# Mutual of Omaha Insurance Company and Subsidiaries

Consolidated Financial Statements as of and for the Years Ended December 31, 2013 and 2012, 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, 2013 and 2012, 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, 2013 and 2012, 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 3, 2014

# MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEETS
## AS OF DECEMBER 31, 2013 AND 2012
## (In thousands)

| | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| INVESTMENTS: | | |
| Fixed maturities — available-for-sale — at fair value | $16,005,952 | $15,775,102 |
| Fixed maturities — trading — at fair value | 140,119 | 151,483 |
| Equity securities — available-for-sale — at fair value | 11,459 | 10,971 |
| Equity securities — trading — at fair value | 38,006 | 31,830 |
| Equity securities — at cost | 38,565 | 45,237 |
| Loans — net | 7,178,918 | 6,768,092 |
| Loans held for sale — at fair value | 44,374 | 102,513 |
| Real estate | 241,629 | 273,450 |
| Limited partnerships | 574,774 | 609,051 |
| Other invested assets | 23,062 | 8,274 |
| Policy loans | 210,363 | 208,108 |
| Short-term investments | 193,833 | 199,657 |
| Total investments | 24,701,054 | 24,183,768 |
| CASH AND CASH EQUIVALENTS | 265,202 | 341,497 |
| ACCRUED INVESTMENT INCOME | 159,569 | 152,379 |
| PREMIUMS AND OTHER RECEIVABLES | 99,010 | 112,397 |
| DEFERRED POLICY ACQUISITION COSTS | 2,498,136 | 2,260,465 |
| REINSURANCE RECOVERABLE | 402,077 | 387,345 |
| CURRENT INCOME TAXES RECEIVABLE | 14,059 | 24,725 |
| GOODWILL AND INTANGIBLE ASSETS | 191,662 | 195,383 |
| COMPANY OWNED LIFE INSURANCE | 317,218 | 297,464 |
| OTHER ASSETS | 356,801 | 361,171 |
| SEPARATE ACCOUNT ASSETS | 3,229,211 | 2,591,444 |
| TOTAL | $32,233,999 | $30,908,038 |
| **LIABILITIES AND EQUITY** | | |
| LIABILITIES: | | |
| Future policy benefits | $ 7,497,626 | $ 7,314,512 |
| Policyholder account balances | 7,039,156 | 6,820,135 |
| Unpaid claims | 1,572,469 | 1,562,511 |
| Unearned revenues | 375,262 | 316,167 |
| Deposits | 5,021,484 | 4,790,375 |
| Deferred income taxes payable | 699,936 | 720,125 |
| Borrowings | 1,156,686 | 1,152,428 |
| Other liabilities | 907,951 | 1,038,800 |
| Separate account liabilities | 3,229,211 | 2,591,444 |
| Total liabilities | 27,499,781 | 26,306,497 |
| EQUITY: | | |
| Retained earnings | 4,572,409 | 4,213,161 |
| Accumulated other comprehensive income | 161,809 | 388,380 |
| Total equity | 4,734,218 | 4,601,541 |
| TOTAL | $32,233,999 | $30,908,038 |

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, 2013 AND 2012
## (In thousands)

| | 2013 | 2012 |
|---|---|---|
| REVENUES: | | |
| Health and accident | $3,570,421 | $3,451,806 |
| Life and annuity | 1,710,632 | 1,687,670 |
| Net investment income | 1,121,344 | 1,104,842 |
| Other | 147,991 | 125,125 |
| Net realized investment gains (losses): | | |
| Other-than-temporary impairments on fixed maturities | (26,608) | (20,440) |
| Other-than-temporary impairments on fixed maturities transferred to other comprehensive income | 6,825 | 10,940 |
| Other net realized investment gains | 71,547 | 18,164 |
| Total net realized investment gains | 51,764 | 8,664 |
| Total revenues | 6,602,152 | 6,378,107 |
| BENEFITS AND EXPENSES: | | |
| Health and accident benefits | 2,650,988 | 2,630,874 |
| Life and annuity benefits | 1,475,131 | 1,457,871 |
| Interest credited | 237,059 | 247,323 |
| Policy acquisition costs | 734,013 | 696,079 |
| General insurance expenses | 713,546 | 669,698 |
| General bank expenses | 207,814 | 218,910 |
| Other | 41,552 | 39,480 |
| Total benefits and expenses | 6,060,103 | 5,960,235 |
| INCOME BEFORE INCOME TAXES | 542,049 | 417,872 |
| INCOME TAXES | 182,801 | 134,075 |
| NET INCOME | 359,248 | 283,797 |
| OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX: | | |
| Unrealized losses on securities: | | |
| Unrealized holding losses arising during the year net of related policyholder amounts (net of taxes of $(212,361) and $(8,047), respectively) | (394,385) | (14,944) |
| Less reclassification adjustments for realized holding gains (net of taxes of $(571) and $(2,904), respectively) | (1,060) | (5,394) |
| Net unrealized losses | (395,445) | (20,338) |
| Unrealized holding gains arising during the year on other-than-temporarily impaired securities (net of taxes of $2,062 and $7,184, respectively) | 3,830 | 13,344 |
| Defined benefit plans: | | |
| Unrecognized post-retirement benefit net gains (costs) arising during the year (net of taxes of $75,480 and $(29,528), respectively) | 140,178 | (54,837) |
| Less amortization of unrecognized post-retirement benefit costs (net of taxes of $13,389 and $10,948, respectively) | 24,866 | 20,332 |
| Unrecognized post-retirement benefit net gains (costs) arising during the year | 165,044 | (34,505) |
| OTHER COMPREHENSIVE LOSS | (226,571) | (41,499) |
| COMPREHENSIVE INCOME | $ 132,677 | $ 242,298 |

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, 2013 AND 2012
## (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, 2012 | $ 3,929,364 | $ 702,182 | $ (7,354) | $ (264,949) | $ 4,359,243 |
| Net income | 283,797 | - | - | - | 283,797 |
| Other comprehensive income (loss) | - | (20,338) | 13,344 | (34,505) | (41,499) |
| BALANCE — December 31, 2012 | 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 |

See notes to consolidated financial statements.

# MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
## (In thousands)

| | 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM (USED FOR) OPERATING ACTIVITIES: | | |
| Net income | $ 359,248 | $ 283,797 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 46,570 | 48,567 |
| Amortization | (18,031) | (11,549) |
| Change in fair value of derivatives | (2,520) | (687) |
| Undistributed equity losses of limited partnerships | 1,356 | 11,606 |
| Provision for bank loan losses | 11,927 | 38,331 |
| Change in fair value of mortgage servicing rights | (988) | 7,672 |
| Amortization of deferred policy acquisition costs | 450,910 | 426,145 |
| Increase in cash surrender value of company owned life insurance | (21,413) | (27,166) |
| Net realized investment gains | (51,764) | (8,664) |
| Deferred tax provision | 101,651 | 67,154 |
| Interest credited | 219,955 | 216,073 |
| Policy charges and fee income | (273,502) | (275,438) |
| Gain on sale of loans | (17,169) | (20,188) |
| Proceeds from loans sold | 616,494 | 734,626 |
| Origination of loans held for sale | (548,750) | (711,172) |
| Change in: | | |
| Accrued investment income | (6,944) | (5,136) |
| Premiums and other receivables | 13,387 | 4,409 |
| Reinsurance recoverable | (14,731) | (10,393) |
| Current income taxes payable | 10,666 | 27,115 |
| Trading securities | 5,472 | 3,128 |
| Other assets | 3,899 | 1,959 |
| Insurance liabilities | 502,068 | 523,662 |
| Other liabilities | 122,841 | 41,104 |
| Capitalization of deferred policy acquisition costs | (640,328) | (679,747) |
| Other — net | 1,003 | 7,890 |
| Cash flows from operating activities | 871,307 | 693,098 |
| CASH FLOWS FROM (USED FOR) INVESTING ACTIVITIES: | | |
| Proceeds from sales or maturities of fixed maturities | 2,240,792 | 3,293,867 |
| Proceeds from payments of mortgage loans | 333,268 | 166,667 |
| Proceeds from equity securities and other invested assets | 90,446 | 6,761 |
| Proceeds from limited partnerships | 132,122 | 116,628 |
| Proceeds from sales of real estate | 42,964 | 33,529 |
| Proceeds from sales of property and equipment | 12 | 107 |
| Purchases of fixed maturities | (3,352,307) | (3,462,649) |
| Purchases of mortgage loans | (348,665) | (331,295) |
| Purchases of equity securities and other invested assets | (86,283) | (225) |
| Purchases of limited partnerships | (34,436) | (75,645) |
| Purchases of real estate | (6,809) | (4,859) |
| Purchases of company owned life insurance | - | (50,000) |
| Purchases of property and equipment | (41,883) | (34,271) |
| FDIC loss share reimbursements | 3,861 | 3,987 |
| Net change in loans from banking activities | (427,695) | (718,420) |
| Net change in policy loans | (2,255) | (3,692) |
| Net change in short-term investments | (105) | 16,909 |
| Cash flows used for investing activities | (1,456,973) | (1,042,601) |

(Continued)

# MUTUAL OF OMAHA INSURANCE COMPANY AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
## (In thousands)

| | 2013 | 2012 |
|---|---|---|
| CASH FLOWS FROM (USED FOR) FINANCING ACTIVITIES: | | |
| Deposits to policyholder account balances | $ 1,780,564 | $ 1,804,904 |
| Net transfers to separate accounts | (119,352) | (183,117) |
| Withdrawals from policyholder account balances | (1,388,645) | (1,343,733) |
| Payments on FHLB advances | (14,031) | (14,526) |
| Payments on other borrowings | - | (9,795) |
| Net increase in FHLB LOC borrowings | 115,000 | - |
| Net change in deposits | 231,109 | 316,483 |
| Net change in short-term borrowings | (95,274) | (36,391) |
| Cash flows from financing activities | 509,371 | 533,825 |
| CHANGE IN CASH AND CASH EQUIVALENTS | (76,295) | 184,322 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 341,497 | 157,175 |
| CASH AND CASH EQUIVALENTS — End of year | $ 265,202 | $ 341,497 |
| SUPPLEMENTAL CASH FLOW INFORMATION: | | |
| Net cash paid during the year for: | | |
| Interest | $ 68,153 | $ 74,155 |
| Income taxes | $ 68,535 | $ 37,039 |
| Noncash transactions during the year: | | |
| Purchases of property and equipment financed through other liabilities | $ 1,076 | $ 163 |
| Transfer of loans to other real estate owned | $ 12,707 | $ 25,461 |
| Noncash FHLB stock dividends | $ 359 | $ 378 |
| Change in securities lending | $ (3,041) | $ 21,629 |

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.

**Error Correction** — Subsequent to the issuance of the consolidated financial statements as of and for the year ended December 31, 2012, the Company identified certain errors which were determined not to be material that impacted previously reported amounts. Such errors and their impact on previously reported amounts in the Balance Sheet, Statement of Operations and Comprehensive Income, and Statement of Cash Flows are described and presented below. The Company has corrected the 2012 column of the consolidated financial statements presented herein for the following items:

*Cash Flow* — The Company incorrectly included certain internal transfers in the calculation of deposits to policyholder account balances and withdrawals from policyholder account balances within the financing section of the Statement of Cash Flows. The error resulted in no impact to the Balance Sheet or the Statement of Operations and Comprehensive Income. The error resulted in an understatement of deposits to policyholder account balances of $497,829,000 and a corresponding understatement of withdrawals from policyholder account balances.

*Payout Annuity Classification* — The Company determined that liabilities for certain annuity contracts lacking insurance risk were inappropriately classified as future policy benefits rather than policyholder account balances. The error resulted in an overstatement of future policy benefits of $199,092,000 and a corresponding understatement of policyholder account balances in the Balance Sheet. The error also resulted in an overstatement of life and annuity revenues of $58,881,000, an overstatement of life and annuity benefits of $66,767,000, and an understatement of interest credited of $7,886,000 in the Statement of Operations and Comprehensive Income. The error resulted in no impact to net income. The error resulted in an overstatement of the change in insurance liabilities of $40,994,000 in the operating section of the Statement of Cash Flows and a corresponding understatement of deposits to policyholder account balances in the financing section of the Statement of Cash Flows.

*Overstatement of Cash* — The Company incorrectly recorded certain automatic premium payments from policyholders prior to their settlement date. The error resulted in an overstatement of cash and cash equivalents of $79,230,000, an overstatement of reinsurance recoverables of $5,789,000, an overstatement of unearned premiums of $83,231,000, and an overstatement of other liabilities of $1,788,000 in the Balance Sheet. The error resulted in no impact on the Statement of Operations and Comprehensive Income. The error resulted in an overstatement of beginning cash of $76,683,000, an understatement of the change in cash from reinsurance recoverable of $405,000, an understatement of the change in cash from other liabilities of $234,000, and an overstatement of the change in cash from insurance liabilities of $3,186,000 in the operating section of the Statement of Cash Flows.

The impact of these corrections on the 2012 consolidated financial statements is summarized as follows: (in thousands):

| **BALANCE SHEET**<br>**As of December 31, 2012** | **2012**<br>**As Reported** | **Misstatement** | **2012**<br>**As Corrected** |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | $ 420,727 | $ (79,230) | $ 341,497 |
| Reinsurance recoverable | 393,134 | (5,789) | 387,345 |
| Total assets | 30,993,057 | (85,019) | 30,908,038 |
| **LIABILITIES AND EQUITY** | | | |
| LIABILITIES: | | | |
| Future policy benefits | $ 7,513,604 | $ (199,092) | $ 7,314,512 |
| Policyholder account balances | 6,621,043 | 199,092 | 6,820,135 |
| Unearned premiums | 399,398 | (83,231) | 316,167 |
| Other liabilities | 1,040,588 | (1,788) | 1,038,800 |
| Total liabilities | 26,391,516 | (85,019) | 26,306,497 |
| Total liabilities and equity | 30,993,057 | (85,019) | 30,908,038 |

| **STATEMENT OF OPERATIONS AND COMPREHENSIVE INCOME**<br>**For the Year Ended December 31, 2012** | **2012**<br>**As Reported** | **Misstatement** | **2012**<br>**As Corrected** |
|---|---|---|---|
| Life and annuity | $ 1,746,551 | $ (58,881) | $ 1,687,670 |
| Total revenues | 6,436,988 | (58,881) | 6,378,107 |
| Life and annuity benefits | 1,524,638 | (66,767) | 1,457,871 |
| Interest credited | 239,437 | 7,886 | 247,323 |
| Total benefits and expenses | 6,019,116 | (58,881) | 5,960,235 |

**STATEMENT OF CASH FLOWS**
**For the Year Ended December 31, 2012**

| | 2012 As Reported | Misstatement | 2012 As Corrected | Change in Presentation [1] | 2012 As Presented |
|---|---|---|---|---|---|
| Adjustments to reconcile net income to net cash from operating activities: | | | | | |
| Change in: | | | | | |
| Reinsurance recoverable | $ (10,798) | $ 405 | $ (10,393) | $ - | $ (10,393) |
| Insurance liabilities | 567,842 | (44,180) | 523,662 | - | 523,662 |
| Other liabilities | 40,870 | 234 | 41,104 | - | 41,104 |
| Cash flows from operating activities | 736,639 | (43,541) | 693,098 | - | 693,098 |
| Deposits to policyholder account balances | 601,622 | 538,823 | 1,140,445 | 664,459 | 1,804,904 |
| Net transfers to separate accounts | - | - | - | (183,117) | (183,117) |
| Withdrawals from policyholder account balances | (364,562) | (497,829) | (862,391) | (481,342) | (1,343,733) |
| Cash flows from financing activities | 492,831 | 40,994 | 533,825 | - | 533,825 |
| Change in cash and cash equivalents | 186,869 | (2,547) | 184,322 | - | 184,322 |
| Cash and cash equivalents, beginning of year | 233,858 | (76,683) | 157,175 | - | 157,175 |
| Cash and cash equivalents, end of year | 420,727 | (79,230) | 341,497 | - | 341,497 |

[1] See below for explanation regarding the Company's change in presentation for separate account activity.

**Change in Presentation** — In 2013, the Company has changed the presentation of cash flows to more clearly differentiate policyholder and separate account activity. This was done by adding a line, net transfers to separate accounts, in the Statement of Cash Flows for those amounts previously included in the deposits to and withdrawals from policyholder account balances. To conform the 2012 presentation to the new presentation format, deposits to policyholder account balances increased by $664,459,000. Withdrawals from policyholder account balances increased by $481,342,000 and the new net transfers to separate accounts line is presented showing a net decrease of $183,117,000. These changes had no impact on total cash flows from financing activities.

**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 securities previously designated as other than temporarily impaired are included in unrealized 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.

**Variable Interest Entities ("VIE")** — The Company holds investments in certain entities that are VIEs. 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.

**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, homogenous 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.

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, 2013 and 2012, were $1,978,031,000 and $1,971,852,000, respectively. Custodial escrow balances of $23,790,000 and $25,224,000 as of December 31, 2013 and 2012, 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 $20,094,000 and $13,155,000 as of December 31, 2013 and 2012, 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, 2013 and 2012, consisted of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| ECR properties held for investment | $ 214,088 | $ 221,701 |
| Other properties held for investment | 7,395 | 2,724 |
| Accumulated depreciation | (37,814) | (29,897) |
| ECR properties held for sale | 6,038 | 5,659 |
| | 189,707 | 200,187 |
| OREO held for investment | 34,015 | 46,604 |
| Accumulated depreciation and allowance | (5,014) | (9,688) |
| OREO held for sale | 22,921 | 36,347 |
| | 51,922 | 73,263 |
| | $ 241,629 | $ 273,450 |

**Limited Partnerships** — The carrying value of limited partnerships is determined using the equity method using a one-quarter lag adjusted for all capital contributions, cash 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, with 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):

| | 2013 | 2012 |
|---|---|---|
| As of and for the year ended December 31: | | |
| Investment in Fulcrum | $ 181,293 | $ 151,508 |
| Net realized investment gains | $ 53,464 | $ 26,482 |

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

| | 2013 | 2012 |
|---|---|---|
| Assets | $ 252,168 | $ 373,451 |
| Liabilities | $ 117 | $ 121,050 |
| Net income | $ 50,374 | $ 31,878 |

**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 because (1) it does not have the power to direct the activities of the VIEs that most significantly impact the economic performance of the entities and (2) it does not have the obligation to absorb losses of the entities that could be potentially significant to the entities or the right to receive benefits from the entities that could be potentially significant. 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 has determined that it is not the primary beneficiary of 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 strict 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, 2013 and 2012, 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 quality 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, 2013 and 2012.

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 $26,749,000 and $28,315,000 as of December 31, 2013 and 2012, 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 and renewal 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.

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 an annual basis.

Deferred policy acquisition costs 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, referred to as internal replacements, 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, 2013 or 2012.

**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 $21,413,000 and $27,166,000 in the surrender value associated with the contracts for the years ended December 31, 2013 and 2012, 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, 2013 and 2012, consisted of the following (in thousands):

| | 2013 | 2012 | Range of Useful Lives |
|---|---|---|---|
| Land and buildings | $ 245,667 | $ 231,506 | 5–50 years |
| Furniture and equipment | 152,282 | 151,653 | 2–20 years |
| Software and other | 243,006 | 235,074 | 1–10 years |
| | 640,955 | 618,233 | |
| Accumulated depreciation | (449,112) | (426,043) | |
| Total | $ 191,843 | $ 192,190 | |

**Future Policy Benefits, Policyholder Account Balances and Unpaid Claims** — Future policy benefits include reserves for term and permanent 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. 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, 2013 range from 2.50% to 7.00% for term and non-interest sensitive permanent-life contracts, from 3.00% to 6.50% for certain health coverages, and from 1.45% 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 2013 range from 1.00% to 8.75% for individual interest-sensitive life and deferred annuity contracts and from 0.10% to 6.96% 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 reflected gross 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, we record the agreement using the deposit method of accounting.

**Federal Income Taxes —** The provision for income taxes includes amounts currently receivable and deferred income taxes resulting from the cumulative differences in assets and liabilities determined on a tax return and financial statement basis at current tax rates. The Company includes interest accrued and penalties related to uncertain tax positions in income taxes in the consolidated statements of operations and comprehensive income. The liability for uncertain tax positions and the associated interest liability are netted against other tax receivables and are 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-type and investment-type products of $89,969,000 and $84,112,000 as of December 31, 2013 and 2012, 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. Generally, 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 recognized 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 3, 2014, 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, 2013, the Company adopted new guidance that modifies disclosures about derivatives, including bifurcated embedded derivatives, repurchase agreements and reverse repurchase agreements, and securities borrowing and securities lending transactions that are either offset or subject to an enforceable master netting arrangement or similar agreement. As of December 31, 2013 and 2012, certain of the Company's derivative transactions were subject to master netting arrangements. See Note 2, Investments, for the required disclosures.

Effective January 1, 2013, the Company adopted new guidance concerning the subsequent measurement of indemnification assets resulting from government-assisted acquisitions of financial institutions. The guidance clarifies that when an entity changes its estimates of expected cash flows from the underlying indemnified asset and the effects of those changes are amortized to net income, the resulting changes in cash flows related to the indemnification asset should also be amortized to net income over the shorter of the remaining contractual term of the indemnification or the remaining life of the underlying indemnified assets. Any changes in cash flow estimates that result in a reduction of a previously recognized valuation allowance on the underlying indemnified asset should be recognized in net income immediately. The guidance is applied prospectively for new indemnification assets acquired or changes in existing indemnification assets occurring after the effective date. The adoption of this guidance did not have a material impact on the Company's consolidated financial statements.

**Future Adoption of New Accounting Pronouncements** — In February 2013, the FASB issued ASU 2013-02 *Reporting of Amounts Reclassified out of Accumulated Other Comprehensive Income*. This guidance requires new disclosures about amounts that are 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.

In January 2014, the FASB issued ASU 2014-02 *Accounting for Goodwill — a Consensus of the Private Company Council*. This guidance permits, but does not require, an entity that does not meet the definition of a public business entity to make an accounting policy election to amortize goodwill on a straight-line basis over a period of ten years, or fewer if it can demonstrate that a shorter useful life is appropriate. An entity making such an election must also make an accounting policy election to test goodwill for impairment at either the entity level or the reporting unit level. The guidance is effective for reporting periods beginning after December 15, 2014, with early adoption permitted. The Company is still evaluating whether to make this accounting policy election.

In January 2014, the FASB issued ASU 2014-04 *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. Existing guidance indicates that a creditor should derecognize a collateralized mortgage loan and recognize the collateral asset as other real estate owned when it determines that there has been an in-substance repossession or foreclosure and the creditor has taken possession of the collateral. This guidance clarifies when an in-substance repossession or foreclosure has occurred and when a creditor should consider that it has taken possession of the underlying collateral. This guidance is effective for annual periods beginning after December 15, 2014. 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, 2013 and 2012, were as follows (in thousands):

| 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 |

| 2012 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Temporary Losses | Gross Unrealized Other-than Temporary Gains (Losses) | Fair Value |
|---|---|---|---|---|---|
| Fixed maturities: | | | | | |
| U.S. Government | $ 65,335 | $ 14,672 | $ - | $ - | $ 80,007 |
| States and political subdivisions | 83,562 | 3,787 | (2,720) | - | 84,629 |
| U.S. and Canadian corporate | 6,417,414 | 821,993 | (9,355) | 20,507 | 7,250,559 |
| Foreign corporate | 2,289,246 | 274,442 | (428) | 880 | 2,564,140 |
| Commercial MBS | 1,788,525 | 241,159 | (6,831) | (19,092) | 2,003,761 |
| Residential MBS | 2,037,916 | 147,432 | (266) | 309 | 2,185,391 |
| Other ABS | 1,544,096 | 61,938 | (6,030) | 6,611 | 1,606,615 |
| Total fixed maturities | $ 14,226,094 | $ 1,565,423 | $ (25,630) | $ 9,215 | $ 15,775,102 |
| Equity securities | $ 8,080 | $ 2,891 | $ - | $ - | $ 10,971 |

Other than temporary gains (losses) as presented 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% and 96.0% of the Company’s total available-for-sale fixed maturities portfolio as of December 31, 2013 and 2012, respectively.

The amortized cost and fair value of fixed maturities as of December 31, 2013, by contractual maturity, are shown below (in thousands). Actual maturities may differ as a result of prepayments by the issuer. MBS and 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 | $ 471,990 | $ 481,133 |
| Due after one year through five years | 2,946,127 | 3,166,900 |
| Due after five years through ten years | 3,142,269 | 3,316,664 |
| Due after ten years | 3,558,724 | 3,616,478 |
| | 10,119,110 | 10,581,175 |
| MBS and other ABS | 5,240,218 | 5,424,777 |
| Total | $ 15,359,328 | $ 16,005,952 |

An aging of gross unrealized losses on the Company's investments in fixed maturities as of December 31, 2013 and 2012 was as follows (in thousands):

| 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) |

| 2012 | Less than One Year | | One Year or More | | Total | |
|---|---|---|---|---|---|---|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| States and political subdivisions | $ 27,582 | $ (2,720) | $ - | $ - | $ 27,582 | $ (2,720) |
| U.S. and Canadian corporate | 194,730 | (7,275) | 64,695 | (2,386) | 259,425 | (9,661) |
| Foreign corporate | 37,418 | (84) | 9,656 | (344) | 47,074 | (428) |
| Commercial MBS | 14,801 | (811) | 76,015 | (26,193) | 90,816 | (27,004) |
| Residential MBS | 1,206 | (11) | 9,972 | (255) | 11,178 | (266) |
| Other ABS | 146,003 | (5,111) | 107,561 | (5,698) | 253,564 | (10,809) |
| | $ 421,740 | $ (16,012) | $267,899 | $(34,876) | $ 689,639 | $ (50,888) |

The indicated gross unrealized losses in all categories increased from $50,888,000 as of December 31, 2012 to $237,754,000 as of December 31, 2013. 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.

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, 2013.

| | 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** |
| States and political subdivisions | 1 | 1 | - | 137 | Baa1 | 100.0 % |
| U.S. and Canadian corporate | 29 | 9 | 1 | 86 | A3 | 100.0 |
| Foreign corporate | 1 | 1 | - | 107 | Baa3 | 100.0 |
| Commercial MBS | 12 | 4 | 4 | 71 | Ba3 | 40.1 |
| Residential MBS | 5 | 5 | - | 100 | Aa3 | 100.0 |
| Other ABS | 16 | 15 | - | 96 | A2 | 96.6 |
| | 64 | 35 | 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 | - | 90 | Aaa | 100.0 % |
| States and political subdivisions | 16 | 14 | 1 | 79 | Aa3 | 100.0 |
| U.S. and Canadian corporate | 252 | 211 | 4 | 99 | Baa1 | 99.2 |
| Foreign corporate | 64 | 57 | - | 96 | Baa1 | 99.2 |
| Commercial MBS | 37 | 37 | - | 95 | Aa1 | 99.8 |
| Residential MBS | 65 | 64 | - | 97 | Aaa | 100.0 |
| Other ABS | 48 | 47 | 1 | 98 | A2 | 98.6 |
| | 483 | 431 | 6 | | | |

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 37 industries, of which 20% were electric utilities and 11.4% were gas utilities. Foreign corporate fixed maturities were comprised of securities from 24 industries, of which 17% were chemicals and fertilizer and 10.7% were information technology. 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, 2013, by vintage were as follows (in thousands):

| | **Agency** | **Non-Agency** | | | | |
|---|---|---|---|---|---|---|
| | | **2010 and Prior** | **2011** | **2012** | **2013** | **Total** |
| Commercial MBS | $ 1,034 | $ 14,045 | $ 2,969 | $ 1,870 | $ 1,826 | $ 21,744 |
| Residential MBS | 22,969 | 288 | 242 | 1,344 | 733 | 25,576 |
| Other ABS | 9,056 | - | - | - | - | 9,056 |
| | $ 33,059 | $ 14,333 | $ 3,211 | $ 3,214 | $ 2,559 | $ 56,376 |

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, 2013 and 2012 have a cost basis of $17,133,000 and $21,568,000, respectively. The fair value of these loans exceeded the cost basis as of December 31, 2013.

Securities pledged where the secured party does not have the right to sell or repledge were $729,395,000 as of December 31, 2013, primarily to secure trust and public deposits and for other purposes as required or permitted by law.

**Derivatives** — As of December 31, 2013 and 2012, the fair values of derivatives reported in the consolidated balance sheets were as follows (in thousands):

| | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|
| | Notional Value | Assets | Liabilities | Notional Value | Assets | Liabilities |
| Derivatives designated as hedging instruments: | | | | | | |
| Foreign currency swaps | $ 63,802 | $ 1,554 | $ 1,841 | $ 57,799 | $ 2,208 | $ 2,818 |
| Interest rate swaps and caps | - | - | - | 40,000 | - | 3,106 |
| | 63,802 | 1,554 | 1,841 | 97,799 | 2,208 | 5,924 |
| Derivatives not designated or not qualifying as hedging instruments: | | | | | | |
| Interest rate swaps and caps | 660,504 | 7,915 | 5,788 | 291,659 | 5,867 | 2,951 |
| Forwards and warrants | 48,000 | - | 2,187 | 16,158 | - | 103 |
| Mortgage commitments | 76,324 | 513 | 126 | 299,578 | 199 | 181 |
| Synthetic GICs | 4,345,752 | - | - | 8,047,972 | - | - |
| Swaptions | 3,650,000 | 13,080 | - | - | - | - |
| | 8,780,580 | 21,508 | 8,101 | 8,655,367 | 6,066 | 3,235 |
| | $ 8,844,382 | $ 23,062 | $ 9,942 | $ 8,753,166 | $ 8,274 | $ 9,159 |

For the years ending December 31, 2013 and 2012, the following changes in fair value of derivatives were reported in the consolidated financial statements (in thousands):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Other Comprehensive Loss | Revenues | Other Comprehensive Income | Revenues |
| Derivatives designated as hedging instruments: | | | | |
| Foreign currency swaps | $ 323 | $ 410 | $ (1,870) | $ 236 |
| Interest rate swaps and caps | - | 2,539 | - | (1,221) |
| | 323 | 2,949 | (1,870) | (985) |
| Derivatives not designated or not qualifying as hedging instruments: | | | | |
| Interest rate swaps and caps | - | (5,356) | - | (1,768) |
| Forwards and warrants | - | (2,084) | - | (201) |
| Mortgage commitments | - | (370) | - | 989 |
| Swaptions | - | 3,153 | - | - |
| | - | (4,657) | - | (980) |
| Total | $ 323 | $ (1,708) | $ (1,870) | $ (1,965) |

There were no reclassifications from other comprehensive income (loss) to net realized investment gains (losses) in 2013 or 2012.

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, 2013 was $11,000,000. The Company was holding $10,829,000 of cash collateral related to these instruments as of December 31, 2013.

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, 2013 and 2012 was as follows (in thousands):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities |
| Fair value of derivatives presented in the statement of financial position | $ 19,507 | $ 5,164 | $ 2,514 | $ 8,875 |
| Gross amounts not offset in the statement of financial position: | | | | |
| Fair value of derivatives | (4,611) | (4,611) | (760) | (760) |
| Cash collateral | (10,105) | - | - | (2,340) |
| Net amount after application of master netting arrangements and collateral | $ 4,791 | $ 553 | $ 1,754 | $ 5,775 |

**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, 2013, were as follows (in thousands):

| | Carrying Value | Maximum Exposure to Loss |
|---|---|---|
| Limited partnerships | $ 573,572 | $ 704,776 |
| Fixed maturities | 143,413 | 143,413 |
| | $ 716,985 | $ 848,189 |

**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.

*Concentrations* — Loan participations purchased from one loan originator comprise 17% and 18% of the portfolio in 2013 and 2012, respectively. Loans are geographically dispersed throughout the United States, with the largest concentrations in California and Texas. Concentrations in California and Texas were approximately 18% and 16%, respectively as of December 31, 2013, and were approximately 17% and 15%, respectively as of December 31, 2012.

*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 carrying amount of these loans was $10,302,000 and $15,148,000 as of December 31, 2013 and 2012, respectively.

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 $9,034,000 and $14,937,000 as of December 31, 2013 and 2012, 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, 2013 and 2012 and has, therefore, not included any contingent consideration related to the transaction in the consolidated financial statements.

*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, 2013 and 2012, respectively (in thousands):

| | **2013** | **2012** |
|---|---|---|
| Insurance: | | |
| Commercial | $ 2,220,047 | $ 2,216,814 |
| Residential | 356 | - |
| Bank: | | |
| Construction — residential | 157,933 | 150,825 |
| Construction — commercial and multifamily | 260,028 | 262,197 |
| Residential real estate | 1,535,691 | 1,313,571 |
| Commercial real estate — non-owner occupied | 690,498 | 697,563 |
| Commercial real estate — multifamily | 570,567 | 507,385 |
| Owner occupied non-residential real estate | 460,714 | 416,343 |
| Commercial and industrial | 856,672 | 739,531 |
| HOA | 256,712 | 243,116 |
| Land | 58,930 | 89,453 |
| Consumer | 169,964 | 173,207 |
| Covered loans | 24,271 | 33,478 |
| Total loans | 7,262,383 | 6,843,483 |
| Less allowance for loan losses | (83,465) | (75,391) |
| Total net loans | $ 7,178,918 | $ 6,768,092 |

Loans include net deferred loan origination fees and costs of $874,000 and $181,000 as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, mortgage loans of $1,307,005,000 and $1,300,366,000, 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, 2013 and 2012, were $1,488,000 and $854,000, respectively.

*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, 2013 and 2012, was as follows (in thousands):

| | 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 |

| | Debt Service Coverage Ratios | | | |
|---|---|---|---|---|
| **2012** | **>1.20x** | **1.00x–1.20x** | **<1.00x** | **Total** |
| Loan-to-value ratios: | | | | |
| Less than 65% | $ 1,283,100 | $ 200,705 | $ 102,447 | $ 1,586,252 |
| 65% to 75% | 469,815 | 69,151 | 30,342 | 569,308 |
| 76% to 80% | 1,503 | - | - | 1,503 |
| Greater than 80% | 653 | 50,590 | 8,508 | 59,751 |
| Total | $ 1,755,071 | $ 320,446 | $ 141,297 | $ 2,216,814 |

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, 2013 and 2012, was as follows (in thousands):

| | 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 |
| **2012** | | | | | | |
| Construction — commercial and multifamily | $ 255,429 | $ - | $ 6,768 | $ - | $ - | $ 262,197 |
| Commercial real estate — non-owner occupied | 630,401 | 20,494 | 46,668 | - | - | 697,563 |
| Commercial real estate — multifamily | 471,266 | 19,838 | 16,281 | - | - | 507,385 |
| Owner occupied non-residential real estate | 359,032 | 21,654 | 35,657 | - | - | 416,343 |
| Commercial and industrial | 693,005 | 30,133 | 16,265 | 128 | - | 739,531 |
| HOA | 191,284 | 42,562 | 5,995 | 3,275 | - | 243,116 |
| Land | 65,357 | 4,200 | 19,896 | - | - | 89,453 |
| Total | $ 2,665,774 | $ 138,881 | $ 147,530 | $ 3,403 | $ - | $ 2,955,588 |

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, 2013 and 2012 (in thousands):

| 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 |

| 2012 | Performing | Nonperforming | Total |
|---|---|---|---|
| Construction — residential | $ 150,825 | $ - | $ 150,825 |
| Residential real estate | 1,303,818 | 9,753 | 1,313,571 |
| Consumer | 172,011 | 1,196 | 173,207 |
| Covered loans | 28,915 | 4,563 | 33,478 |
| Total | $ 1,655,569 | $ 15,512 | $ 1,671,081 |

*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, 2013 and 2012, was as follows (in thousands):

| | 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 |

| | Loans | | | | Allowance for Credit Losses | | | |
|---|---|---|---|---|---|---|---|---|
| **2012** | **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 | $ 28,962 | $2,187,852 | $ - | $2,216,814 | $ (6,194) | $(14,237) | $(20,431) | $2,196,383 |
| Bank segments: | | | | | | | | |
| Construction — residential | - | 150,825 | - | 150,825 | - | (1,295) | (1,295) | 149,530 |
| Construction — commercial and multifamily | - | 262,197 | - | 262,197 | - | (2,776) | (2,776) | 259,421 |
| Residential real estate | 8,315 | 1,305,256 | - | 1,313,571 | (121) | (9,479) | (9,600) | 1,303,971 |
| Commercial real estate — non-owner occupied | 28,530 | 669,033 | - | 697,563 | (284) | (9,856) | (10,140) | 687,423 |
| Commercial real estate — multifamily | 13,622 | 493,763 | - | 507,385 | - | (4,001) | (4,001) | 503,384 |
| Owner-occupied non-residential real estate | 17,536 | 398,807 | - | 416,343 | (36) | (5,476) | (5,512) | 410,831 |
| Commercial and industrial | 7,611 | 731,920 | - | 739,531 | (228) | (9,322) | (9,550) | 729,981 |
| HOA | 3,275 | 239,841 | - | 243,116 | - | (2,522) | (2,522) | 240,594 |
| Land | 12,901 | 76,552 | - | 89,453 | (19) | (2,911) | (2,930) | 86,523 |
| Consumer | 1,164 | 172,043 | - | 173,207 | - | (3,897) | (3,897) | 169,310 |
| Covered loans | - | 18,467 | 15,011 | 33,478 | - | (2,737) | (2,737) | 30,741 |
| Total | $121,916 | $6,706,556 | $15,011 | $6,843,483 | $ (6,882) | $(68,509) | $(75,391) | $6,768,092 |

Activity in the allowance for loan losses for the years ended December 31, 2013 and 2012, was as follows (in thousands):

| | 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) |

| | Balance at January 1, 2012 | Provisions | Charge-offs | Recoveries | Balance at December 31, 2012 |
|---|---|---|---|---|---|
| Insurance segment — commercial | $ (27,185) | $ (2,317) | $ 9,071 | $ - | $ (20,431) |
| Bank segments: | | | | | |
| Construction — residential | (495) | (1,019) | 315 | (96) | (1,295) |
| Construction — commercial and multifamily | (3,375) | 1,542 | - | (943) | (2,776) |
| Residential real estate | (6,738) | (5,540) | 3,004 | (326) | (9,600) |
| Commercial real estate — non-owner occupied | (9,904) | (7,786) | 7,799 | (249) | (10,140) |
| Commercial real estate — multifamily | (2,471) | (2,189) | 659 | - | (4,001) |
| Owner-occupied non-residential real estate | (4,910) | (2,876) | 2,418 | (144) | (5,512) |
| Commercial and industrial | (6,325) | (7,348) | 4,341 | (218) | (9,550) |
| HOA | (548) | (1,986) | 12 | - | (2,522) |
| Land | (4,944) | (3,425) | 5,590 | (151) | (2,930) |
| Consumer | (3,553) | (3,033) | 2,895 | (206) | (3,897) |
| Covered loans | - | (4,671) | 1,947 | (13) | (2,737) |
| Total | $ (70,448) | $ (40,648) | $ 38,051 | $ (2,346) | $ (75,391) |

*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, 2013 and 2012, was as follows (in thousands):

| 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 |

| 2012 | 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 | $ 4,639 | $ 891 | $12,200 | $ 17,730 | $2,199,084 | $ 2,216,814 | $ - |
| Bank segments: | | | | | | | |
| Construction — residential | - | - | - | - | 150,825 | 150,825 | - |
| Construction — commercial and multifamily | - | 6,768 | - | 6,768 | 255,429 | 262,197 | - |
| Residential real estate | 6,293 | 1,296 | 9,753 | 17,342 | 1,296,229 | 1,313,571 | 599 |
| Commercial real estate — non-owner occupied | 2,124 | - | 19,211 | 21,335 | 676,228 | 697,563 | - |
| Commercial real estate — multifamily | 1,610 | 438 | - | 2,048 | 505,337 | 507,385 | - |
| Owner-occupied non-residential real estate | 5,488 | 896 | 9,625 | 16,009 | 400,334 | 416,343 | 139 |
| Commercial and industrial | 3,461 | 1,208 | 7,371 | 12,040 | 727,491 | 739,531 | 550 |
| HOA | 182 | - | - | 182 | 242,934 | 243,116 | - |
| Land | 2,121 | 698 | 4,533 | 7,352 | 82,101 | 89,453 | - |
| Consumer | 1,656 | 407 | 1,196 | 3,259 | 169,948 | 173,207 | - |
| Covered loans | 45 | - | - | 45 | 18,422 | 18,467 | - |
| Total | $27,619 | $12,602 | $63,889 | $104,110 | $6,724,362 | $ 6,828,472 | $1,288 |

The Company's recorded investment in loans in nonaccrual status as of December 31, 2013 and 2012, was as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Insurance segment — commercial | $ 12,567 | $ 12,200 |
| Bank segments: | | |
| Residential real estate | 7,348 | 12,616 |
| Commercial real estate — non-owner occupied | 27,387 | 27,686 |
| Commercial real estate — multifamily | 7,964 | 5,569 |
| Owner-occupied non-residential real estate | 17,587 | 14,509 |
| Commercial and industrial | 7,997 | 8,996 |
| HOA | 1,474 | - |
| Land | 9,134 | 12,986 |
| Consumer | 1,970 | 2,374 |
| Covered loans | 1,393 | 379 |
| Total | $ 94,821 | $ 97,315 |

*Impaired Loans* — Loans determined to be impaired which are individually evaluated as of December 31, 2013 and 2012, were as follows (in thousands):

| 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 |

| 2012 | 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 | $ 28,962 | $10,357 | $18,605 | $ 28,962 | $ (6,194) | $ 31,631 | $1,956 | $2,083 |
| Bank segments: | | | | | | | | |
| Construction — residential | - | - | - | - | - | - | - | - |
| Residential real estate | 8,308 | 7,388 | 927 | 8,315 | (121) | 9,184 | 442 | 447 |
| Commercial real estate — non-owner occupied | 28,539 | 26,171 | 2,359 | 28,530 | (284) | 34,038 | 1,626 | 1,691 |
| Commercial real estate — multifamily | 13,622 | 13,622 | - | 13,622 | - | 14,529 | 775 | 810 |
| Owner-occupied non-residential real estate | 17,562 | 15,379 | 2,157 | 17,536 | (36) | 20,103 | 974 | 1,093 |
| Commercial and industrial | 7,618 | 6,209 | 1,402 | 7,611 | (228) | 11,731 | 650 | 714 |
| HOA | 3,287 | 3,275 | - | 3,275 | - | 3,561 | 214 | 219 |
| Land | 12,901 | 8,524 | 4,377 | 12,901 | (19) | 17,766 | 715 | 809 |
| Consumer | 1,163 | 1,164 | - | 1,164 | - | 1,401 | 35 | 35 |
| Total | $121,962 | $92,089 | $29,827 | $121,916 | $ (6,882) | $143,944 | $7,387 | $7,901 |

*Restructured Loans* — Loans modified in a TDR during the years ended December 31, 2013 and 2012, were as follows (in thousands):

| **2013** | **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 | 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 |
| **2012** | | | | |
| Insurance segment — commercial | 2 | $ 2,927 | $ - | $ - |
| Bank segments: | | | | |
| Residential real estate | 1 | 242 | (2) | - |
| Commercial real estate — non-owner occupied | 3 | 1,731 | 108 | - |
| Owner-occupied non-residential real estate | 3 | 2,285 | (15) | - |
| Commercial and industrial | 1 | 161 | 116 | - |
| Land | 2 | 2,107 | - | - |
| Total | 12 | $ 9,453 | $ 207 | $ - |

All loans identified as TDRs by the Company during 2013 and 2012 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, 2013, there were no TDRs that subsequently defaulted within 12 months of the restructuring date. During the year ended December 31, 2012, one TDR in the Bank's owner occupied non-residential real estate segment with a recorded investment of $1,974,000 subsequently defaulted within 12 months of the restructuring date.

The outstanding balance and carrying amount of bank loans acquired with evidence of credit deterioration since origination as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | Outstanding Balance | Carrying Amount | Outstanding Balance | Carrying Amount |
| Residential real estate | $ 2,227 | $ 1,086 | $ 7,859 | $ 4,061 |
| Commercial real estate — non-owner occupied | 2,805 | 2,534 | 2,846 | 1,214 |
| Owner occupied non-residential real estate | 81 | 50 | 4,679 | 2,745 |
| Commercial and industrial | 3,851 | 2,106 | 1,174 | 568 |
| Land | 4,692 | 3,294 | 8,453 | 4,503 |
| Consumer | 5,246 | 1,232 | 8,188 | 2,057 |
| Total | $ 18,902 | $ 10,302 | $ 33,199 | $ 15,148 |

**Net Investment Income** — The sources of net investment income for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Fixed maturities | $ 767,821 | $ 759,940 |
| Loans | 343,416 | 362,347 |
| Real estate | (16,239) | (19,859) |
| Limited partnerships | 34,862 | 14,127 |
| Policy loans | 14,000 | 13,640 |
| Equity securities | 784 | 1,146 |
| Derivatives | 540 | (484) |
| Other invested assets | 1,101 | 264 |
| Cash and cash equivalents and short-term investments | 905 | 597 |
| | 1,147,190 | 1,131,718 |
| Less investment expenses | (25,846) | (26,876) |
| Net investment income | $ 1,121,344 | $ 1,104,842 |

**Net Realized Investment Gains (Losses)** — Net realized investment gains (losses) for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Fixed maturities: | | |
| OTTI losses | $ (26,608) | $ (20,440) |
| OTTI transferred to other comprehensive income | 6,825 | 10,940 |
| Net OTTI losses recognized in earnings | (19,783) | (9,500) |
| Net gains from sales, disposals and fair value adjustments | 3,100 | 20,263 |
| Total gains (losses) on fixed maturities | (16,683) | 10,763 |
| Equity securities | (525) | 3,224 |
| Loans | (6,613) | 2,871 |
| Limited partnerships | 72,701 | 49,613 |
| Real estate | (651) | (59,230) |
| Derivatives | 1,069 | (201) |
| Other invested assets | 2,466 | 1,624 |
| Net realized investment gains | $ 51,764 | $ 8,664 |

The OTTI relates primarily to Commerical MBS and Loans for the years ended December 31, 2013 and 2012.

Proceeds from the sale of fixed maturities and related gross investment gains and losses for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Fixed maturities, available-for-sale: | | |
| Proceeds from sales | $ 31,077 | $ 215,426 |
| Gross investment gains from sales | 1,630 | 9,005 |
| Gross investment losses from sales | - | (706) |

Sales and related sales proceeds of equity available-for-sale securities for the years ended December 31, 2013 and 2012, were not significant.

**Other-than-Temporary Declines in Fair Value** — 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, 2013 and 2012, for which a portion of an OTTI was recognized in accumulated other comprehensive income (loss) (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Balance — beginning of year | $ 30,685 | $ 25,888 |
| Additional credit losses for which an OTTI was not previously recognized | 742 | 7,401 |
| Additional credit losses for which an OTTI was previously recognized | 19,041 | 2,099 |
| Reduction for credit losses related to securities sold during the period | (5,277) | (3,479) |
| Reduction in credit losses as a result of increases in cash flows expected to be collected over the remaining life of the security | (1,354) | (1,224) |
| Balance — end of year | $ 43,837 | $ 30,685 |

**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, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Balance — beginning of year | $ 687,834 | $ 694,828 |
| Changes in net unrealized investment gains (losses) attributed to: | | |
| Fixed maturities | (908,275) | 254,764 |
| Noncredit component of impairment losses on fixed maturities | 5,892 | 20,530 |
| Equity securities | 1,078 | 1,334 |
| Limited partnerships | 257 | 218 |
| Derivatives | 323 | (1,870) |
| Deferred policy acquisition costs | 48,253 | (16,140) |
| Insurance liability loss recognition | 250,000 | (261,000) |
| Deferred federal income taxes | 210,711 | 3,811 |
| Other | 146 | (8,641) |
| | (391,615) | (6,994) |
| Balance — end of year | $ 296,219 | $ 687,834 |

The 2012 insurance liability loss recognition includes a correcting adjustment for group payout annuities of $120,000,000 (net of tax of $64,800,000) related to the year ended December 31, 2011.

## 3. FAIR VALUE

The categorization of fair value measurements determined on a recurring basis, by input level, as of December 31, 2013 and 2012, were as follows (in thousands):

| 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 |

| 2012 | 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 | $ - | $ 80,007 | $ - | $ 80,007 |
| State and political subdivisions | - | 84,629 | - | 84,629 |
| U.S. and Canadian corporate | 37,100 | 7,146,486 | 66,973 | 7,250,559 |
| Foreign corporate | 10,000 | 2,524,309 | 29,831 | 2,564,140 |
| Commercial MBS | - | 1,822,839 | 180,922 | 2,003,761 |
| Residential MBS | - | 2,182,655 | 2,736 | 2,185,391 |
| Other ABS | - | 1,356,915 | 249,700 | 1,606,615 |
| Total fixed maturities — available-for-sale | 47,100 | 15,197,840 | 530,162 | 15,775,102 |
| Fixed maturities — trading: | | | | |
| U.S. Government | - | 144,180 | - | 144,180 |
| Foreign corporate | - | 7,047 | - | 7,047 |
| Other ABS | - | 256 | - | 256 |
| Total fixed maturities — trading | - | 151,483 | - | 151,483 |
| Equity securities — available-for-sale | - | 200 | 10,771 | 10,971 |
| Equity securities — trading | - | 31,830 | - | 31,830 |
| Loans held for sale | - | 102,513 | - | 102,513 |
| Derivative assets: | | | | |
| Foreign currency swaps | - | 2,208 | - | 2,208 |
| Interest rate swaps and caps | - | 5,867 | - | 5,867 |
| Mortgage loan commitments | - | 199 | - | 199 |
| Total derivative assets | - | 8,274 | - | 8,274 |
| Short-term investments | 199,657 | - | - | 199,657 |
| Cash equivalents | 181,978 | - | - | 181,978 |
| Mortgage servicing rights | - | - | 13,155 | 13,155 |
| Derivative liabilities: | | | | |
| Foreign currency swaps | - | (2,818) | - | (2,818) |
| Interest rate swaps and caps | - | (6,057) | - | (6,057) |
| Forwards and warrants | - | - | (103) | (103) |
| Mortgage commitments | - | (181) | - | (181) |
| Total derivative liabilities | - | (9,056) | (103) | (9,159) |
| Total without separate accounts | 428,735 | 15,483,084 | 553,985 | 16,465,804 |
| Separate accounts | 1,650,622 | 940,822 | - | 2,591,444 |
| Total | $2,079,357 | $16,423,906 | $553,985 | $19,057,248 |

*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, 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:**

*Fixed Maturities — Available-for-Sale* — U.S. and Canadian corporate and foreign corporate — Valuation is based on unadjusted quoted prices in active markets that are readily and regularly available.

*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 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.

Changes in assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during 2013 and 2012, were as follows (in thousands):

| | | Gains (Losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance January 1, 2013 | Included in Net Realized Investment Gains (Losses) | Included in Other Income | 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 |

| | | Gains (Losses) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Balance January 1, 2012 | Included in Net Realized Investment Gains (Losses) | Included in Other Income | Included in Other Comprehensive Income | Purchases | Sales and Repayments | Net Transfers into Level 3 | Net Transfers Out of Level 3 | Balance December 31, 2012 |
| Fixed maturities — available for sale: | | | | | | | | | |
| U.S. and Canadian corporate | $ 38,975 | $ - | $ - | $ 2,562 | $ 16,499 | $ (1,490) | $10,427 | $ - | $ 66,973 |
| Foreign corporate | 34,575 | - | - | 1,755 | - | (6,499) | - | - | 29,831 |
| Commercial MBS | 157,559 | - | - | 11,041 | 9,774 | (4,103) | 6,651 | - | 180,922 |
| Residential MBS | 1,028 | - | - | 616 | - | (1,238) | 2,330 | - | 2,736 |
| Other ABS | 272,310 | - | - | (2,772) | 95,200 | (100,666) | 12,138 | (26,510) | 249,700 |
| Total fixed maturities — available for sale | 504,447 | - | - | 13,202 | 121,473 | (113,996) | 31,546 | (26,510) | 530,162 |
| Fixed maturities — trading | | | | | | | | | |
| Foreign corporate | 269 | 18 | - | - | - | (287) | - | - | - |
| Equity securities — available for sale | 9,368 | - | - | 1,178 | 225 | - | - | - | 10,771 |
| Mortgage servicing rights | 13,988 | - | (833) | - | - | - | - | - | 13,155 |
| Derivative assets/liabilities — forwards and warrants | 98 | (201) | - | - | - | - | - | - | (103) |
| | $528,170 | $ (183) | $(833) | $ 14,380 | $121,698 | $(114,283) | $31,546 | $(26,510) | $553,985 |

The total change in other comprehensive income (loss) presented 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, 2013 and 2012, for the Level 3 assets were $16,011,000 and $40,308,000, 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 | 0.43%–1.84% | 1.40 % |
| | Liquidation | Liquidity premium | 0.25%–2.00% | 0.47 |
| Commercial MBS | Discounted cash flows | Credit spreads | 0.53%–3.00% | 2.67 |
| Other ABS | Discounted cash flows | Credit spreads | 0.40%–2.85% | 1.67 |
| | | Swap spreads | 0.05%–0.11% | 0.08 |
| | | Conditional prepayment rate | 6.00%–6.00% | 6.00 |
| | | Constant default rate | 4.00%–4.00% | 4.00 |
| | | Loss severity | 75.30%–75.30% | 75.30 |

*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.

For mortgage servicing rights, 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.

**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, 2013 and 2012, 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, 2013 and 2012, 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 $83,507,000 and $94,460,000 were carried at a fair value of $61,269,000 and $72,202,000 as of December 31, 2013 and 2012, respectively.

As of December 31, 2013 and 2012, 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 $3,884,000 and $3,352,000 recorded in net realized gains (losses) for the years ended December 31, 2013 and 2012, 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 $28,155,000 and $22,888,000 as of December 31, 2013 and 2012, 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 | Range of Inputs |
|---|---|---|---|
| Impaired loans | Appraised value | Cost to sell | 5%–15% |
| | | Market adjustments | 0%–75% |
| | Discounted cash flows | Discount rates | 4.50%–6.45% |
| OREO | Appraised value | Cost to sell | 5%–15% |

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, 2013 and 2012, with revised expected cash flows. There was no impairment for the year ended December 31, 2013. An impairment of $55,800,000 was included in net realized investment gains (losses) in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012, 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. 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 8.75%, discount rate of 10%, and occupancy factors ranging from 87% to 89% with a three year stabilization period for the Retail component that was impaired in 2012.

**Fair Value of Financial Instruments** — The carrying amounts and estimated fair values of the Company's financial instruments as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | | 2012 | |
|---|---|---|---|---|
| | **Carrying Amount** | **Fair Value** | **Carrying Amount** | **Fair Value** |
| Financial assets: | | | | |
| Fixed maturities | $ 16,146,071 | $ 16,146,071 | $ 15,926,585 | $ 15,926,585 |
| Equity securities | 88,030 | 88,030 | 88,038 | 88,038 |
| Loans | 7,178,918 | 7,324,336 | 6,768,092 | 7,059,227 |
| Loans held for sale | 44,374 | 44,374 | 102,513 | 102,513 |
| Policy loans | 210,363 | 210,363 | 208,108 | 208,108 |
| Short-term investments | 193,833 | 193,833 | 199,657 | 199,657 |
| Cash and cash equivalents | 265,202 | 265,202 | 341,497 | 341,497 |
| Derivatives | 23,062 | 23,062 | 8,274 | 8,274 |
| FDIC indemnification asset | 9,034 | 9,034 | 14,937 | 14,937 |
| Mortgage servicing rights | 20,094 | 20,094 | 13,155 | 13,155 |
| Financial liabilities: | | | | |
| Policyholder account balances | 7,039,156 | 7,145,791 | 6,621,043 | 6,781,692 |
| Deposits | 5,021,484 | 4,986,265 | 4,790,375 | 4,706,711 |
| Borrowings | 1,156,686 | 1,311,960 | 1,152,428 | 1,307,872 |
| Derivatives | 9,942 | 9,942 | 9,159 | 9,159 |

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 its 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, 2013 and 2012, the fixed maturities and equity securities classified as trading are classified within all three levels of fair value measurement. As of December 31, 2013 and 2012, 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, 2013 and 2012 (in thousands):

| 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 investment income | $ - | $ - | $ - |
| Net realized investment losses | $ (1,610) | $ (1,185) | $ - |
| Other revenues | $ - | $ - | $ 2,942 |

| 2012 | Fixed Maturities | Equity Securities | Loans Held for Sale |
|---|---|---|---|
| Balance — January 1 | $ 143,925 | $ 29,714 | $ 116,032 |
| Balance — December 31 | $ 151,483 | $ 31,830 | $ 102,513 |
| Net investment income | $ 557 | $ - | $ - |
| Net realized investment losses | $ 11,854 | $ 2,929 | $ - |
| Other revenues | $ - | $ - | $ (904) |

## 4. GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill reported by the Company as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Balance — beginning of year | $ 176,776 | $ 182,732 |
| Impairment | - | (5,956) |
| Balance — end of year | $ 176,776 | $ 176,776 |

As a result of goodwill impairment testing performed, an impairment charge of $5,956,000 was recorded in 2012.

Amortized definite life core deposit intangible assets as of December 31, 2013 and 2012 were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Gross carrying amount | $ 39,222 | $ 39,222 |
| Accumulated amortization | (24,336) | (20,615) |
| Net carrying amount | $ 14,886 | $ 18,607 |
| Amortization expense | $ 3,721 | $ 3,722 |

As of December 31, 2013, the estimated amortization expense for intangible assets for the next four years was as follows (in thousands). The intangible assets will be fully amortized at the end of four years.

| Years Ending | |
|---|---|
| 2014 | $ 3,722 |
| 2015 | 3,722 |
| 2016 | 3,721 |
| 2017 | 3,721 |
| | $ 14,886 |

## 5. DEFERRED POLICY ACQUISITION COSTS

The deferred policy acquisition costs and changes thereto for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Balance — beginning of year | $2,260,465 | $2,023,003 |
| Acquisition costs deferred | 640,328 | 679,747 |
| Amortization | (450,910) | (426,145) |
| Unrealized investment gains (losses) | 48,253 | (16,140) |
| Balance — end of year | $2,498,136 | $2,260,465 |

## 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. The 2012 amounts have been restated in accordance with the correction of errors discussed in Note 1.

**Future Policy Benefits** — Reserves for future policy benefits as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Traditional life insurance | $3,279,471 | $3,046,802 |
| Health insurance | 1,417,147 | 1,271,095 |
| Annuities | 2,801,008 | 2,996,615 |
| Total future policy benefits | $7,497,626 | $7,314,512 |

**Policyholder Account Balances** — Policyholder account balances as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Annuities | $2,553,917 | $2,732,621 |
| Group contracts | 2,060,629 | 1,969,610 |
| Individual interest-sensitive and universal life contracts | 2,112,080 | 2,053,803 |
| Other | 312,530 | 64,101 |
| Total policyholder account balances | $7,039,156 | $6,820,135 |

**Liability for Unpaid Claims** — A reconciliation of the liability for unpaid claims for health benefits as of December 31, 2013 and 2012, was as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Liability for unpaid claims — beginning of year | $ 1,562,511 | $ 1,519,080 |
| Less nonhealth unpaid claim liabilities | 186,393 | 177,785 |
| Less reinsurance | 62,515 | 88,668 |
| Net unpaid health claims balance — beginning of year | 1,313,603 | 1,252,627 |
| Incurred related to: | | |
| Current year | 2,554,523 | 2,543,187 |
| Prior years | (26,287) | (24,563) |
| Total incurred | 2,528,236 | 2,518,624 |
| Paid related to: | | |
| Current year | 1,969,375 | 1,990,942 |
| Prior years | 500,137 | 466,706 |
| Total paid | 2,469,512 | 2,457,648 |
| Net unpaid health claims balance — end of year | 1,372,327 | 1,313,603 |
| Plus reinsurance | 70,838 | 62,515 |
| Plus nonhealth unpaid claim liabilities | 129,304 | 186,393 |
| Liability for unpaid claims — end of year | $ 1,572,469 | $ 1,562,511 |

During 2013 and 2012 incurred claims related to prior years were negative, as actual payments and estimated remaining costs were less than originally anticipated.

Management believes that the liability for unpaid claims is adequate to cover the ultimate development of claims. The liability is continually 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, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Current tax expense | $ 81,150 | $ 66,921 |
| Deferred tax expense | 101,651 | 67,154 |
| Income taxes | $ 182,801 | $ 134,075 |

Reconciliations between income taxes based on the federal tax rate and the effective tax rate for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Income before income taxes | $ 542,049 | $ 417,872 |
| Federal income tax rate | 35 % | 35 % |
| Income taxes at the federal rate | 189,717 | 146,255 |
| Income tax effect of: | | |
| Corporate owned life insurance | (8,156) | (9,508) |
| Income tax credits | (3,015) | (3,263) |
| Interest | 2,686 | (3,969) |
| State income taxes | 978 | 1,652 |
| Nondeductible expenses, net of exempt income | 1,457 | 2,216 |
| Other — net | (866) | 692 |
| Income taxes at effective rate | $ 182,801 | $ 134,075 |

As of December 31, 2013 and 2012, there were no valuation allowances necessary as 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, 2013 and 2012.

The Company files income tax returns in the U.S. Federal jurisdiction and various state jurisdictions. The Internal Revenue Service began an income tax audit for the years 2007 through 2011 in 2012 that was concluded during 2013. The audit adjustments to the Company's taxable income were not material to the financial statements. As a result of the audit, the Company agreed to an extension of the statute of limitations for the years 2007 through 2010 until September 30, 2014. Therefore, the years after 2006 remain subject to audit by federal and state tax jurisdictions.

Significant components of deferred income taxes payable, as of December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Policy reserves | $ 78,998 | $ 92,161 |
| Expenses deductible in subsequent periods | 113,412 | 220,878 |
| Deferred tax assets | 192,410 | 313,039 |
| Deferred policy acquisition costs | 658,199 | 609,015 |
| Net unrealized investment gains | 155,470 | 367,887 |
| Depreciation and amortization | 42,644 | 38,809 |
| Investment related items | 36,033 | 17,453 |
| Deferred tax liabilities | 892,346 | 1,033,164 |
| Deferred income taxes payable | $ 699,936 | $ 720,125 |

## 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 40 years and under. 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. During 2013 the liabilities related to this plan were reclassified from deferred compensation to pension benefits within the tables below for 2013. The Company also provides 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 October 1, 2012, the Pension Plan was amended to offer a voluntary lump-sum pension payout program (the "Program") to eligible former employees whose deferred vested benefits had a lump sum value equal to $50,000 or less, 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 October 1, 2012 and participants had until November 30, 2012 to accept the offer. As part of this Program, the Pension Plan paid $39,757,000 to eligible participants and settled approximately $64,800,000 of its pension obligation in 2012.

**Projected Benefit Obligations and Pension Plan Assets** — The changes in projected benefit obligation and plan assets at the December 31, 2013 and 2012, the measurement date, were as follows (in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Change in projected benefit obligation: | | | | |
| Projected benefit obligation — beginning of year | $ 1,178,553 | $ 1,087,122 | $ 93,510 | $ 96,852 |
| Reclassification of supplemental plan | 25,352 | - | - | - |
| Service cost | 12,759 | 11,753 | 162 | 141 |
| Interest cost | 49,938 | 54,145 | 3,270 | 4,286 |
| Actuarial (gain) loss | (138,679) | 105,239 | (14,402) | 579 |
| Benefits paid | (43,201) | (79,706) | (8,720) | (8,344) |
| Projected benefit obligation — end of year | 1,084,722 | 1,178,553 | 73,820 | 93,514 |
| Change in plan assets: | | | | |
| Fair value of plan assets — beginning of year | 864,470 | 799,039 | 24,266 | 28,462 |
| Actual return on plan assets | 127,481 | 85,137 | 271 | 198 |
| Employer contribution | 43,282 | 60,000 | - | - |
| Benefits paid | (43,201) | (79,706) | (3,939) | (4,394) |
| Fair value of plan assets — end of year | 992,032 | 864,470 | 20,598 | 24,266 |
| Underfunded | $ (92,690) | $ (314,083) | $ (53,222) | $ (69,248) |
| Accumulated benefit obligation — end of year | $ 1,055,277 | $ 1,134,024 | | |

The amounts reflected in accumulated other comprehensive income (loss) for the plans as of December 31, 2013 and 2012, were as follows (in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Unamortized prior service costs | $ (2,585) | $ (8,476) | $ (918) | $ (2,226) |
| Unrecognized net actuarial loss (gain) | 239,026 | 486,539 | (28,733) | (15,139) |
| Total unrecognized benefit costs | 236,441 | 478,063 | (29,651) | (17,365) |
| Deferred income tax (liability) asset | (82,758) | (167,322) | 10,378 | 6,078 |
| Total | $ 153,683 | $ 310,741 | $ (19,273) | $ (11,287) |

As of December 31, 2013, 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 2014 are as follows (in thousands):

| | Pension | Other |
|---|---|---|
| Net actuarial loss | $ 16,529 | $ 2,302 |
| Prior service cost | (699) | (918) |
| | $ 15,830 | $ 1,384 |

As of December 31, 2013 and 2012, underfunded pension benefits of $92,690,000 and $314,083,000 and underfunded other benefits of $53,222,000 and $69,248,000, respectively, were included in other liabilities.

The Pension Plan assets as of December 31, 2013 and 2012 included the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| United group annuity contract: | | |
| General Asset Account | $ 470,816 | $ 432,956 |
| Separate Account K | 62,024 | 94,557 |
| Separate Account II | 140,061 | 84,940 |
| Equity securities — domestic | 56,870 | - |
| Equity securities — foreign | 162,981 | 150,799 |
| Limited partnerships | 99,280 | 101,218 |
| | $ 992,032 | $ 864,470 |

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, 2013 and 2012, by asset category were as follows (in thousands):

| 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 |

| 2012 | 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 | $ - | $ 94,557 | $ - | $ 94,557 |
| Separate Account II equity securities | 84,940 | - | - | 84,940 |
| Equity securities — foreign | - | 150,799 | - | 150,799 |
| Limited partnerships | - | - | 101,218 | 101,218 |
| Total | $ 84,940 | $245,356 | $101,218 | $431,514 |

*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, 2013, 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.

In 2014, the Company expects to contribute $31,000,000 to the Pension Plan under the Pension Plan's funding policy, subject to approval by the board of directors. Additional voluntary contributions may be made pursuant to the maximum funding limits under ERISA, as amended. The Company does not expect to make contributions to the other postretirement plan in 2014.

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 $20,599,000 and $24,266,000 as of December 31, 2013 and 2012, respectively.

**Actuarial Assumptions** — Actuarial assumptions related to the plans as of December 31, 2013 and 2012, are set forth in the following table:

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Discount rate | 5.20% | 4.25% | 5.20 % | 4.25 % |
| Rate of increase in compensation levels | 4.36% | 3.50%–5.00% | N/A | N/A |
| Expected long-term rate of return on plan assets | 7.50% | 7.50% | 4.00 % | 6.75 % |

The assumed health care cost trend rate used in measuring the accumulated postretirement benefit obligation was 7.10% and 7.00% in 2013 and 2012, respectively, then gradually declining to 4.50% and 4.30% in 2094 and 2083, 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, 2013, by approximately $4,415,000 and the net periodic postretirement benefit costs for 2013 by approximately $210,000. 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, 2013, by approximately $3,922,000 and the net periodic postretirement benefit costs for 2013 by approximately $184,000.

The Company's net periodic benefit costs for the years ended December 31, 2013 and 2012, include the following components (in thousands):

| | Pension Benefits | | Other Benefits | |
|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 |
| Service cost | $ 12,759 | $ 11,753 | $ 162 | $ 141 |
| Interest cost | 49,938 | 54,145 | 3,262 | 4,286 |
| Amortization of (gain) loss | 46,085 | 41,568 | (631) | (694) |
| Amortization of prior service cost | (5,890) | (8,980) | (1,308) | (1,308) |
| Expected return on plan assets | (64,732) | (62,596) | (971) | (1,138) |
| Net periodic benefit costs | $ 38,160 | $ 35,890 | $ 514 | $ 1,287 |

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

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019–2023 |
|---|---|---|---|---|---|---|
| Pension benefits | $ 49,243 | $ 51,259 | $ 54,552 | $ 59,287 | $ 61,772 | $ 347,182 |
| Other postretirement benefits | $ 7,584 | $ 7,541 | $ 7,420 | $ 7,248 | $ 7,022 | $ 31,540 |

**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 $14,732,000 and $13,168,000 in 2013 and 2012, respectively. As of December 31, 2013 and 2012, the liability for deferred compensation benefits included in other liabilities was $36,938,000 and $60,769,000, respectively.

## 9. BORROWINGS

A summary of the Company's borrowings outstanding as of December 31, 2013 was as follows (in thousands):

| | Interest Rates | Balances |
|---|---|---|
| Surplus note issued in 2010, due in 2040 | 6.95% | $ 294,657 |
| Surplus note issued in 2006, due in 2036 | 6.80% | 294,898 |
| Federal Home Loan Bank advances due in 2023 | 5.03% | 102,727 |
| Federal Home Loan Bank advances due in 2017 | 3.17% to 5.55% | 19,753 |
| Federal Home Loan Bank line of credit | 0.18% to 0.20% | 115,000 |
| Retail repurchase agreements | N/A | 137,671 |
| Securities lending | N/A | 191,980 |
| Total | | $ 1,156,686 |

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. On April 7, 2009, the Company purchased $3,120,000 of this surplus note principal. Unamortized issuance costs of $5,686,000 and $5,916,000 related to the surplus notes are included in other assets as of December 31, 2013 and 2012, respectively. The Company made interest payments of $41,038,000 for the year ended December 31, 2013. 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, 2013, repayments of $10,909,000 were made on the FHLB advance agreement due in 2023. During the year ended December 31, 2013, repayments of $3,122,000 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, 2013, aggregate maturities for FHLB advances were as follows (in thousands):

| | Amount Due |
|---|---|
| 2014 | $ 13,532 |
| 2015 | 10,909 |
| 2016 | 17,039 |
| 2017 | 21,909 |
| 2018 | 10,909 |
| Thereafter | 48,182 |
| | $ 122,480 |

The Bank also has a revolving line of credit agreement with the FHLB to meet short-term borrowing needs that expires annually in May. 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, 2013, non-covered mortgage loans of $1,307,005,000 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, 2013. 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 $191,980,000 as of December 31, 2013 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 $300,000,000, of which $150,000,000 has no expiration date, and $150,000,000 is renewed annually. As of December 31, 2013, 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, 2013 and 2012 was $500,000,000 and was included in policyholder account balances in the consolidated balance sheets. As of December 31, 2013, the Company had MBS with fair values of $874,516,000 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, 2013, as well as the rent expense for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2014 | 2015 | 2016 | 2017 | 2018 | Thereafter |
|---|---|---|---|---|---|---|
| Future minimum rental commitments | $ 15,733 | $ 11,992 | $ 9,218 | $ 6,993 | $ 5,242 | $ 9,638 |

| | 2013 | 2012 |
|---|---|---|
| Rent expense | $ 35,094 | $ 34,747 |

Deposits of the Bank include demand deposits, savings deposits, and time deposits. Total time deposits as of December 31, 2013 and 2012, were $951,672,000 and $878,914,000, respectively, with scheduled maturities as of December 31, 2013, as follows (in thousands):

| | |
|---|---|
| 2014 | $ 669,811 |
| 2015 | 139,686 |
| 2016 | 57,205 |
| 2017 | 23,479 |
| 2018 and thereafter | 61,491 |
| | $ 951,672 |

The aggregate amount of time deposits in denominations of $100,000 or more as of December 31, 2013 and 2012, were $553,198,000 and $433,990,000, respectively.

The Company has unfunded investment commitments for fixed maturities, mortgage loans and limited partnerships of $280,615,000 and $220,367,000 as of December 31, 2013 and 2012, 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, 2013 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, 2013 and 2012, commitments on financial instruments consist of the following (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Loan commitments | $ 430,672 | $ 448,966 |
| Unused lines of credit | 455,306 | 434,404 |
| Letters of credit | 7,819 | 8,211 |
| | $ 893,797 | $ 891,581 |

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 does not believe its exposure to credit losses on these commitments to be material as of December 31, 2013 and 2012.

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, 2013 and 2012, the Bank had $54,338,000 and $181,013,000, respectively, 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, 2013 and 2012. 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, 2013 and 2012.

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 its reinsurers 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 presented gross of reinsurance assumed and net of reinsurance ceded. The 2012 amounts have been restated in accordance with the correction of errors discussed in Note 1. The reconciliations of total premiums to net premiums for the years ended December 31, 2013 and 2012, were as follows (in thousands):

| | 2013 | 2012 |
|---|---|---|
| Direct premiums | $ 4,930,243 | $ 4,761,103 |
| Reinsurance assumed | 508,718 | 513,955 |
| Reinsurance ceded | (157,908) | (135,582) |
| Net premiums earned | $ 5,281,053 | $ 5,139,476 |

Health and accident, life and annuity benefits in the accompanying consolidated statements of operations and comprehensive income are presented net of reinsurance recoveries of $143,402,000 and $149,349,000 for the years ended December 31, 2013 and 2012, respectively.

## 12. STATUTORY SURPLUS AND NET INCOME

The Company’s combined net income as determined in accordance with statutory accounting principles was $143,661,000 and $57,362,000 for 2013 and 2012, respectively. The Company’s statutory surplus was $2,674,546,000 and $2,406,026,000 as of December 31, 2013 and 2012, respectively. The minimum statutory capital and surplus necessary to satisfy regulatory requirements for the Company’s life and health insurance subsidiaries collectively was approximately $317,000,000 as of December 31, 2013 (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 $122,306,000 in dividends to Mutual in 2014 without prior approval from the applicable insurance commissioner.

## 13. REGULATORY MATTERS

As of December 31, 2013 and 2012, securities with an amortized cost of $19,048,000 and $18,994,000, 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 includes its estimated costs related to past insolvencies as $7,533,000 and $7,233,000 as of December 31, 2013 and 2012, respectively, 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 $6,616,000 and $6,207,000 as of December 31, 2013 and 2012, 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. Management believes as of December 31, 2013 and 2012, Mutual of Omaha Bank met all capital adequacy requirements to which it is subject.

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. They 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 75.0% and 74.0% of Mutual of Omaha Bank's portfolio assets were held in qualified thrift investments as of December 31, 2013 and 2012, respectively. The Bank is in compliance with the provisions of the QTL test as of December 31, 2013.

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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