securities comprised 96.5% of the Company's total available-for-sale fixed maturities portfolio as of December 31, 2014 and 2013.

The amortized cost and fair value of fixed maturities as of December 31, 2014, by contractual maturity, are shown below (in thousands). Actual maturities may differ as a result of prepayments by the issuer. MBS and other ABS provide for periodic payments throughout their lives so they are listed in a separate category.

	Amortized Cost	Fair Value
Due in one year or less	$ 682,753	$ 696,316
Due after one year through five years	2,646,829	2,839,361
Due after five years through ten years	3,295,440	3,569,566
Due after ten years	4,558,526	5,054,706
	11,183,548	12,159,949
MBS and other ABS	5,434,871	5,710,576
Total	$ 16,618,419	$ 17,870,525

An aging of gross unrealized losses on the Company's investments in fixed maturities as of December 31, 2014 and 2013, was as follows (in thousands):

	2014					
	Less than One Year		One Year or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government	$ 2,621	$ (1)	$ 19,474	$ (317)	$ 22,095	$ (318)
States and political subdivisions	1,182	(33)	6,720	(113)	7,902	(146)
U.S. and Canadian corporate	519,901	(12,434)	251,694	(6,094)	771,595	(18,528)
Foreign corporate	147,930	(4,399)	38,834	(5,382)	186,764	(9,781)
Commercial MBS	149,759	(4,208)	46,264	(8,323)	196,023	(12,531)
Residential MBS	211,830	(626)	301,522	(6,517)	513,352	(7,143)
Other ABS	248,047	(3,190)	116,805	(1,916)	364,852	(5,106)
	$ 1,281,270	$ (24,891)	$ 781,313	$ (28,662)	$ 2,062,583	$ (53,553)

	2013					
	Less than One Year		One Year or More		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government	$ 18,027	$ (1,740)	$ -	$ -	$ 18,027	$ (1,740)
States and political subdivisions	114,477	(7,690)	13,652	(880)	128,129	(8,570)
U.S. and Canadian corporate	1,906,017	(111,003)	187,403	(24,323)	2,093,420	(135,326)
Foreign corporate	608,736	(35,313)	9,571	(429)	618,307	(35,742)
Commercial MBS	334,802	(9,801)	49,111	(11,943)	383,913	(21,744)
Residential MBS	883,039	(25,387)	10,888	(189)	893,927	(25,576)
Other ABS	322,980	(6,247)	121,844	(2,809)	444,824	(9,056)
	$ 4,188,078	$ (197,181)	$ 392,469	$ (40,573)	$ 4,580,547	$ (237,754)

The indicated gross unrealized losses in all categories decreased from $237,754,000 as of December 31, 2013 to $53,553,000 as of December 31, 2014. Based upon the Company's current evaluation of these securities in accordance with its impairment policy, and the Company's current intentions and assessments about holding and selling, and any requirements to sell these securities, the Company has concluded that these securities are not other-than-temporarily impaired.

As described in Note 1, the Company regularly reviews its investment portfolio for factors that may indicate that a decline in fair value of an investment is other-than-temporary. Some factors considered in evaluating whether a decline in fair value is other-than-temporary include the financial condition and prospects of the issuer, payment status, the probability of collecting scheduled principal and interest payments when due, the duration and severity of the decline and the Company's intent to sell the investment or whether it is more likely than not the Company will be required to sell the investment before recovery in value.

The Company developed a methodology and identified significant inputs used to determine the amount of credit loss. The credit loss component of a fixed maturity impairment is calculated as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or prior impairment or the current yield to accrete a floating rate security. The methodology and assumptions for establishing the cash flows vary depending on the type of security. For MBS and ABS, cash flow estimates, including prepayment assumptions, are based on data from widely accepted third-party data sources or internal estimates. In addition to prepayment assumptions, cash flow estimates vary based on assumptions regarding the underlying collateral characteristics, expectations of delinquency and default rates, and structural support, including subordination and guarantees. The corporate bond cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or liquidations using bond specific facts and circumstances including timing, security interests and loss severity. The Company has developed these estimates using information based on its historical experience as well as using market observable data, such as industry analyst reports and forecasts, sector credit ratings, and other data relevant to the collectibility of a security.

The following table provides a rollforward of the cumulative credit losses previously recognized in earnings on fixed maturities still held by the Company as of December 31, 2014 and 2013, for which a portion of an OTTI was recognized in accumulated other comprehensive income (loss) (in thousands):

	2014	2013
Balance — beginning of year	$ 43,837	$ 30,685
Additional credit losses for which an OTTI was not previously recognized	28	742
Additional credit losses for which an OTTI was previously recognized	1,572	19,041
Reduction for credit losses related to securities sold during the period	(9,110)	(5,277)
Reduction in credit losses as a result of increases in cash flows expected to be collected over the remaining life of the security	(864)	(1,354)
Balance — end of year	$ 35,463	$ 43,837

Information and concentrations related to fixed maturities in an unrealized loss position are included below. The tables include the number of fixed maturities in an unrealized loss position for greater than and less than twelve months, the average price, the average credit rating, and the percentage of these securities that were investment grade based on NAIC ratings as of December 31, 2014.

	Number of Securities					
Unrealized Losses > 12 Months	**Total**	**Less than 10% Amortized Cost**	**Greater than 20% Amortized Cost**	**Average Price ($)**	**Average Credit Rating**	**Percent Investment Grade**
U.S. Government	1	1	-	97	Aaa	100.0 %
States and political subdivisions	1	1	-	134	A1	100.0
U.S. and Canadian corporate	44	42	-	108	A3	99.4
Foreign corporate	4	3	1	96	Baa1	100.0
Commercial MBS	10	6	4	81	A3	86.3
Residential MBS	26	25	-	100	Aaa	100.0
Other ABS	16	16	-	98	A2	92.9
	102	94	5			

	Number of Securities					
Unrealized Losses < 12 Months	**Total**	**Less than 10% Amortized Cost**	**Greater than 20% Amortized Cost**	**Average Price ($)**	**Average Credit Rating**	**Percent Investment Grade**
U.S. Government	1	1	-	100	Aaa	100.0 %
States and political subdivisions	1	1	-	74	Ba2	0.0
U.S. and Canadian corporate	73	72	-	105	Baa1	96.5
Foreign corporate	17	17	-	103	Baa1	93.4
Commercial MBS	15	12	2	94	Aa3	92.3
Residential MBS	15	15	-	101	Aaa	100.0
Other ABS	33	33	-	97	A1	99.9
	155	151	2			

The unrealized losses in the tables above were due to changes in interest rates, credit ratings, and credit spreads. U.S. and Canadian corporate fixed maturities were comprised of securities from 29 industries, of which 22.7% were pipelines and terminals and 12.6% were water utilities. Foreign corporate fixed maturities were comprised of securities from 12 industries, of which 44.9% were retail and distributors and 15.4% were real estate. The Company's MBS were comprised of both residential and commercial mortgage loans. The other ABS were comprised primarily of collateralized loan obligations, business loans, and an insurance settlement trust.

Gross unrealized losses for MBS and other ABS as of December 31, 2014, by vintage were as follows (in thousands):

		Non-Agency				
	Agency	**2011 and Prior**	**2012**	**2013**	**2014**	**Total**
Commercial MBS	$ 1,735	$ 10,121	$ 654	$ 6	$ 15	$ 12,531
Residential MBS	7,120	4	-	-	19	7,143
Other ABS	5,106	-	-	-	-	5,106
	$ 13,961	$ 10,125	$ 654	$ 6	$ 34	$ 24,780

Within its investments in other ABS in the home equity sector, the Company has an exposure to subprime and Alt-A mortgage loans, which it manages in several ways. The Company monitors its exposure level to ABS against its annual investment authorization level approved by the Board of Directors. Restrictions include exposure at the aggregate level to ABS along with exposure to ratings classes, subsectors, issuers, and specific assets. The Company also continually tracks securities backed by subprime mortgage loans for factors including credit performance, rating agency actions, prepayment trends, and de-levering. Loans with trends that may indicate underperformance are monitored closely for any further deterioration that may result in action by the Company. The Company's subprime and Alt-A mortgage loans as of December 31, 2014 and 2013 have a cost basis of $10,220,000 and $17,133,000, respectively. The fair value of these loans exceeded the cost basis as of December 31, 2014.

Securities pledged where the secured party does not have the right to sell or repledge were $600,849,000 as of December 31, 2014, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

Derivatives — As of December 31, 2014 and 2013, the fair values of derivatives reported in the consolidated balance sheets were as follows (in thousands):

	2014			2013		
	Notional Value	Assets	Liabilities	Notional Value	Assets	Liabilities
Derivatives designated as hedging instruments:						
Foreign currency swaps	$ 136,217	$ 9,385	$ -	$ 63,802	$ 1,554	$ 1,841
Derivatives not designated or not qualifying as hedging instruments:						
Interest rate swaps and caps	578,871	6,123	3,544	660,504	7,915	5,788
Forwards and warrants	31,500	386	56	48,000	-	2,187
Mortgage commitments	-	-	-	76,324	513	126
Synthetic GICs	3,275,975	-	-	4,345,752	-	-
Swaptions	5,300,000	1,507	-	3,650,000	13,080	-
	9,186,346	8,016	3,600	8,780,580	21,508	8,101
	$ 9,322,563	$ 17,401	$ 3,600	$ 8,844,382	$ 23,062	$ 9,942

For the years ending December 31, 2014 and 2013, the following changes in fair value of derivatives were reported in the consolidated financial statements (in thousands):

	2014		2013	
	Other Comprehensive Income	Revenues	Other Comprehensive Income	Revenues
Derivatives designated as hedging instruments:				
Foreign currency swaps	$ 9,671	$ 601	$ 323	$ 410
Interest rate swaps and caps	-	-	-	2,539
	9,671	601	323	2,949
Derivatives not designated or not qualifying as hedging instruments:				
Interest rate swaps and caps	-	(1,824)	-	(5,356)
Forwards and warrants	-	2,517	-	(2,084)
Mortgage commitments	-	(388)	-	(370)
Swaptions	-	(15,018)	-	3,153
	-	(14,713)	-	(4,657)
Total	$ 9,671	$ (14,112)	$ 323	$ (1,708)

There were no reclassifications from other comprehensive income (loss) to net realized investment gains (losses) in 2014 or 2013.

Certain of the Company's derivative instruments contain provisions requiring collateral against their fair value subject to minimum transfer amounts. The aggregate fair value of all the derivative instruments with collateral features as of December 31, 2014 was $9,405,000. The Company was holding $9,527,000 of cash collateral related to these instruments as of December 31, 2014.

The Company reports all derivatives, including those that are subject to master netting arrangements, at their gross amounts on the statement of financial position. The Company's derivative transactions, all of which are transacted over the counter ("OTC"), are generally governed by International Swap and Derivatives Association master agreements, which provide for legally enforceable set-off and close-out netting of exposures to specific counterparties in the event of early termination of a transaction, which includes, but is not limited to, events of default and bankruptcy. In the event of an early termination, the Company is permitted to set off receivables from the counterparty against payables to the same counterparty arising out of all included transactions.

The Company's OTC derivative collateral arrangements generally require the counterparty in a net liability position, after considering the effect of netting agreements, to pledge collateral when the fair value of that counterparty's derivatives reaches a pre-determined threshold. In addition, certain of the Company's netting agreements for derivatives contain provisions that require both the Company and the counterparty to maintain a specific investment grade credit rating from industry recognized credit rating agencies. If a party's credit ratings were to fall below that specific investment grade credit rating, that party would be in violation of these provisions, and the other party to the derivatives could terminate the transactions and demand immediate settlement and payment based on such party's reasonable valuation of the derivatives.

The estimated fair value of the Company's net derivative assets and net derivative liabilities subject to application of master netting agreements and related cash collateral as of December 31, 2014 and 2013, was as follows (in thousands):

	2014		2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Fair value of derivatives presented in the statement of financial position	$ 12,038	$ 3,450	$ 19,507	$ 5,164
Gross amounts not offset in the statement of financial position:				
Fair value of derivatives	(2,469)	(2,469)	(4,611)	(4,611)
Cash collateral	(9,249)	-	(10,105)	-
Net amount after application of master netting arrangements and collateral	$ 320	$ 981	$ 4,791	$ 553

Unconsolidated VIEs — The carrying amount and maximum exposure to loss, including additional capital contribution commitments, relating to VIEs for which the Company holds an interest but is not the primary beneficiary and which have not been consolidated as of December 31, 2014, were as follows (in thousands):

	Carrying Value	Maximum Exposure to Loss
Limited partnerships	$ 492,263	$ 614,063
Fixed maturities	107,611	107,611
	$ 599,874	$ 721,674

Loans — The Company invests in mortgage, commercial and consumer loans, and loans to homeowner associations ("HOA"), which are generally secured by underlying commercial and residential real estate, business assets, personal property, and personal guarantees.

Loan Segments — The Company's insurance and banking operations determine the manner in which the Company's loan segments are evaluated and managed. The table below reflects the recorded investment in loans (defined as the unpaid principal net of charge-offs and unamortized deferred loan fees) by segment as of December 31, 2014 and 2013, respectively (in thousands):

	2014	**2013**
Insurance:		
Commercial	$2,093,404	$2,220,047
Residential	890	356
Bank:		
Construction — residential	182,404	157,933
Construction — commercial and multifamily	315,065	260,028
Residential real estate	1,600,964	1,535,691
Commercial real estate — non-owner occupied	570,898	690,498
Commercial real estate — multifamily	579,724	570,567
Owner occupied non-residential real estate	383,692	460,714
Commercial and industrial	895,161	856,672
HOA	275,437	256,712
Land	58,891	58,930
Consumer	194,278	169,964
Covered loans	18,536	24,271
Total loans	7,169,344	7,262,383
Less allowance for loan losses	(82,732)	(83,465)
Total net loans	$7,086,612	$7,178,918

Loans include net deferred loan origination fees and costs of $(1,523,000) and $874,000 as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, mortgage loans of $1,413,940,000 and $1,307,005,000, respectively, were specifically pledged to secure borrowings at the FHLB.

The Bank had loans outstanding to directors and executive officers. Such loans are made in the ordinary course of business at comparable terms and conditions as loans made to unrelated parties. Total loans to related parties as of December 31, 2014 and 2013, were $1,797,000 and $1,488,000, respectively.

Concentrations — Loan participations purchased from one loan originator comprise 15% of the portfolio in 2014. Loans are geographically dispersed throughout the United States, with the largest concentrations in California and Texas which were approximately 17% and 16%, respectively, of the portfolio as of December 31, 2014.

Credit Quality Indicators — For purposes of monitoring the credit quality and risk characteristics of its insurance segment's commercial loans the Company considers the current debt service coverage, loan to value ratios, leasing status, average rollover, loan performance, guarantees, and current rents in relation to current markets. The credit quality indicators are updated annually or more frequently if conditions are warranted based on the Company's credit monitoring process. The Company monitors the credit quality for the insurance segment's residential loans by reviewing payment activity monthly.

The recorded investment in the insurance segment's commercial loans, by credit quality, as of December 31, 2014 and 2013, was as follows (in thousands):

	Debt Service Coverage Ratios			
2014	**>1.20x**	**1.00x–1.20x**	**<1.00x**	**Total**
Loan-to-value ratios:				
Less than 65%	$ 1,409,389	$ 211,350	$ 104,388	$ 1,725,127
65% to 75%	248,758	43,680	5,842	298,280
76% to 80%	-	12,880	-	12,880
Greater than 80%	4,085	2,484	50,548	57,117
Total	$ 1,662,232	$ 270,394	$ 160,778	$ 2,093,404

	Debt Service Coverage Ratios			
2013	**>1.20x**	**1.00x–1.20x**	**<1.00x**	**Total**
Loan-to-value ratios:				
Less than 65%	$ 1,428,310	$ 181,224	$ 99,776	$ 1,709,310
65% to 75%	385,711	35,941	14,961	436,613
76% to 80%	-	12,450	346	12,796
Greater than 80%	2,425	3,990	54,913	61,328
Total	$ 1,816,446	$ 233,605	$ 169,996	$ 2,220,047

To facilitate the ongoing monitoring of credit quality within the Bank's loan segments, the Company evaluates all construction — commercial and multifamily, commercial real estate — non-owner occupied, commercial real estate — multifamily, commercial and industrial, HOA, and land loans, using a risk rating system. A risk rating category is assigned to each loan upon initial approval of credit to borrowers using the following risk rating categories. Risk rating categories are reviewed and updated as indicated.

Pass — assigned to strong or sound borrowers demonstrating adequate financial strength, creditworthiness, and debt service ability. Loans in the pass risk rating category are updated when circumstances change based on the size and performance of the borrower.

Special Mention — assigned to loans that have potential weaknesses that deserve management's close attention. If uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Loans in the special mention category are reviewed and updated as circumstances change or at least quarterly.

Substandard — assigned to loans that are inadequately protected by the current net worth and paying capacity of the obligor or by the collateral pledged, if any. Substandard loans have a well defined weakness or weaknesses. Loans in this grade also are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not addressed and corrected. Loans in the substandard category are reviewed and updated as circumstances change or at least quarterly.

Doubtful — assigned to loans that have all the attributes of a substandard rating with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans in the doubtful category are reviewed and updated as circumstances change or at least quarterly.

Loss — assigned to loans deemed uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted.

The Company's recorded investment in the Bank segments construction — commercial and multifamily, commercial real estate — non-owner occupied, commercial real estate — multifamily, owner occupied non-residential real estate, commercial and industrial, HOA, and land loans by credit quality as of December 31, 2014 and 2013, was as follows (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
2014						
Construction — commercial and multifamily	$ 299,167	$ -	$ 15,898	$ -	$ -	$ 315,065
Commercial real estate — non-owner occupied	535,918	3,910	31,070	-	-	570,898
Commercial real estate — multifamily	563,848	5,907	9,969	-	-	579,724
Owner occupied non-residential real estate	343,293	14,640	25,636	123	-	383,692
Commercial and industrial	850,596	21,433	22,904	228	-	895,161
HOA	263,858	10,011	304	1,264	-	275,437
Land	48,705	2,235	7,907	44	-	58,891
Total	$ 2,905,385	$ 58,136	$ 113,688	$ 1,659	$ -	$ 3,078,868

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
2013						
Construction — commercial and multifamily	$ 251,440	$ -	$ 8,588	$ -	$ -	$ 260,028
Commercial real estate — non-owner occupied	644,760	13,515	32,223	-	-	690,498
Commercial real estate — multifamily	541,111	20,558	8,898	-	-	570,567
Owner occupied non-residential real estate	393,119	35,343	32,112	140	-	460,714
Commercial and industrial	818,014	17,643	21,015	-	-	856,672
HOA	229,156	18,364	7,718	1,474	-	256,712
Land	43,611	2,906	12,361	52	-	58,930
Total	$ 2,921,211	$ 108,329	$ 122,915	$ 1,666	$ -	$ 3,154,121

The Company monitors the credit quality and risk characteristics of the Bank segments construction — residential, residential real estate, and consumer loans, based on the repayment performance of the borrower. The Company classifies these loans greater than 90 days past due as nonperforming.

The following table summarizes the credit quality of the Bank segments construction — residential, residential real estate, consumer, and covered loans by recorded investment as of December 31, 2014 and 2013 (in thousands):

2014	**Performing**	**Nonperforming**	**Total**
Construction — residential	$ 182,404	$ -	$ 182,404
Residential real estate	1,596,991	3,973	1,600,964
Consumer	194,158	120	194,278
Covered loans	17,463	1,073	18,536
Total	$ 1,991,016	$ 5,166	$ 1,996,182

2013	**Performing**	**Nonperforming**	**Total**
Construction — residential	$ 157,933	$ -	$ 157,933
Residential real estate	1,530,063	5,628	1,535,691
Consumer	168,964	1,001	169,965
Covered loans	21,136	3,135	24,271
Total	$ 1,878,096	$ 9,764	$ 1,887,860

Allowance for Loan Losses — The Company's recorded investment in loans and the allowance for loan losses by segment, disaggregated by impairment methodology, as of December 31, 2014 and 2013, was as follows (in thousands):

	Loans				Allowance for Credit Losses			
2014	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Acquired with Deteriorated Credit Quality**	**Total Loans**	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Total Allowance for Credit Losses**	**Loans, Net of Allowance for Credit Losses**
Insurance segment:								
Commercial	$ 20,218	$ 2,073,186	$ -	$ 2,093,404	$ (8,444)	$ (13,626)	$ (22,070)	$ 2,071,334
Residential	-	890	-	890	-	-	-	890
Bank segments:								
Construction — residential	-	182,404	-	182,404	-	(2,137)	(2,137)	180,267
Construction — commercial and multifamily	11,950	303,115	-	315,065	-	(3,812)	(3,812)	311,253
Residential real estate	10,648	1,590,316	-	1,600,964	(286)	(15,184)	(15,470)	1,585,494
Commercial real estate — non-owner occupied	19,963	550,935	-	570,898	-	(5,373)	(5,373)	565,525
Commercial real estate — multifamily	417	579,307	-	579,724	-	(4,815)	(4,815)	574,909
Owner-occupied non-residential real estate	12,947	370,745	-	383,692	(357)	(5,156)	(5,513)	378,179
Commercial and industrial	11,202	883,959	-	895,161	(1,941)	(12,308)	(14,249)	880,912
HOA	1,264	274,173	-	275,437	(618)	(1,971)	(2,589)	272,848
Land	5,105	53,786	-	58,891	-	(1,829)	(1,829)	57,062
Consumer	1,926	192,352	-	194,278	(574)	(3,239)	(3,813)	190,465
Covered loans	-	11,089	7,447	18,536	-	(1,062)	(1,062)	17,474
Total	$ 95,640	$ 7,066,257	$ 7,447	$ 7,169,344	$ (12,220)	$ (70,512)	$ (82,732)	$ 7,086,612

	Loans				Allowance for Credit Losses			
2013	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Acquired with Deteriorated Credit Quality**	**Total Loans**	**Individually Evaluated for Credit Losses**	**Collectively Evaluated for Credit Losses**	**Total Allowance for Credit Losses**	**Loans, Net of Allowance for Credit Losses**
Insurance segment:								
Commercial	$ 31,577	$ 2,188,470	$ -	$ 2,220,047	$ (8,404)	$ (14,937)	$ (23,341)	$ 2,196,706
Residential	-	356	-	356	-	-	-	356
Bank segments:								
Construction — residential	-	157,933	-	157,933	-	(1,838)	(1,838)	156,095
Construction — commercial and multifamily	-	260,028	-	260,028	-	(3,097)	(3,097)	256,931
Residential real estate	1,203	1,534,488	-	1,535,691	-	(12,229)	(12,229)	1,523,462
Commercial real estate —	-	-	-	-	-	-	-	-
non-owner occupied	26,647	663,851	-	690,498	-	(8,356)	(8,356)	682,142
Commercial real estate —	-	-	-	-	-	-	-	-
multifamily	7,903	562,664	-	570,567	-	(4,566)	(4,566)	566,001
Owner-occupied non-residential real estate	16,209	444,505	-	460,714	-	(9,206)	(9,206)	451,508
Commercial and industrial	7,147	849,525	-	856,672	-	(11,320)	(11,320)	845,352
HOA	1,474	255,238	-	256,712	(485)	(2,689)	(3,174)	253,538
Land	8,725	50,205	-	58,930	-	(1,716)	(1,716)	57,214
Consumer	775	169,189	-	169,964	-	(2,705)	(2,705)	167,259
Covered loans	-	14,083	10,188	24,271	-	(1,917)	(1,917)	22,354
Total	$ 101,660	$ 7,150,535	$ 10,188	$ 7,262,383	$ (8,889)	$ (74,576)	$ (83,465)	$ 7,178,918

Activity in the allowance for loan losses for the years ended December 31, 2014 and 2013, was as follows (in thousands):

	Balance at January 1, 2014	Provisions	Charge-offs	Recoveries	Balance at December 31, 2014
Insurance segment — commercial	$ (23,341)	$ (209)	$ 1,480	$ -	$ (22,070)
Bank segments:					
Construction — residential	(1,838)	(252)	-	(47)	(2,137)
Construction — commercial and multifamily	(3,097)	(681)	-	(34)	(3,812)
Residential real estate	(12,229)	(3,425)	409	(225)	(15,470)
Commercial real estate — non-owner occupied	(8,356)	1,626	1,396	(39)	(5,373)
Commercial real estate — multifamily	(4,566)	52	-	(301)	(4,815)
Owner-occupied non-residential real estate	(9,206)	2,969	758	(34)	(5,513)
Commercial and industrial	(11,320)	(3,003)	1,041	(967)	(14,249)
HOA	(3,174)	585	-	-	(2,589)
Land	(1,716)	(231)	180	(62)	(1,829)
Consumer	(2,705)	(1,510)	726	(324)	(3,813)
Covered loans	(1,917)	841	80	(66)	(1,062)
Total	$ (83,465)	$ (3,238)	$ 6,070	$ (2,099)	$ (82,732)

	Balance at January 1, 2013	Provisions	Charge-offs	Recoveries	Balance at December 31, 2013
Insurance segment — commercial	$ (20,431)	$ (4,309)	$ 1,399	$ -	$ (23,341)
Bank segments:					
Construction — residential	(1,295)	(537)	-	(6)	(1,838)
Construction — commercial and multifamily	(2,776)	(286)	-	(35)	(3,097)
Residential real estate	(9,600)	(3,105)	498	(22)	(12,229)
Commercial real estate — non-owner occupied	(10,140)	1,651	158	(25)	(8,356)
Commercial real estate — multifamily	(4,001)	(565)	-	-	(4,566)
Owner-occupied non-residential real estate	(5,512)	(6,397)	2,758	(55)	(9,206)
Commercial and industrial	(9,550)	(3,692)	3,915	(1,993)	(11,320)
HOA	(2,522)	(650)	-	(2)	(3,174)
Land	(2,930)	668	577	(31)	(1,716)
Consumer	(3,897)	986	584	(378)	(2,705)
Covered loans	(2,737)	-	853	(33)	(1,917)
Total	$ (75,391)	$ (16,236)	$ 10,742	$ (2,580)	$ (83,465)

Nonaccrual and Past Due Loans — The Company's recorded investment in past due loans (excluding those loans acquired with deteriorated credit quality) by age as of December 31, 2014 and 2013, was as follows (in thousands):

2014	30–59 Days Past Due	60–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	90 Days Past Due and Still Accruing
Insurance segment:							
Commercial	$ 328	$ -	$ 3,098	$ 3,426	$ 2,089,978	$ 2,093,404	$ -
Residential	-	-	-	-	890	890	-
Bank segments:							
Construction — residential	5,035	-	-	5,035	177,369	182,404	-
Construction — commercial and multifamily	-	-	11,950	11,950	303,115	315,065	-
Residential real estate	11,796	2,568	3,974	18,338	1,582,626	1,600,964	-
Commercial real estate — non-owner occupied	5,819	46	461	6,326	564,572	570,898	-
Commercial real estate — multifamily	-	-	-	-	579,724	579,724	-
Owner-occupied non-residential real estate	893	-	756	1,649	382,043	383,692	245
Commercial and industrial	6,880	395	2,851	10,126	885,035	895,161	578
HOA	-	-	-	-	275,437	275,437	-
Land	2,922	191	204	3,317	55,574	58,891	-
Consumer	1,430	333	120	1,883	192,395	194,278	-
Covered loans	685	-	-	685	10,404	11,089	-
Total	$ 35,788	$ 3,533	$ 23,414	$ 62,735	$ 7,099,162	$ 7,161,897	$ 823

2013	30–59 Days Past Due	60–90 Days Past Due	Greater than 90 Days Past Due	Total Past Due	Current	Total Loans	90 Days Past Due and Still Accruing
Insurance segment:							
Commercial	$ 749	$ 265	$ 12,567	$ 13,581	$ 2,206,466	$ 2,220,047	$ -
Residential	-	-	-	-	356	356	-
Bank segments:							
Construction — residential	4,049	-	-	4,049	153,884	157,933	-
Construction — commercial and multifamily	13,328	-	-	13,328	246,700	260,028	-
Residential real estate	6,158	2,032	5,629	13,819	1,521,872	1,535,691	-
Commercial real estate — non-owner occupied	-	2,391	3,610	6,001	684,497	690,498	-
Commercial real estate — multifamily	481	-	7,964	8,445	562,122	570,567	-
Owner-occupied non-residential real estate	2,288	1,915	7,797	12,000	448,714	460,714	-
Commercial and industrial	3,373	662	5,095	9,130	847,542	856,672	37
HOA	79	-	-	79	256,633	256,712	-
Land	236	1,709	1,269	3,214	55,716	58,930	-
Consumer	760	171	1,001	1,932	168,032	169,964	-
Covered loans	-	-	-	-	14,083	14,083	-
Total	$ 31,501	$ 9,145	$ 44,932	$ 85,578	$ 7,166,617	$ 7,252,195	$ 37

The Company's recorded investment in loans in nonaccrual status as of December 31, 2014 and 2013, was as follows (in thousands):

	2014	2013
Insurance segment — commercial	$ 3,098	$ 12,567
Bank segments:		
Construction - commercial and multifamily	11,950	-
Residential real estate	13,160	7,348
Commercial real estate — non-owner occupied	20,422	27,387
Commercial real estate — multifamily	-	7,964
Owner-occupied non-residential real estate	15,094	17,587
Commercial and industrial	12,398	7,997
HOA	1,264	1,474
Land	5,474	9,134
Consumer	3,014	1,970
Covered loans	1,202	1,393
Total	$ 87,076	$ 94,821

Impaired Loans — Loans determined to be impaired which are individually evaluated as of December 31, 2014 and 2013, were as follows (in thousands):

2014	Unpaid Principal Balance	Recorded Investment without Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income on Impaired Loans	Cash Basis Income on Impaired Loans
Insurance segment — commercial	$ 25,995	$ 5,777	$20,218	$ 25,995	$ (8,444)	$ 29,394	$1,651	$1,659
Bank segments:								
Construction - commercial and multifamily	11,950	11,950	-	11,950	-	12,277	326	439
Residential real estate	10,626	8,611	2,037	10,648	(286)	7,092	330	391
Commercial real estate — non-owner occupied	19,951	19,963	-	19,963	-	20,673	430	430
Commercial real estate — multifamily	413	417	-	417	-	424	326	362
Owner-occupied non-residential real estate	12,937	10,839	2,108	12,947	(357)	13,767	938	955
Commercial and industrial	11,193	4,443	6,759	11,202	(1,941)	11,939	497	499
HOA	1,273	-	1,264	1,264	(618)	1,384	72	72
Land	5,091	5,105	-	5,105	-	6,500	520	610
Consumer	1,928	853	1,073	1,926	(574)	1,925	107	152
Total	$101,357	$67,958	$33,459	$101,417	$ (12,220)	$105,375	$5,197	$5,569

2013	Unpaid Principal Balance	Recorded Investment without Allowance	Recorded Investment with Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income on Impaired Loans	Cash Basis Income on Impaired Loans
Insurance segment — commercial	$ 31,577	$ 7,297	$24,280	$ 31,577	$ (8,404)	$ 32,783	$1,460	$1,565
Bank segments:								
Construction — residential	-	-	-	-	-	-	-	-
Residential real estate	1,201	1,203	-	1,203	-	1,247	275	378
Commercial real estate — non-owner occupied	26,650	26,647	-	26,647	-	27,529	1,967	1,977
Commercial real estate — multifamily	7,899	7,903	-	7,903	-	8,095	379	464
Owner-occupied non-residential real estate	16,247	16,209	-	16,209	-	18,831	911	1,073
Commercial and industrial	7,143	7,147	-	7,147	-	8,032	286	353
HOA	1,484	-	1,474	1,474	(485)	1,599	193	191
Land	8,715	8,725	-	8,725	-	10,203	604	624
Consumer	774	775	-	775	-	795	130	136
Total	$101,690	$75,906	$25,754	$101,660	$ (8,889)	$109,114	$6,205	$6,761

Restructured Loans — Loans modified in a TDR during the years ended December 31, 2014 and 2013, were as follows (in thousands):

2014	Number of Loans Modified in a TDR During the Year	Recorded Investment in Loans Modified in a TDR During the Year	Increase (Decrease) in Allowance for Loan Losses Upon Modification	Principal Charge-offs or Interest Waivers Recognized Upon Modification
Insurance segment — commercial	5	$ 6,279	$ -	$ 174
Bank segments:				
Residential real estate	19	2,294	297	-
Owner-occupied non-residential real estate	2	2,108	(41)	-
Consumer	5	362	37	-
Total	31	$ 11,043	$ 293	$ 174
2013				
Insurance segment — commercial	6	$ 3,315	$ -	$ 196
Bank segments:				
Residential real estate	1	337	-	-
Commercial real estate — non-owner occupied	1	2,169	-	-
Owner-occupied non-residential	1	229	(2)	4
real estate	4	3,636	(4)	145
Commercial and industrial	2	556	97	-
Land	3	328	(13)	120
Total	18	$ 10,570	$ 78	$ 465

All loans identified as TDRs by the Company during 2014 and 2013 are deemed impaired and a specific reserve is calculated and applied to the allowance for loan losses if applicable.

Within each of the loan segments, TDRs typically involve a reduction of the stated interest rate of the loan, an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk, capitalizing interest, waiving interest, or requiring interest only payments.

The Company considers TDRs that become 90 days or more past due under the modified terms as subsequently defaulted. During the year ended December 31, 2014, the Bank had one TDR in the commercial real estate – non-owner occupied segment with a recorded investment of $2,169,000 and 4 TDRs in the residential real estate segment with a recorded investment of $413,000 subsequently defaulted within 12 months of the restructuring date. During the year ended December 31, 2013, there were no TDRs that subsequently defaulted within 12 months of the restructuring date.

Loans Acquired with Evidence of Credit Deterioration Since Origination — Included in the Bank's covered loan segment are loans previously acquired for which there was evidence of credit deterioration since origination and for which it is probable that not all contractually required payments will be collected. The outstanding balance and carrying amount of bank loans acquired with evidence of credit deterioration since origination as of December 31, 2014 and 2013, were as follows (in thousands):

	2014		2013	
	Outstanding Balance	Carrying Amount	Outstanding Balance	Carrying Amount
Residential real estate	$ 1,654	$ 856	$ 2,227	$ 1,086
Owner occupied non-residential real estate	2,077	1,949	2,805	2,534
Commercial real estate — non-owner occupied	375	407	81	50
Commercial and industrial	2,401	1,283	3,851	2,106
Land	1,912	1,803	4,692	3,294
Consumer	4,294	1,103	5,246	1,232
Total	$ 12,713	$ 7,401	$ 18,902	$ 10,302

All such loans acquired are covered by a loss share agreement with the FDIC. Under the terms of the agreement, the FDIC will reimburse 80% of the losses for covered loans and OREO up to $46,000,000, above which losses will be reimbursed at 95%. Losses on residential loans and OREO, as specifically identified in the agreement, will be reimbursed for a ten-year period (ending in 2020) whereas losses on all other loans will be reimbursed for a five-year period (ending 2015). The amount included in other assets in the consolidated balance sheets related to these indemnifications was $4,351,000 and $9,034,000 as of December 31, 2014 and 2013, respectively. The Bank is obligated to pay contingent consideration to the FDIC at the expiration of the loss share agreement if losses from the loans acquired are less than $46,000,000. The Bank does not believe the fair value of the contingent consideration to be material as of December 31, 2014 and 2013 and has, therefore, not included any contingent consideration related to the transaction in the consolidated financial statements.

Net Investment Income — The sources of net investment income for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Fixed maturities	$ 788,659	$ 767,821
Loans	335,509	343,416
Real estate	(15,478)	(16,239)
Limited partnerships	19,031	34,862
Policy loans	13,929	14,000
Equity securities	2,810	784
Derivatives	(695)	540
Other invested assets	1,173	1,101
Cash and cash equivalents and short-term investments	1,409	905
	1,146,347	1,147,190
Less investment expenses	(22,490)	(25,846)
Net investment income	$ 1,123,857	$ 1,121,344

Net Realized Investment Gains (Losses) — Net realized investment gains (losses) for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Fixed maturities:		
OTTI losses	$ (6,604)	$ (26,608)
OTTI transferred to other comprehensive income	5,004	6,825
Net OTTI losses recognized in earnings	(1,600)	(19,783)
Net gains (losses) from sales, disposals and fair value adjustments	(3,876)	3,100
Total losses on fixed maturities	(5,476)	(16,683)
Equity securities	5,796	(525)
Loans	(264)	(6,613)
Limited partnerships	40,652	72,701
Real estate	739	(651)
Derivatives	(12,500)	1,069
Other invested assets	682	2,466
Net realized investment gains	$ 29,629	$ 51,764

The OTTI relates primarily to Commercial MBS and Loans for the years ended December 31, 2014 and 2013.

Proceeds from the sale of fixed maturities and related gross investment gains and losses for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Fixed maturities, available-for-sale:		
Proceeds from sales	$ 34,598	$ 31,077
Gross investment gains from sales	3,497	1,630
Gross investment losses from sales	(9,784)	-

Sales and related sales proceeds of equity available-for-sale securities for the years ended December 31, 2014 and 2013, were not significant.

Net Unrealized Investment Gains (Losses) — Net unrealized investment gains (losses) are included in accumulated other comprehensive income (loss), net of taxes and policyholder related amounts. Changes in these amounts for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Balance — beginning of year	$ 296,219	$ 687,834
Changes in net unrealized investment gains (losses) attributed to:		
Fixed maturities	614,332	(908,275)
Noncredit component of impairment losses on fixed maturities	(8,851)	5,892
Equity securities	1,236	1,078
Limited partnerships	(430)	257
Derivatives	9,671	323
Deferred policy acquisition costs	(20,332)	48,253
Insurance liability loss recognition	(213,000)	250,000
Deferred federal income taxes	(132,580)	210,711
Other	(3,613)	146
	246,433	(391,615)
Balance — end of year	$ 542,652	$ 296,219

3. FAIR VALUE

The categorization of fair value measurements determined on a recurring basis, by input level, as of December 31, 2014 and 2013, were as follows (in thousands):

2014	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities — available-for-sale:				
U.S. Government	$ -	$ 81,597	$ -	$ 81,597
State and political subdivisions	-	222,867	-	222,867
U.S. and Canadian corporate	-	8,805,941	61,731	8,867,672
Foreign corporate	-	2,905,273	82,540	2,987,813
Commercial MBS	-	1,914,637	194,323	2,108,960
Residential MBS	-	2,013,262	1,516	2,014,778
Other ABS	-	1,249,513	337,325	1,586,838
Total fixed maturities — available-for-sale	-	17,193,090	677,435	17,870,525
Fixed maturities — trading:				
U.S. and Canadian corporate	-	147,431	-	147,431
Foreign corporate	-	5,812	-	5,812
Total fixed maturities — trading	-	153,243	-	153,243
Equity securities — available-for-sale	-	43	12,354	12,397
Equity securities — trading	11,965	29,184	-	41,149
Loans held for sale	-	419	-	419
Derivative assets:				
Swaptions	-	1,507	-	1,507
Foreign currency swaps	-	9,385	-	9,385
Interest rate swaps and caps	-	6,123	-	6,123
Forwards and Warrants	-	-	386	386
Total derivative assets	-	17,015	386	17,401
Short term investments	136,765	-	-	136,765
Cash equivalents	134,986	-	-	134,986
Mortgage servicing rights	-	-	18,710	18,710
Derivative liabilities:				
Interest rate swaps and caps	-	(3,544)	-	(3,544)
Forwards and warrants	-	-	(56)	(56)
Total derivative liabilities	-	(3,544)	(56)	(3,600)
Total without separate accounts	283,716	17,389,450	708,829	18,381,995
Separate accounts	2,049,416	1,322,094	-	3,371,510
Total	$2,333,132	$18,711,544	$708,829	$21,753,505

2013	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Fixed maturities — available-for-sale:				
U.S. Government	$ -	$ 83,036	$ -	$ 83,036
State and political subdivisions	-	158,874	-	158,874
U.S. and Canadian corporate	-	7,677,957	64,577	7,742,534
Foreign corporate	-	2,571,663	25,068	2,596,731
Commercial MBS	-	1,579,894	161,983	1,741,877
Residential MBS	-	2,158,387	2,442	2,160,829
Other ABS	-	1,255,825	266,246	1,522,071
Total fixed maturities — available-for-sale	-	15,485,636	520,316	16,005,952
Fixed maturities — trading:				
U.S. and Canadian corporate	-	133,219	-	133,219
Foreign corporate	-	6,900	-	6,900
Total fixed maturities — trading	-	140,119	-	140,119
Equity securities — available-for-sale	-	52	11,407	11,459
Equity securities — trading	9,678	28,328	-	38,006
Loans held for sale	-	44,374	-	44,374
Derivative assets:				
Swaptions	-	13,080	-	13,080
Foreign currency swaps	-	1,554	-	1,554
Interest rate swaps and caps	-	7,915	-	7,915
Mortgage loan commitments	-	513	-	513
Total derivative assets	-	23,062	-	23,062
Short-term investments	193,833	-	-	193,833
Cash equivalents	132,350	-	-	132,350
Mortgage servicing rights	-	-	20,094	20,094
Derivative liabilities:				
Foreign currency swaps	-	(1,841)	-	(1,841)
Interest rate swaps and caps	-	(5,788)	-	(5,788)
Forwards and warrants	-	-	(2,187)	(2,187)
Mortgage commitments	-	(126)	-	(126)
Total derivative liabilities	-	(7,755)	(2,187)	(9,942)
Total without separate accounts	335,861	15,713,816	549,630	16,599,307
Separate accounts	2,054,531	1,174,680	-	3,229,211
Total	$2,390,392	$16,888,496	$549,630	$19,828,518

Transfers between Levels 1 and 2 — Transfers in and/or out of any level are assumed to occur at the beginning of the period. No transfers between level 1 and level 2 occurred during the year ended December 31, 2014. During the year ended December 31, 2013, transfers out of Level 1 to Level 2 occurred due to the change in availability of a current actively traded market price.

Transfers into and out of Level 3 — Assets and liabilities are transferred into or out of Level 3 when a significant input can no longer be corroborated or can be corroborated with market observable data. This occurs when market activity decreases or increases related to certain securities and transparency to the underlying inputs is no longer available or can be observed with current pricing.

A description of the significant inputs and valuation techniques used to determine estimated fair value for assets and liabilities on a recurring basis is as follows:

Level 1 Measurements:

Equity Securities — Trading — Valuation is based on unadjusted quoted prices in active markets that are readily and regularly available.

Short-Term Investments — Valuation is based on unadjusted quoted prices in active markets that are readily and regularly available.

Cash Equivalents — Money market instruments included in cash equivalents are generally valued using unadjusted quoted prices in active markets that are accessible for the asset or identical assets. When public quotations are not available, because of the highly liquid nature of these assets, carrying amounts may be used to approximate fair values.

Separate Accounts — Separate accounts are comprised primarily of money market instruments, mutual funds, and common stock. Valuation is based on actively traded mutual funds that have daily quoted net asset values for identical assets that the Company can access.

Level 2 Measurements:

Fixed Maturities — Available-for-Sale and Trading:

U.S. Government and State and Political Subdivisions — These securities are principally valued using the market approach, which uses prices and other relevant information generated by market transactions for similar assets. The valuation of these securities is based primarily on quoted prices in active markets or through the use of matrix pricing or other similar techniques using standard market observable inputs such as the benchmark U.S. Treasury yield curve, the spread from the U.S. Treasury curve for the identical security and comparable securities that are actively traded.

U.S. and Canadian Corporate and Foreign Corporate — These securities are principally valued using either the market approach or the income approach. The income approach uses valuation techniques to convert future estimated cash flows to a discounted present value amount. The valuation of these securities is based primarily on quoted prices in active markets, or through the use of matrix pricing or other similar techniques that use standard market observable inputs such as benchmark yields, spreads off benchmark yields, new issuances, issuer rating, duration, and trades of identical or comparable securities. Also included are privately placed securities valued using a discounted cash flow methodology using standard market observable inputs, and inputs derived from, or corroborated by, market observable data, including the market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the issuer.

Structured Securities Comprised of Commercial MBS, Residential MBS, and Other ABS — These securities are principally valued using either the market approach or the income approach. The valuation of these securities is based primarily on matrix pricing or other similar techniques using standard market

inputs, including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios, and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance, and vintage of loans.

Equity Securities — Available-for-Sale and Trading — These securities are principally valued using the market approach. The valuation of these securities is based principally on observable inputs including quoted prices in markets that are not considered active.

Loans Held for Sale — These loans are principally valued using the market approach. Valuations are based on readily available observable pricing for similar loans or securities backed by similar loans.

Derivative Assets and Liabilities:

Foreign Currency Swaps — These derivatives are principally valued using an income approach. Valuations are based on option pricing models, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, currency spot rates and cross currency basis curves.

Swaptions and Interest Rate Swaps and Caps — These derivatives are principally valued using an income approach. Valuations are based on present value techniques, which utilize significant inputs that may include swap yield curve, LIBOR basis curves, and repurchase rates.

Mortgage Loan Commitments — The commitments are principally valued using a market approach. Valuations are based on dealer quotes for comparable loans.

Separate Accounts — Separate accounts are comprised primarily of common collective trusts and private investments in public equities. Common collective trusts are valued based on independent pricing services and non-binding broker quotations. The pricing services, in general, employ a market approach to valuing portfolio investments using market prices from exchanges or matrix pricing when quoted prices are not available and other relevant data inputs as necessary. When current market prices or pricing service quotations are not available, the trustees use contractual cash flows and other inputs to value the funds. Private investments in public equities are valued with observable inputs from the public equities.

Level 3 Measurements — In general, investments classified within Level 3 use many of the same valuation techniques and inputs as described above. However, if key inputs are unobservable, or if the investments are illiquid and there is very limited trading activity, the investments are generally classified as Level 3.

Fixed Maturity — Available-for-Sale and Trading Securities:

U.S. and Canadian Corporate and Foreign Corporate — These securities are principally valued using the market and income approaches. Valuations of these securities are based primarily on matrix pricing or other similar techniques that utilize unobservable inputs or cannot be derived principally from, or corroborated by, observable market data, including illiquidity premiums and spread adjustments to reflect industry trends or specific credit-related issues. Valuations may be based on independent non-binding broker quotations. The use of independent non-binding broker quotations to value investments generally indicates there is a lack of liquidity or the general lack of transparency to develop the valuation estimates generally causing these investments to be classified in Level 3. Generally, below investment

grade privately placed or distressed securities included in this level are valued using discounted cash flow methodologies which rely upon significant, unobservable inputs and inputs that cannot be derived principally from, or corroborated by, observable market data.

Structured Securities Comprised of Commercial MBS, Residential MBS, and Other ABS — These securities are principally valued using the market approach. The valuation of these securities is based primarily on matrix pricing or other similar techniques that utilize inputs that are unobservable or cannot be derived principally from, or corroborated by, observable market data, or are based on independent non-binding broker quotations.

Equity Securities Available-for-Sale — These securities are principally valued using the net asset values provided by the asset managers.

Derivative Assets and Liabilities — Forwards and Warrants — These derivatives are principally valued using an income approach. Valuations are based on present value techniques, which utilize significant inputs that may include swap yield curve, LIBOR basis curves, and interest rate volatility.

Mortgage Servicing Rights — The mortgage servicing rights are principally valued using an income approach. The Company relies on a discounted cash flow model to estimate the fair value of the mortgage servicing rights. The model utilizes objective characteristics of the servicing right portfolio, as well as certain subjective unobservable valuation parameters, to estimate fair value. Objective characteristics of the portfolio include type of loan (fixed vs. variable and agency vs. other), term, origination date, and interest rate. Subjective valuation parameters include estimates of discount rates, prepayments speeds, servicing costs, and market conditions. Third party valuation results are obtained quarterly and reviewed for reasonableness by comparing current and prior quarter reports and analyzing the impact of changes in market prices and economic conditions. Unusual results or discrepancies are investigated and documented.

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2014 and 2013, were as follows (in thousands):

	Balance January 1, 2014	Gains (Losses) Included in Net Realized Investment Gains (Losses)	Gains (Losses) Included in Other Income	Gains (Losses) Included in Other Comprehensive Income	Purchases	Sales and Repayments	Net Transfers into Level 3	Net Transfers Out of Level 3	Balance December 31, 2014
Fixed maturities — available for sale:									
U.S. and Canadian corporate	$ 64,577	$ -	$ -	$ (2,836)	$ -	$ (10)	$ -	$ -	$ 61,731
Foreign corporate	25,068	-	-	(3,800)	61,272	-	-	-	82,540
Commercial MBS	161,983	(807)	-	20,203	-	(2,786)	16,266	(537)	194,322
Residential MBS	2,442	-	-	(763)	-	(163)	-	-	1,516
Other ABS	266,246	-	-	2,566	140,950	(72,437)	-	-	337,325
Total fixed maturities — available for sale	520,316	(807)	-	15,370	202,222	(75,396)	16,266	(537)	677,434
Fixed maturities — trading — foreign corporate	-	-	-	-	-	-	-	-	-
Equity securities — available for sale	11,407	-	-	1,246	297	(595)	-	-	12,355
Mortgage servicing rights	20,094	-	(3,968)	-	2,584	-	-	-	18,710
Derivative assets/liabilities — forwards and warrants	(2,187)	2,517	-	-	-	-	-	-	330
	$ 549,630	$ 1,710	$ (3,968)	$ 16,616	$ 205,103	$ (75,991)	$ 16,266	$ (537)	$ 708,829

	Balance January 1, 2013	Gains (Losses) Included in Net Realized Investment Gains (Losses)	Gains (Losses) Included in Other Income	Gains (Losses) Included in Other Comprehensive Income	Purchases	Sales and Repayments	Net Transfers into Level 3	Net Transfers Out of Level 3	Balance December 31, 2013
Fixed maturities — available for sale:									
U.S. and Canadian corporate	$ 66,973	$ 3,080	$ -	$ (3,903)	$ 9,592	$ (7,709)	$ -	$ (3,456)	$ 64,577
Foreign corporate	29,831	-	-	(1,173)	-	(3,590)	-	-	25,068
Commercial MBS	180,922	(1,666)	-	(15,574)	-	(2,674)	975	-	161,983
Residential MBS	2,736	-	-	(117)	-	(177)	-	-	2,442
Other ABS	249,700	2	-	(1,800)	107,634	(76,893)	30,000	(42,397)	266,246
Total fixed maturities — available for sale	530,162	1,416	-	(22,567)	117,226	(91,043)	30,975	(45,853)	520,316
Fixed maturities — trading — foreign corporate	-	-	-	-	-	-	-	-	-
Equity securities — available for sale	10,771	-	-	1,209	256	(829)	-	-	11,407
Mortgage servicing rights	13,155	-	988	-	5,951	-	-	-	20,094
Derivative assets/liabilities — forwards and warrants	(103)	(2,084)	-	-	-	-	-	-	(2,187)
	$ 553,985	$ (668)	$ 988	$ (21,358)	$ 123,433	$ (91,872)	$ 30,975	$ (45,853)	$ 549,630

The total change in other comprehensive income (loss) included in the preceding tables represents unrealized gains (losses) only for the current year during which the applicable financial instruments were classified as Level 3. The total unrealized gains as of December 31, 2014 and 2013, for the Level 3 assets were $32,631,000 and $16,011,000, respectively.

Assets Measured at Fair Value Using Significant Unobservable Inputs (Level 3) — The following table provides quantitative information about significant unobservable inputs used to determine fair value for the more significant asset and liability classes measured at fair value on a recurring basis using significant unobservable inputs (Level 3).

Asset	Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average
U.S. and Canadian corporate and foreign corporate	Discounted cash flows	Credit spreads	0.72%–1.54%	1.12 %
	Liquidation	Liquidity premium	0.20%–2.25%	0.40 %
Commercial MBS	Discounted cash flows	Credit spreads	0.36%–3.00%	2.71 %
Other ABS	Discounted cash flows	Credit spreads	0.85%–4.50%	1.88 %
		Swap spreads	0.00%–0.22%	0.19 %

Valuation Techniques — Fair values are monitored by the Asset Valuation Committee ("AVC"), which is comprised of individuals from the investment management, financial reporting, and bank treasury departments. The AVC is responsible for addressing fair value issues related to the Company's investment portfolio, Bank loans, and real estate. The AVC oversees pricing policies and procedures by ensuring objective and reliable valuation practices and pricing of financial instruments. The AVC addresses and documents fair value issues, approves changes to valuation methodologies, and evaluates and approves third party and internal pricing sources.

The techniques used to determine fair value in the absence of quoted market prices in active markets are significantly affected by assumptions including credit spreads and swap spreads used for the discount rates and Conditional Prepayment Rate ("CPR"), Constant Default Rate ("CDR"), and loss severity, which impact estimates of future cash flows. Prices are generally received from third party pricing services, which are derived from recently reported trades for identical or similar securities. A comparison of prices between different sources and from the same source for the prior and current period is reviewed monthly. Price changes are based on predetermined thresholds and discrepancies are investigated and documented.

Nonrecurring Fair Value Measurements — Certain assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Certain impaired loans are recorded at the lower of the loan carrying value or fair value less estimated costs to sell, if repayment is expected solely from collateral. Substantially all of the Company's impaired loans as of December 31, 2014 and 2013, were secured by collateral. The fair value of the collateral is based on appraisals, broker opinion of value, or discounted cash flows. Fair values may be adjusted by management to reflect current economic and market conditions; therefore, these loans are classified within Level 3 of the fair value hierarchy. As of December 31, 2014 and 2013, certain impaired loans were remeasured and reported at the fair value of the underlying collateral utilizing Level 3 valuation inputs. Impaired loans with a par value of $82,396,000 and $83,507,000 were carried at a fair value of $58,269,000 and $61,269,000 as of December 31, 2014 and 2013, respectively.

As of December 31, 2014 and 2013, certain OREO assets were remeasured and reported at the fair value of the underlying collateral less estimated cost to sell, utilizing Level 3 valuation inputs resulting in an impairment of $557,000 and $3,884,000 recorded in net realized gains (losses) for the years ended December 31, 2014 and 2013, respectively. The fair value of these impaired assets is based on an appraisal of the underlying collateral using unobservable data; therefore, these assets are classified within Level 3 of the fair value hierarchy. The fair value of the remeasured OREO was $9,106,000 and $28,155,000 as of December 31, 2014 and 2013, respectively.

Quantitative information about the significant unobservable inputs used in determining the fair value of impaired loans and OREO on a nonrecurring basis using significant unobservable inputs (Level 3) were as follows:

Assets	Valuation Techniques	Significant Unobservable Inputs	Inputs
Impaired loans	Appraised value	Cost to sell	5% - 10%
		Market adjustments	0% - 100%
	Discounted Cash Flows	Discount Rates	2.75% - 10%
	Brokers Opinion of Value	Cost to sell	10%
	Direct Capitalization	Capitalization Rate	10%
		Cost to sell	10%
OREO	Appraised value	Cost to sell	5% - 10%

As a result of conditions in the commercial real estate market, impairment testing for real estate owned by ECR was performed as of December 31, 2014 and 2013, with revised expected cash flows. As a result of this testing, an impairment of $3,400,000 was included in net realized investment gains (losses) in the consolidated statements of operations for the year ended December 31, 2014, representing the difference between the carrying value and the estimated fair value for the asset components where a fair value measurement was required. Fair value was determined based on independent appraisals, comparable sales data, discounted cash flows, and certain assumptions regarding the use of the properties as prepared by management. There was no impairment recorded in 2013 related to ECR. The real estate is classified within Level 3 of the fair value hierarchy as its estimated fair value is based on a cash flow analysis utilizing Level 3 valuation inputs. Significant quantitative assumptions used in determining fair value, at the time of impairment, included a capitalization rate of 7.25%.

Fair Value of Financial Instruments — The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2014 and 2013, were as follows (in thousands):

	2014		2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Fixed maturities	$ 18,023,768	$ 18,023,768	$ 16,146,071	$ 16,146,071
Equity securities	102,626	102,626	88,030	88,030
Loans	7,086,612	7,286,995	7,178,918	7,324,336
Loans held for sale	419	419	44,374	44,374
Policy loans	213,862	213,862	210,363	210,363
Short-term investments	136,765	136,765	193,833	193,833
Cash and cash equivalents	483,583	483,583	265,202	265,202
Derivatives	17,401	17,401	23,062	23,062
FDIC indemnification asset	4,351	4,351	9,034	9,034
Mortgage servicing rights	18,710	18,710	20,094	20,094
Financial liabilities:				
Policyholder account balances	7,036,876	7,265,765	7,039,156	7,145,791
Deposits	5,107,154	4,885,047	5,021,484	4,986,265
Borrowings	1,391,066	1,393,975	1,156,686	1,311,960
Derivatives	3,600	3,600	9,942	9,942

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments.

The fair values of fixed maturities, equity securities, loans held for sale, short-term investments, cash and cash equivalents, derivatives, and mortgage servicing rights are estimated as discussed above.

Loans — The fair values for loans are estimated by discounting expected future cash flows using current interest rates for similar loans with similar credit risk.

Policy Loans — Management has determined that it is not practicable to estimate the fair value of policy loans because policy loans are often repaid by reducing policy benefits.

FDIC Indemnification Asset — The fair value of the FDIC indemnification asset is the expected reimbursement from the FDIC related to the loss share agreement, as described in Note 2, Investments.

Policyholder Account Balances — The fair value of policyholder account balances is estimated by calculating an average present value of expected cash flows over a broad range of interest rate scenarios using the current market risk-free interest rates adjusted for spreads required for publicly traded bonds issued by comparably rated insurers.

Deposits — The fair value of interest and non-interest demand, savings and money-market accounts and variable-rate certificates of deposit are deemed to be the same as their carrying value. The fair value for fixed-rate certificates of deposit are estimated by discounting expected future cash flows applying interest rates offered as of the balance sheet dates.

Borrowings — The fair value of the surplus notes and long-term FHLB borrowings are estimated by discounting expected future cash flows using current interest rates for debt with comparable terms. The fair value of all other borrowings is deemed to be the same as their carrying value.

Fair Value Option — As discussed in Note 1, certain fixed maturities and equity securities classified as trading, and certain loans held for sale, are carried at fair value with changes in fair value reflected in earnings due to the frequent purchasing and sales transactions within the trading portfolio. As of December 31, 2014 and 2013, the fixed maturities and equity securities classified as trading are classified within all three levels of fair value measurement. As of December 31, 2014 and 2013, loans held for sale are Level 2 investments. The following table illustrates the changes in fair value for these instruments for the years ended December 31, 2014 and 2013 (in thousands):

2014	Fixed Maturities	Equity Securities	Loans Held for Sale
Balance — January 1	$ 140,119	$ 38,006	$ 44,374
Balance — December 31	$ 153,243	$ 41,149	$ 419
Net realized investment gains	$ 2,409	$ 4,091	$ -
Other revenues	$ -	$ -	$ 643

2013	Fixed Maturities	Equity Securities	Loans Held for Sale
Balance — January 1	$ 151,483	$ 31,830	$ 102,513
Balance — December 31	$ 140,119	$ 38,006	$ 44,374
Net realized investment losses	$ (1,610)	$ (1,185)	$ -
Other revenues	$ -	$ -	$ 2,942

4. GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill reported by the Company was $176,776,000 as of December 31, 2014 and 2013. There were no changes recorded to goodwill during 2014 or 2013.

Amortized definite life core deposit intangible assets as of December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Gross carrying amount	$ 32,897	$ 39,222
Accumulated amortization	(23,355)	(24,336)
Net carrying amount	$ 9,542	$ 14,886
Amortization expense	$ 3,587	$ 3,721

The net carrying value of the Bank's core deposits intangible asset was reduced by $1,757,000 to derecognize the portion related to the deposits sold in 2014.

As of December 31, 2014, the estimated future years amortization expense for intangible assets was as follows (in thousands):

Years Ending	
2015	$ 3,181
2016	3,181
2017	3,180
	$ 9,542

5. DEFERRED POLICY ACQUISITION COSTS

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Balance — beginning of year	$2,498,136	$2,260,465
Acquisition costs deferred	645,306	640,328
Amortization	(395,983)	(450,910)
Unrealized investment gains (losses)	(20,331)	48,253
Balance — end of year	$2,727,128	$2,498,136

6. POLICY RESERVES

Policy reserves include the liabilities for future policy benefits and policyholder account balances. Annuities in payout status that involve insurance risk to the Company are included within future policy benefits. Deferred annuities in the accumulation stage and those in payout status that do not involve insurance risk are included within policyholder account balances.

Future Policy Benefits — Reserves for future policy benefits as of December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Life insurance	$3,605,389	$3,279,471
Health insurance	1,631,338	1,417,147
Annuities	3,253,262	2,801,008
Total future policy benefits	$8,489,989	$7,497,626

Policyholder Account Balances — Policyholder account balances as of December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Annuities	$2,477,851	$2,553,917
Group contracts	2,066,049	2,060,629
Individual interest-sensitive and universal life contracts	2,147,567	2,112,080
Other	345,409	312,530
Total policyholder account balances	$7,036,876	$7,039,156

Liability for Unpaid Claims — A reconciliation of the liability for unpaid claims for health benefits as of December 31, 2014 and 2013, was as follows (in thousands):

	2014	2013
Liability for unpaid claims — beginning of year	$1,572,469	$1,562,511
Less nonhealth unpaid claim liabilities	129,304	186,393
Less reinsurance	70,838	62,515
Net unpaid health claims balance — beginning of year	1,372,327	1,313,603
Incurred related to:		
Current year	2,491,311	2,554,523
Prior years	(14,331)	(26,287)
Total incurred	2,476,980	2,528,236
Paid related to:		
Current year	1,884,588	1,969,375
Prior years	494,556	500,137
Total paid	2,379,144	2,469,512
Net unpaid health claims balance — end of year	1,470,163	1,372,327
Plus reinsurance	65,870	70,838
Plus nonhealth unpaid claim liabilities	115,267	129,304
Liability for unpaid claims — end of year	$1,651,300	$1,572,469

During 2014 and 2013 incurred claims related to prior years were negative primarily due to favorable experience within certain health and accident coverages and expected margin releases.

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is regularly reviewed and revised to reflect current conditions and claim trends and any resulting adjustments are reflected in operating results in the year they are made.

7. FEDERAL INCOME TAXES

The components of income tax expense for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Current tax expense	$ 86,883	$ 81,150
Deferred tax expense	71,907	101,651
Income taxes	$ 158,790	$ 182,801

Reconciliations between income taxes based on the federal tax rate and the effective tax rate for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Income before income taxes	$ 450,491	$ 542,049
Federal income tax rate	35 %	35 %
Income taxes at the federal rate	157,672	189,717
Income tax effect of:		
Corporate owned life insurance	(3,738)	(8,156)
Income tax credits	(3,068)	(3,015)
Interest	52	2,686
State income taxes	1,259	978
Nondeductible expenses, net of exempt income	6,631	1,457
Other — net	(18)	(866)
Income taxes at effective rate	$ 158,790	$ 182,801

As of December 31, 2014 and 2013, there were no valuation allowances necessary as, in management's opinion, all deferred tax assets will ultimately be realized by the Company. There are no net operating loss or capital loss carry forwards as of December 31, 2014 and 2013.

At December 31, 2014, the Company has no liability for uncertain tax positions. Moreover, the Company does not believe that it is reasonably possible that this zero liability balance will significantly increase within the next 12 months. The Company had a liability for uncertain tax positions at December 31, 2013 of $394,190, including accrued interest.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The statute of limitations has closed on all years through 2010. Therefore, the years after 2010 remain subject to audit by federal and state tax jurisdictions.

Significant components of deferred income taxes payable, as of December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Policy reserves	$ 79,732	$ 78,998
Expenses deductible in subsequent periods	191,734	113,412
Deferred tax assets	271,466	192,410
Deferred policy acquisition costs	728,185	658,199
Net unrealized investment gains	291,955	155,470
Depreciation and amortization	45,202	42,644
Investment related items	39,206	36,033
Deferred tax liabilities	1,104,548	892,346
Deferred income taxes payable	$ 833,082	$ 699,936

8. EMPLOYEE BENEFIT PLANS

The Company is both the sponsor and administrator of a noncontributory defined benefit plan ("Pension Plan") covering all United States employees meeting certain minimum requirements. Retirement benefits are based upon years of credited service and final average earnings history. Effective January 1, 2005, the Pension Plan was amended to freeze plan benefits for participants under 40 years. No benefits are available under the Pension Plan included in pension benefits below for employees hired on or after January 1, 2005. The Company also sponsors and administers a supplemental defined benefit plan covering certain current and former employees, and certain postretirement medical and life insurance benefits (other benefits) to retired employees hired before January 1, 1995. Other benefits are based upon hire date, age, and years of service.

On May 20, 2014, the Pension Plan was amended to offer a voluntary lump-sum pension payout program ("the Program") to eligible former employees, subject to certain limitations. The Program provided eligible participants with a one-time election to receive a lump-sum settlement of their pension benefit and relieved the Pension Plan of its corresponding obligation. Offers to eligible participants were made on August 1, 2014 and participants had until October 31, 2014 to accept the offer. As part of this voluntary program, the Pension Plan paid $73,649,000 to eligible participants and settled approximately $106,907,000 of its pension obligation.

Projected Benefit Obligations and Pension Plan Assets — The changes in projected benefit obligation and plan assets at the December 31, 2014 and 2013, the measurement date, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Change in projected benefit obligation:				
Projected benefit obligation — beginning of year	$ 1,084,722	$ 1,178,553	$ 73,820	$ 93,510
Reclassification of supplemental plan	-	25,352	-	-
Service cost	11,408	12,759	172	162
Interest cost	55,419	49,938	3,620	3,270
Actuarial loss (gain)	208,447	(138,679)	11,450	(14,402)
Settlements	(73,649)	-	-	-
Benefits paid	(46,940)	(43,201)	(9,765)	(8,720)
Projected benefit obligation — end of year	1,239,407	1,084,722	79,297	73,820
Change in plan assets:				
Fair value of plan assets — beginning of year	992,032	864,470	20,598	24,266
Actual return on plan assets	49,944	127,481	236	271
Employer contribution	1,008	43,282	-	-
Settlements	(73,649)	-	-	-
Benefits paid	(46,940)	(43,201)	(4,154)	(3,939)
Fair value of plan assets — end of year	922,395	992,032	16,680	20,598
Underfunded	$ (317,012)	$ (92,690)	$ (62,617)	$ (53,222)
Accumulated benefit obligation — end of year	$ 1,169,583	$ 1,055,277		

The amounts reflected in accumulated other comprehensive income (loss) for the plans as of December 31, 2014 and 2013, were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Unamortized prior service costs	$ (1,887)	$ (2,585)	$ -	$ (918)
Unrecognized net actuarial loss (gain)	427,127	239,026	(14,622)	(28,733)
Total unrecognized benefit costs	425,240	236,441	(14,622)	(29,651)
Deferred income tax (liability) asset	(148,834)	(82,758)	5,118	10,378
Total	$ 276,406	$ 153,683	$ (9,504)	$ (19,273)

As of December 31, 2014, estimated amortization of net actuarial loss and prior service costs that will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost for 2015 are as follows (in thousands):

	Pension	Other
Net actuarial loss	$ 39,696	$ 1,055
Prior service cost	(699)	-
	$ 38,997	$ 1,055

As of December 31, 2014 and 2013, underfunded pension benefits of $317,012,000 and $92,690,000 and underfunded other benefits of $62,617,000 and $53,222,000, respectively, were included in other liabilities.

The Pension Plan assets as of December 31, 2014 and 2013, included the following (in thousands):

	2014	2013
United group annuity contract:		
General Asset Account	$ 482,972	$ 470,816
Separate Account K	67,952	62,024
Separate Account II	93,469	140,061
Equity securities — domestic	48,221	56,870
Equity securities — foreign	134,779	162,981
Limited partnerships	95,002	99,280
	$ 922,395	$ 992,032

Investments in the group annuity contract include the General Asset Account, which is valued at contract value, and investments in Separate Account K, and Separate Account II. The Separate Account K and the Separate Account II funds are recorded at the fair value of the Pension Plan's proportionate share of the underlying net assets. The underlying net assets of the Separate Account K consist primarily of small cap common stocks traded on organized exchanges and over-the-counter markets. Separate Account II is an index mutual fund based on the S&P 500 index.

Limited partnerships are valued at fair value based on the proportionate share of the partnership's capital balance. Equity securities — domestic and equity securities — foreign consist of mutual funds and collective investment trusts valued at fair value based on the proportionate share of the underlying net assets. The assets consist of securities traded on organized exchanges and over-the-counter markets.

The estimated fair values of the Separate Account K, Separate Account II and mutual funds as of December 31, 2014 and 2013, by asset category were as follows (in thousands):

2014	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Separate Account K equity securities	$ -	$ 67,952	$ -	$ 67,952
Separate Account II equity securities	93,469	-	-	93,469
Equity securities — domestic	48,221	-	-	48,221
Equity securities — foreign	27,214	107,565	-	134,779
Limited partnerships	-	-	95,002	95,002
Total	$ 168,904	$ 175,517	$ 95,002	$ 439,423

2013	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
Separate Account K equity securities	$ -	$ 62,024	$ -	$ 62,024
Separate Account II equity securities	140,061	-	-	140,061
Equity securities — domestic	56,870	-	-	56,870
Equity securities — foreign	28,592	134,389	-	162,981
Limited partnerships	-	-	99,280	99,280
Total	$ 225,523	$ 196,413	$ 99,280	$ 521,216

Transfers between Levels 1 and 2 — Transfers in and/or out of any level are assumed to occur at the beginning of the period. During the year ended December 31, 2014, transfers out of Level 2 to Level 1 occurred due to the change in availability of a current actively traded market price.

The investment objective of the Pension Plan is to produce current income and long-term capital growth through a combination of equity and fixed income investments which, together with appropriate employer contributions, will be adequate to provide for the payment of the plan's benefit obligations. The assets of the Pension Plan may be invested in both fixed income and equity investments. Fixed income investments may include group annuity contracts, cash and short-term instruments, corporate bonds, mortgages, and other fixed income investments. Equity investments may include large cap, mid cap and small cap stocks, and venture capital.

The Company has various regulated investment advisors that monitor investments in the Pension Plan to ensure they are in compliance with the Company's investment policy and guidelines. The use of derivative instruments as direct investments is prohibited. The Company's Retirement Plans Committee periodically reviews the performance of the Pension Plan's investments and asset allocation. The current allocation strategy is 50% fixed income and 50% equities and other. The Company, subject to general guidelines set by the Retirement Plans Committee, makes all investment decisions.

The Company determines its expected long-term rate of return on assets based primarily on the Company's expectations of future returns for the Pension Plan's investments, based on target allocations of the underlying investments. Additionally, the Company considers historical returns on comparable fixed income investments and equity investments and adjusts its estimate as deemed appropriate.

The Company does not expect to make contributions to the Pension Plan or the other postretirement plan in 2015.

The Company funded certain postretirement medical and life insurance benefits applicable to participants who retired prior to January 1, 1988. Pension Plan assets for these benefit plans are invested in a United group annuity contract and are used solely to fund these benefits. The group annuity contract investment with United was valued at contract value as determined by United and was $16,682,000 and $20,599,000 as of December 31, 2014 and 2013, respectively.

Actuarial Assumptions — Actuarial assumptions related to the plans as of December 31, 2014 and 2013, are set forth in the following table:

	Pension Benefits		Other Benefits	
	2014	**2013**	**2014**	**2013**
Discount rate	4.30 %	5.20 %	4.30 %	5.20 %
Rate of increase in compensation levels	3.38	4.36	N/A	N/A
Expected long-term rate of return on plan assets	7.50	7.50	4.00	4.00

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 6.90% and 7.10% in 2014 and 2013, respectively, then gradually declining to 4.50% in 2083 and 2094, respectively, and remaining at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rate by one percentage point in each year would increase the Company's accumulated postretirement benefit obligation as of December 31, 2014, by approximately $5,599,000 and the net periodic postretirement benefit costs for 2014 by approximately $327,000. Decreasing the assumed health care cost trend rate by one percentage point in each year would decrease the Company's accumulated postretirement benefit obligation as of December 31, 2014, by approximately $6,054,000 and the net periodic postretirement benefit costs for 2014 by approximately $290,000. At December 31, 2014, the Company adopted a newly published mortality tables to estimate the value of its projected benefit obligations for its pension benefits and other benefits.

Actuarial assumptions used may differ materially from actual results due to, among other factors, changing market and economic conditions and changes in participant demographics and result in actuarial gains and losses included in the projected benefit obligation. Actuarial gains and losses in 2014 and 2013 are primarily the result of changes in the discount rate and the adoption of the new mortality table in 2014.

The Company's net periodic benefit costs (income) for the years ended December 31, 2014 and 2013, include the following components (in thousands):

	Pension Benefits		Other Benefits	
	2014	2013	2014	2013
Service cost	$ 11,408	$ 12,759	$ 172	$ 162
Interest cost	55,419	49,938	3,620	3,262
Amortization of (gain) loss	19,284	46,085	(2,302)	(631)
Amortization of prior service cost	(699)	(5,890)	(918)	(1,308)
Settlement expenses	22,149	-	-	-
Expected return on plan assets	(71,256)	(64,732)	(824)	(971)
Net periodic benefit costs (income)	$ 36,305	$ 38,160	$ (252)	$ 514

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

	2015	2016	2017	2018	2019	2020–2024
Pension benefits	$ 53,164	$ 56,319	$ 61,318	$ 63,633	$ 65,830	$361,862
Other postretirement benefits	$ 6,858	$ 6,884	$ 6,854	$ 6,848	$ 6,777	$ 31,927

Savings and Investment Plans — The Company sponsors savings and investment plans under which the Company matches a portion of employee contributions. The expense for the plans was $16,739,000 and $14,732,000 in 2014 and 2013, respectively. As of December 31, 2014 and 2013, the liability for deferred compensation benefits included in other liabilities was $38,084,000 and $36,938,000, respectively.

9. BORROWINGS

A summary of the Company's borrowings outstanding as of December 31, 2014, was as follows (in thousands):

	Interest Rates	Balances
Surplus note issued in 2014, due in 2054	4.297%	$ 305,873
Surplus note issued in 2010, due in 2040	6.95%	163,830
Surplus note issued in 2006, due in 2036	6.80%	258,771
Federal Home Loan Bank advances due in 2023	5.03%	91,818
Federal Home Loan Bank advances due in 2017	3.17% to 5.55%	17,087
Federal Home Loan Bank line of credit	0.25%	300,000
Retail repurchase agreements	N/A	123,597
Securities lending	N/A	130,090
Total		$ 1,391,066

On July 17, 2014, Mutual issued a $300,000,000 surplus note at par, due July 17, 2054 with a fixed interest rate of 4.297% for 10 years that subsequently resets quarterly at the then current three-month LIBOR rate plus 2.642%. On October 15, 2010, Mutual issued a surplus note due October 15, 2040, at a discount of $10,095,000. On June 15, 2006, Mutual issued a surplus note due June 15, 2036, at a discount of $3,630,000. Proceeds from the surplus note issued in 2014 were used to repurchase $165,028,000 of the carrying amount from the surplus notes issued in 2010 and 2006. The loss of $63,643,000 related to these repurchases is included in nonoperating loss on extinguishment of debt on the statements of operations and comprehensive income.

Unamortized issuance costs of $7,127,000 and $5,686,000 related to the surplus notes are included in other assets as of December 31, 2014 and 2013, respectively. The Company made interest payments of $37,756,000 for the year ended December 31, 2014. Payments of principal and interest require the approval of the State of Nebraska Department of Insurance.

Under an agreement with the FHLB, Mutual and United pledge assets in the form of fixed-maturity securities in return for extensions of credit. During the year ended December 31, 2014, repayments of $10,909,000 were made on the FHLB advance agreement due in 2023. During the year ended December 31, 2014, repayments of $2,666,000 were made on the FHLB advance agreement due in 2017 and $15,000,000 of the remaining amount due is convertible to variable rates at the option of the FHLB at various dates. These advances are prepayable in part or full on the date the FHLB exercises its option and on every rate adjustment date thereafter. All fixed rate FHLB advances are subject to a prepayment penalty.

As of December 31, 2014, aggregate maturities for FHLB advances were as follows (in thousands):

	Amount Due
2015	$ 10,952
2016	16,953
2017	21,909
2018	10,909
2019	10,909
Thereafter	37,273
	$ 108,905

The Bank also has a revolving line of credit agreement with the FHLB, which expires annually in May, to meet short-term borrowing needs. The interest rate applicable to borrowings under this line of credit is the FHLB overnight rate. The FHLB advances and line of credit are subject to an agreement whereby the Bank is required to maintain a certain level of eligible collateral, as defined by the agreement. As of December 31, 2014, non-covered mortgage loans of $1,413,940,000 were specifically pledged to secure borrowings at the FHLB.

The Bank engages in overnight borrowings with certain of its deposit customers collateralized by its securities under retail repurchase agreements. In addition, Mutual and United have entered into agreements to sell and repurchase securities up to a maximum of $600,000,000 of which no amounts were outstanding as of December 31, 2014. Under these agreements, the Company obtains the use of funds for a period not to exceed 30 days.

The Company has securities lending agreements whereby unrelated parties, primarily large brokerage firms, borrow securities from the Company. Borrowers of the securities must provide collateral in the form of cash or securities equal to 102% of the fair value plus accrued interest on the securities loaned. The Company continues to retain control over and receive the interest on loaned securities, and accordingly, the loaned securities continue to be reported as fixed maturities. The amount of collateral received in cash is invested in short-term securities, and is included in short-term investments with a corresponding liability for funds held for securities on loans included in borrowings. The Company was liable for cash collateral under its control of $130,090,000 as of December 31, 2014, of which 100% was on open terms, meaning that the related loaned security could be returned to the Company on the next business day requiring return of cash collateral. The cash collateral cannot be accessed by the Company unless the borrower fails to deliver the loaned securities. The collateral received is not defined as a cash activity in the statement of cash flows but is disclosed as a non-cash transaction. Accordingly, in the statement of cash flows, the Company reported the collateral investing and financing activity as non-cash.

Mutual and United on a joint basis have entered into certain unsecured revolving line of credit agreements that allow for maximum borrowings of $150,000,000 and is renewed annually. As of December 31, 2014, the Company had no outstanding borrowings under these agreements.

United has entered into funding agreement contracts with the FHLB that are used as part of the Company's interest spread strategy. The liability for these funding agreements as of December 31, 2014 and 2013, was $500,000,000 and was included in policyholder account balances in the consolidated balance sheets. As of December 31, 2014, the Company had MBS with fair values of $1,072,398,000 pledged as collateral.

10. COMMITMENTS AND CONTINGENCIES

The Company leases office space and office equipment under a variety of operating lease arrangements. Future minimum rental commitments required under operating leases having remaining noncancelable lease terms in excess of one year as of December 31, 2014, as well as the rent expense for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2015	2016	2017	2018	2019	Thereafter
Future minimum rental commitments	$ 15,887	$ 13,305	$ 10,633	$ 8,473	$ 6,908	$ 22,449

	2014	2013
Rent expense	$ 32,515	$ 35,094

Deposits of the Bank include demand deposits, savings deposits, and time deposits. Total time deposits as of December 31, 2014 and 2013, were $900,677,000 and $951,672,000, respectively, with scheduled maturities as of December 31, 2014, as follows (in thousands):

2015	$ 576,694
2016	109,771
2017	125,772
2018	67,919
2019 and thereafter	20,521
	$ 900,677

The aggregate amount of time deposits in denominations of $100,000 or more as of December 31, 2014 and 2013, were $506,945,000 and $553,198,000, respectively.

The Company has unfunded investment commitments for fixed maturities, mortgage loans and limited partnerships of $288,855,000 and $280,615,000 as of December 31, 2014 and 2013, respectively. The Company does not have any significant financial guarantee commitments.

In 2008, tax increment financing ("TIF") notes of $37,400,000 were issued to the Company by the City of Omaha, Nebraska at an interest rate of 5.125% related to the ECR real estate development project. The Company may elect to sell these notes to other parties and use the proceeds to reduce borrowings. The Company has not recorded an asset or liability for the TIF notes as of December 31, 2014, in the consolidated balance sheets.

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to fund mortgage loans, extend credit, and advance funds on equity lines. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. As of December 31, 2014 and 2013, commitments on financial instruments consist of the following (in thousands):

	2014	**2013**
Loan commitments	$ 687,273	$ 430,672
Unused lines of credit	404,042	455,306
Letters of credit	10,573	7,819
	$ 1,101,888	$ 893,797

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies and collateral requirements in making commitments and conditional obligations as it does for on-balance sheet instruments. To reduce credit risk related to the use of credit related financial instruments, the Bank might deem it necessary to obtain collateral. Collateral held varies, but may include cash, securities, and real estate. The Bank estimated its exposure to credit losses on these commitments to be $1,512,000 and $1,075,000 as of December 31, 2014 and 2013, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, total commitment amounts do not necessarily represent future cash requirements.

As of December 31, 2014 the Bank had no outstanding commitments to sell loans or mortgage backed securities. As of December 31, 2013, the Bank had $54,338,000 of outstanding commitments to sell loans and mortgage backed securities.

The Bank services certain mortgage loans for the FHLB that were originated under the FHLB's Mortgage Partnership Finance Program for which the Bank has guaranteed a portion of any credit losses. The Bank does not believe losses under these guarantees to be significant as of December 31, 2014 and 2013. The Bank is also subject to the repurchase of mortgage loans it services for others, primarily those sold to Government Sponsored Enterprises, under general representations and warranties. It does not believe contingent losses as a result of those representations and warranties to be material as of December 31, 2014 and 2013.

Various lawsuits have arisen in the ordinary course of the Company's business. The Company believes that its defenses in these various lawsuits are meritorious and the eventual outcome will not have a material effect on the Company's consolidated financial statements.

11. REINSURANCE

The ceding of insurance business does not discharge an insurer from its primary legal liability to a policy owner. The Company remains liable to the extent that a reinsurer is unable to meet its obligations. The Company evaluates the financial condition of reinsurers to which it cedes business and monitors concentrations of credit risk to minimize its exposure to significant losses from reinsurer insolvencies. The amounts in the accompanying consolidated statements of operations and comprehensive income are included gross of reinsurance assumed and net of reinsurance ceded. The reconciliations of total premiums to net premiums for the years ended December 31, 2014 and 2013, were as follows (in thousands):

	2014	2013
Direct premiums	$ 5,314,392	$ 4,930,243
Reinsurance assumed	485,724	508,718
Reinsurance ceded	(171,463)	(157,908)
Net premiums earned	$ 5,628,653	$ 5,281,053

Health and accident, life and annuity benefits in the accompanying consolidated statements of operations and comprehensive income are included net of reinsurance recoveries of $163,530,000 and $143,402,000 for the years ended December 31, 2014 and 2013, respectively.

12. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Components of AOCI	Amount Reclassified from AOCI	Line Item to which Reclassified within Net Income
Net unrealized losses on securities		
Realized holding losses	$ (6,674)	Other net realized investment gains
	(6,674)	Income before income taxes
	2,336	Income taxes
	(4,338)	Net income
Defined benefit plans		
Amortization of actuarial gains (losses)	(16,982)	General insurance expense
Amortization of prior service cost (credit)	1,617	General insurance expense
Amounts recognized due to settlement	(22,149)	General insurance expense
	(37,514)	Income before income taxes
	13,130	Income taxes
	$ (24,384)	Net income
	$ (28,722)	

The amounts reclassified out of accumulated other comprehensive income (loss) ("AOCI") and the line items within net income on the consolidated statement of operations and comprehensive income to which the amounts are reclassified for the year ended December 31, 2014 were as follows (in thousands):

Certain amounts are reclassified from net unrealized gains and losses on securities to future policy benefit liabilities and deferred policy acquisition costs assets. See the reconciliation of net unrealized investment gains and losses in Note 2, Investments.

Amortization of defined benefit plan amounts is included in the computation of net periodic pension benefit costs. See Note 8, Employee Benefit Plans.

13. STATUTORY SURPLUS AND NET INCOME

The Company's combined net income as determined in accordance with statutory accounting principles was $154,560,000 and $143,661,000 for 2014 and 2013, respectively. The Company's statutory surplus was $2,795,657,000 and $2,674,546,000 as of December 31, 2014 and 2013, respectively. The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company's life and health insurance subsidiaries collectively was approximately $316,469,000 as of December 31, 2014 (company action level risk-based capital ("RBC")). Company action level RBC is the level at which a company is required to file a corrective action plan with its regulators. Company action level RBC is equal to 200% of the authorized control level RBC, which is the level at which regulatory action is taken.

As a mutual insurance company, Mutual does not pay dividends. Dividends to Mutual from its insurance subsidiaries are restricted under state insurance laws respective to the states of domicile which include Nebraska, New York, and Wisconsin. Mutual's insurance subsidiaries are permitted to pay up to a maximum of approximately $164,558,000 in dividends to Mutual in 2015 without prior approval from the applicable insurance commissioner.

14. REGULATORY MATTERS

As of December 31, 2014 and 2013, securities with an amortized cost of $19,087,000 and $19,048,000, respectively, were on deposit with government agencies as required by law in various jurisdictions in which the Company conducts business.

As a condition of doing business, all states and jurisdictions have adopted laws requiring membership in life and health insurance guaranty funds. Member companies are subject to assessments each year based on life, health, or annuity premiums collected in the state. The Company estimates its costs related to past insolvencies as $4,311,000 and $7,533,000 as of December 31, 2014 and 2013, respectively, included in other liabilities. Certain states provide premium tax credits for amounts paid to these guaranty funds. Estimated premium tax credits related to amounts paid to guaranty funds of $3,918,000 and $6,616,000 as of December 31, 2014 and 2013, respectively, are included in other assets.

Mutual of Omaha Bank, a wholly owned subsidiary of Omaha Financial Holdings, Inc., is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Mutual of Omaha Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. To be categorized as well-capitalized based on a Tier 1 capital basis, Mutual of Omaha Bank was required to have capital of $323,134,000 as of December 31,2014. The amount of Tier 1 capital of held by Mutual of Omaha Bank was $583,935,000 as of December 31, 2014.

As a federal savings institution, Mutual of Omaha Bank is required to satisfy the Qualified Thrift Lender Test ("QTL"), which requires it to maintain 65% of its portfolio assets in qualified thrift investments in at least nine months of the most recent twelve-month period. The entity may satisfy this test by meeting either the Home Loan Act QTL test or the IRS tax code Domestic Building and Loan Association test. It may switch between the two tests at any time. A savings institution that fails the QTL test must convert to a national bank charter or operate under specified restrictions. Approximately 77.1% and 75.0% of Mutual of Omaha Bank's portfolio assets were held in qualified thrift investments as of December 31, 2014 and 2013, respectively. The Bank is in compliance with the provisions of the QTL test as of December 31, 2014.

Mutual of Omaha Bank is regulated by the Office of the Comptroller of the Currency and the Company is regulated by the Federal Reserve Board. The Company's insurance entities are regulated by the domiciliary state insurance department. The Company and its subsidiaries are subject to periodic examinations by the above noted regulatory authorities.

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