

REINSURANCE GROUP OF AMERICA INC
Form 10-Q
May 05, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2016

OR

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

Commission File Number 1-11848

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

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

16600 Swingley Ridge Road
Chesterfield, Missouri 63017
(Address of principal executive offices)
(636) 736-7000

(Registrant's telephone number, including area code)

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

Yes T No o

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

Yes T No o

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

Large accelerated filer T Accelerated filer o Non-accelerated filer o Smaller reporting company o

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

Yes o No T

As of April 30, 2016, 64,066,676 shares of the registrant's common stock were outstanding.

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PART I - FINANCIAL INFORMATION

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

	March 31, 2016	December 31, 2015
	(Dollars in thousands, except share data)	
Assets		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$29,035,274 and \$28,322,977)	\$ 31,148,714	\$ 29,642,905
Mortgage loans on real estate (net of allowances of \$6,824 and \$6,813)	3,292,496	3,129,951
Policy loans	1,451,857	1,468,796
Funds withheld at interest	5,797,183	5,880,203
Short-term investments	431,535	558,284
Other invested assets	1,368,544	1,298,120
Total investments	43,490,329	41,978,259
Cash and cash equivalents	1,502,082	1,525,275
Accrued investment income	364,432	339,452
Premiums receivable and other reinsurance balances	1,886,293	1,797,504
Reinsurance ceded receivables	688,491	637,859
Deferred policy acquisition costs	3,490,509	3,392,437
Other assets	764,488	712,366
Total assets	\$ 52,186,624	\$ 50,383,152
Liabilities and Stockholders' Equity		
Future policy benefits	\$ 19,811,921	\$ 19,612,251
Interest-sensitive contract liabilities	14,087,081	13,663,873
Other policy claims and benefits	4,384,072	4,094,640
Other reinsurance balances	397,375	296,899
Deferred income taxes	2,483,584	2,218,328
Other liabilities	1,106,531	1,165,071
Short-term debt	299,739	—
Long-term debt	1,997,970	2,297,548
Collateral finance and securitization notes	899,482	899,161
Total liabilities	45,467,755	44,247,771
Commitments and contingent liabilities (See Note 8)		
Stockholders' Equity:		
Preferred stock - par value \$.01 per share, 10,000,000 shares authorized, no shares issued or outstanding	—	—
Common stock - par value \$.01 per share, 140,000,000 shares authorized, 79,137,758 shares issued at March 31, 2016 and December 31, 2015	791	791
Additional paid-in-capital	1,827,646	1,816,142
Retained earnings	4,668,588	4,620,303
Treasury stock, at cost - 15,072,348 and 13,933,232 shares	(1,108,539)	(1,010,139)
Accumulated other comprehensive income	1,330,383	708,284

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Total stockholders' equity	6,718,869	6,135,381
Total liabilities and stockholders' equity	\$ 52,186,624	\$ 50,383,152
See accompanying notes to condensed consolidated financial statements (unaudited).		

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

	Three months ended March 31,	
	2016	2015
Revenues:	(Dollars in thousands, except per share data)	
Net premiums	\$ 2,157,005	\$ 2,023,852
Investment income, net of related expenses	417,266	426,891
Investment related gains (losses), net:		
Other-than-temporary impairments on fixed maturity securities	(33,817) (2,527
Other investment related gains (losses), net	(87,069) 10,110
Total investment related gains (losses), net	(120,886) 7,583
Other revenues	59,183	62,287
Total revenues	2,512,568	2,520,613
Benefits and Expenses:		
Claims and other policy benefits	1,886,764	1,775,451
Interest credited	87,905	120,678
Policy acquisition costs and other insurance expenses	233,763	277,043
Other operating expenses	157,424	121,618
Interest expense	32,807	35,627
Collateral finance and securitization expense	6,325	6,071
Total benefits and expenses	2,404,988	2,336,488
Income before income taxes	107,580	184,125
Provision for income taxes	31,108	59,011
Net income	\$ 76,472	\$ 125,114
Earnings per share:		
Basic earnings per share	\$ 1.18	\$ 1.84
Diluted earnings per share	\$ 1.17	\$ 1.81
Dividends declared per share	\$ 0.37	\$ 0.33

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

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

	Three months ended March 31,	
	2016	2015
Comprehensive income	(Dollars in thousands)	
Net income	\$76,472	\$125,114
Other comprehensive income, net of tax:		
Foreign currency translation adjustments	77,733	(117,771)
Net unrealized investment gains	547,225	343,924
Defined benefit pension and postretirement plan adjustments	(2,859)	954
Total other comprehensive income, net of tax	622,099	227,107
Total comprehensive income	\$698,571	\$352,221
See accompanying notes to condensed consolidated financial statements (unaudited).		

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three months ended March 31,	
	2016	2015
	(Dollars in thousands)	
Cash Flows from Operating Activities:		
Net income	\$76,472	\$125,114
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in operating assets and liabilities:		
Accrued investment income	(24,379)	(28,443)
Premiums receivable and other reinsurance balances	(51,778)	(19,816)
Deferred policy acquisition costs	(79,468)	2,380
Reinsurance ceded receivable balances	(68,918)	(64,299)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	375,670	251,570
Deferred income taxes	23,406	13,144
Other assets and other liabilities, net	(18,513)	5,973
Amortization of net investment premiums, discounts and other	(15,782)	(21,666)
Investment related (gains) losses, net	120,886	(7,583)
Other, net	30,976	59,837
Net cash provided by operating activities	368,572	316,211
Cash Flows from Investing Activities:		
Sales of fixed maturity securities available-for-sale	977,314	639,676
Maturities of fixed maturity securities available-for-sale	116,644	94,994
Principal payments on mortgage loans on real estate	141,228	69,322
Principal payments on policy loans	16,939	200
Purchases of fixed maturity securities available-for-sale	(1,768,881)	(1,000,335)
Cash invested in mortgage loans on real estate	(305,252)	(272,287)
Cash invested in policy loans	—	(1)
Cash invested in funds withheld at interest	(4,980)	(32,196)
Purchases of property and equipment	—	(21,504)
Change in short-term investments	124,653	4,325
Change in other invested assets	(7,262)	14,092
Net cash used in investing activities	(709,597)	(503,714)
Cash Flows from Financing Activities:		
Dividends to stockholders	(24,019)	(22,669)
Repayment of collateral finance and securitization notes	(6,877)	(7,367)
Debt issuance costs	—	(1,184)
Principal payments of long-term debt	(610)	(586)
Purchases of treasury stock	(105,803)	(214,665)
Exercise of stock options, net	3,239	5,759
Change in cash collateral for derivative positions and other arrangements	40,392	31,109
Deposits on universal life and other investment type policies and contracts	432,684	66,329
Withdrawals on universal life and other investment type policies and contracts	(41,613)	(196,623)
Net cash provided in (used in) financing activities	297,393	(339,897)

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Effect of exchange rate changes on cash	20,439	(35,090)
Change in cash and cash equivalents	(23,193)	(562,490)
Cash and cash equivalents, beginning of period	1,525,275	1,645,669
Cash and cash equivalents, end of period	\$1,502,082	\$1,083,179
Supplemental disclosures of cash flow information:		
Interest paid	\$29,112	\$29,849
Income taxes paid, net of refunds	\$12,322	\$(58,864)
Non-cash transactions:		
Transfer of invested assets	\$689	\$118
Accrual for capitalized assets	\$—	\$4,514
See accompanying notes to condensed consolidated financial statements (unaudited).		

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Business and Basis of Presentation

Reinsurance Group of America, Incorporated (“RGA”) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the “Company”) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, these condensed consolidated financial statements do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, including normal recurring adjustments necessary for a fair presentation have been included. Results for the three months ended March 31, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries, and all intercompany accounts and transactions have been eliminated. These condensed consolidated statements should be read in conjunction with the Company’s 2015 Annual Report on Form 10-K filed with the Securities and Exchange Commission (“SEC”) on February 29, 2016 (the “2015 Annual Report”).

2. Earnings Per Share

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

	Three months ended March 31,	
	2016	2015
Earnings:		
Net income (numerator for basic and diluted calculations)	\$76,472	\$125,114
Shares:		
Weighted average outstanding shares (denominator for basic calculation)	64,568	68,141
Equivalent shares from outstanding stock options	649	801
Denominator for diluted calculation	65,217	68,942
Earnings per share:		
Basic	\$1.18	\$1.84
Diluted	\$1.17	\$1.81

The calculation of common equivalent shares does not include the impact of options having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended March 31, 2016, 0.8 million stock options and approximately 0.9 million performance contingent shares were excluded from the calculation. For the three months ended March 31, 2015, approximately 0.3 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation.

Year-to-date amounts for equivalent shares from outstanding stock options and performance contingent shares are the weighted average of the individual quarterly amounts.

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3. Equity

Common stock

The changes in number of common stock shares, issued, held in treasury and outstanding are as follows for the periods indicated:

	Issued	Held In Treasury	Outstanding
Balance, December 31, 2015	79,137,758	13,933,232	65,204,526
Common stock acquired	—	1,232,684	(1,232,684)
Stock-based compensation ⁽¹⁾	—	(93,568)	93,568
Balance, March 31, 2016	79,137,758	15,072,348	64,065,410
	Issued	Held In Treasury	Outstanding
Balance, December 31, 2014	79,137,758	10,364,797	68,772,961
Common stock acquired	—	2,538,718	(2,538,718)
Stock-based compensation ⁽¹⁾	—	(204,316)	204,316
Balance, March 31, 2015	79,137,758	12,699,199	66,438,559

(1) Represents net shares issued from treasury pursuant to the Company's equity-based compensation programs.

Common stock held in treasury

Common stock held in treasury is accounted for at average cost. Gains resulting from the reissuance of "Common stock held in treasury" are credited to "Additional paid-in capital." Losses resulting from the reissuance of "Common stock held in treasury" are charged first to "Additional paid-in capital" to the extent the Company has previously recorded gains on treasury share transactions, then to "Retained earnings."

On January 21, 2016, RGA's board of directors authorized a share repurchase program for up to \$400.0 million of RGA's outstanding common stock. The authorization was effective immediately and does not have an expiration date. In connection with this new authorization, the board of directors terminated the stock repurchase authority granted in 2015. During the first quarter of 2016, RGA repurchased 1.2 million shares of common stock under this program for \$105.1 million.

Accumulated other comprehensive income (loss)

The balance of and changes in each component of accumulated other comprehensive income (loss) ("AOCI") for the three months ended March 31, 2016 and 2015 are as follows (dollars in thousands):

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments of Investments ⁽¹⁾	Unrealized Appreciation (Depreciation)	Pension and Postretirement Benefits	Total
Balance, December 31, 2015	\$ (181,151)	\$ 935,697	\$ (46,262)	\$ 708,284
Other comprehensive income before reclassifications	72,695	781,293	(5,932)	848,056
Amounts reclassified to (from) AOCI	—	10,237	1,551	11,788
Deferred income tax benefit (expense)	5,038	(244,305)	1,522	(237,745)
Balance, March 31, 2016	\$ (103,418)	\$ 1,482,922	\$ (49,121)	\$ 1,330,383
	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments of Investments ⁽¹⁾	Unrealized Appreciation (Depreciation)	Pension and Postretirement Benefits	Total
Balance, December 31, 2014	\$ 81,847	\$ 1,624,773	\$ (49,491)	\$ 1,657,129

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Other comprehensive income before reclassifications	(103,285)	494,294	617	391,626
Amounts reclassified to (from) AOCI	—	(8,252)	787	(7,465)
Deferred income tax benefit (expense)	(14,486)	(142,118)	(450)	(157,054)
Balance, March 31, 2015	\$(35,924)	\$ 1,968,697	\$ (48,537)	\$1,884,236

Includes cash flow hedges of \$(21,794) and \$(29,397) as of March 31, 2016 and December 31, 2015, respectively, (1) and \$(30,598) and \$(31,591) as of March 31, 2015 and December 31, 2014, respectively. See Note 5 - "Derivative Instruments" for additional information on cash flow hedges.

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The following table presents the amounts of AOCI reclassifications for the three months ended March 31, 2016 and 2015 (dollars in thousands):

Details about AOCI Components	Amount Reclassified from AOCI Three months ended March 31,		Affected Line Item in Statement of Income
	2016	2015	
Net unrealized investment gains (losses):			
Net unrealized gains (losses) on available-for-sale securities	\$(18,291)	\$3,079	Investment related gains (losses), net
Cash flow hedges - Interest rate swaps	160	840	(1)
Cash flow hedges - Forward bond purchase commitments	788	—	(1)
Deferred policy acquisition costs attributed to unrealized gains and losses	7,106	4,333	(2)
Total	(10,237)	8,252	
Provision for income taxes	4,649	(860)	
Net unrealized gains (losses), net of tax	\$(5,588)	\$7,392	
Amortization of defined benefit plan items:			
Prior service cost	\$(78)	\$(83)	(3)
Actuarial gains/(losses)	(1,473)	(704)	(3)
Total	(1,551)	(787)	
Provision for income taxes	543	275	
Amortization of defined benefit plans, net of tax	\$(1,008)	\$(512)	
Total reclassifications for the period	\$(6,596)	\$6,880	

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

(2) This AOCI component is included in the computation of the deferred policy acquisition cost. See Note 8 – "Deferred Policy Acquisition Costs" of the 2015 Annual Report for additional details.

(3) This AOCI component is included in the computation of the net periodic pension cost. See Note 10 – "Employee Benefit Plans" for additional details.

4. Investments

Fixed Maturity and Equity Securities Available-for-Sale

The following tables provide information relating to investments in fixed maturity and equity securities by sector as of March 31, 2016 and December 31, 2015 (dollars in thousands):

March 31, 2016:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$17,926,454	\$872,226	\$286,632	\$18,512,048	59.5 %	\$ —
Canadian and Canadian provincial governments	2,611,654	1,269,576	113	3,881,117	12.5	—
Residential mortgage-backed securities	1,330,894	61,124	11,121	1,380,897	4.4	(300)
Asset-backed securities	1,319,616	10,462	40,697	1,289,381	4.1	354
Commercial mortgage-backed securities	1,466,500	47,907	6,224	1,508,183	4.8	(1,609)

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U.S. government and agencies	1,469,170	40,859	2,949	1,507,080	4.8	—
State and political subdivisions	506,521	53,761	8,039	552,243	1.8	—
Other foreign government, supranational and foreign government-sponsored enterprises	2,404,465	134,991	21,691	2,517,765	8.1	—
Total fixed maturity securities	\$29,035,274	\$2,490,906	\$377,466	\$31,148,714	100.0%	\$ (1,555)
Non-redeemable preferred stock	\$83,427	\$2,768	\$8,110	\$78,085	66.2 %	
Other equity securities	40,595	150	954	39,791	33.8	
Total equity securities	\$124,022	\$2,918	\$9,064	\$117,876	100.0%	

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December 31, 2015:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$ 17,575,507	\$ 599,718	\$ 467,069	\$ 17,708,156	59.7 %	\$ —
Canadian and Canadian provincial governments	2,469,009	1,110,282	2,532	3,576,759	12.1	—
Residential mortgage-backed securities	1,277,998	45,152	11,673	1,311,477	4.4	(300)
Asset-backed securities	1,219,000	12,052	18,376	1,212,676	4.1	354
Commercial mortgage-backed securities	1,456,848	37,407	11,168	1,483,087	5.0	(1,609)
U.S. government and agencies	1,423,791	15,586	57,718	1,381,659	4.7	—
State and political subdivisions	480,067	40,014	9,067	511,014	1.7	—
Other foreign government, supranational and foreign government-sponsored enterprises	2,420,757	78,964	41,644	2,458,077	8.3	—
Total fixed maturity securities	\$ 28,322,977	\$ 1,939,175	\$ 619,247	\$ 29,642,905	100.0 %	\$ (1,555)
Non-redeemable preferred stock	\$ 85,645	\$ 7,837	\$ 5,962	\$ 87,520	69.5 %	
Other equity securities	40,584	—	2,242	38,342	30.5	
Total equity securities	\$ 126,229	\$ 7,837	\$ 8,204	\$ 125,862	100.0 %	

The Company enters into various collateral arrangements with counterparties that require both the pledging and acceptance of fixed maturity securities as collateral. Pledged fixed maturity securities are included in fixed maturity securities, available-for-sale in the condensed consolidated balance sheets. Fixed maturity securities received as collateral are held in separate custodial accounts and are not recorded on the Company's condensed consolidated balance sheets. Subject to certain constraints, the Company is permitted by contract to sell or repledge collateral it receives; however, as of March 31, 2016 and December 31, 2015, none of the collateral received had been sold or repledged. The Company also holds securities in trust to satisfy collateral requirements under certain third-party reinsurance treaties. The following table includes fixed maturity securities pledged and received as collateral and assets in trust held to satisfy collateral requirements under certain third-party reinsurance treaties as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016		December 31, 2015	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
Fixed maturity securities pledged as collateral	\$ 192,718	\$ 204,980	\$ 169,678	\$ 176,782
Fixed maturity securities received as collateral	n/a	261,601	n/a	242,914
Securities held in trust	10,698,579	11,345,193	10,535,729	10,928,393

The Company monitors its concentrations of financial instruments on an ongoing basis and mitigates credit risk by maintaining a diversified investment portfolio which limits exposure to any one issuer. The Company's exposure to concentrations of credit risk from single issuers greater than 10% of the Company's stockholders' equity included securities of the U.S. government and its agencies as well as the securities disclosed below as of March 31, 2016 and December 31, 2015 (dollars in thousands).

	March 31, 2016		December 31, 2015	
	Amortized	Estimated	Amortized	Estimated
	Cost	Fair Value	Cost	Fair Value
Fixed maturity securities guaranteed or issued by:				
Canadian province of Ontario	\$ 892,870	\$ 1,257,794	\$ 864,444	\$ 1,199,080
Canadian province of Quebec	1,013,019	1,702,423	943,484	1,525,903

The amortized cost and estimated fair value of fixed maturity securities classified as available-for-sale at March 31, 2016 are shown by contractual maturity in the table below (dollars in thousands). Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Asset and mortgage-backed securities are shown separately in the table below, as they are not due at a single maturity date.

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	Amortized Cost	Estimated Fair Value
Available-for-sale:		
Due in one year or less	\$802,218	\$809,704
Due after one year through five years	5,606,886	5,828,982
Due after five years through ten years	8,633,420	8,985,775
Due after ten years	9,875,740	11,345,792
Asset and mortgage-backed securities	4,117,010	4,178,461
Total	\$29,035,274	\$31,148,714

Corporate Fixed Maturity Securities

The tables below show the major industry types of the Company's corporate fixed maturity holdings as of March 31, 2016 and December 31, 2015 (dollars in thousands):

March 31, 2016:		Estimated			
	Amortized Cost	Fair Value	% of Total		
Finance	\$ 5,818,427	\$6,026,229	32.6		%
Industrial	10,147,913	10,396,101	56.1		
Utility	1,960,114	2,089,718	11.3		
Total	\$ 17,926,454	\$18,512,048	100.0		%

December 31, 2015:		Estimated			
	Amortized Cost	Fair Value	% of Total		
Finance	\$ 5,408,791	\$5,555,044	31.4		%
Industrial	10,211,426	10,129,917	57.2		
Utility	1,955,290	2,023,195	11.4		
Total	\$ 17,575,507	\$17,708,156	100.0		%

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

As discussed in Note 2 – “Summary of Significant Accounting Policies” of the 2015 Annual Report, a portion of certain other-than-temporary impairment (“OTTI”) losses on fixed maturity securities is recognized in AOCI. For these securities, the net amount recognized in the condensed consolidated statements of income (“credit loss impairments”) represents the difference between the amortized cost of the security and the net present value of its projected future cash flows discounted at the effective interest rate implicit in the debt security prior to impairment. Any remaining difference between the fair value and amortized cost is recognized in AOCI. The amount of pre-tax credit loss impairments on fixed maturity securities held by the Company, for which a portion of the OTTI loss was recognized in AOCI, was \$7.3 million as of March 31, 2016 and 2015. There were no changes in these amounts from their respective prior-year ending balances.

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

The following table presents the total gross unrealized losses for the 1,450 and 2,080 fixed maturity and equity securities as of March 31, 2016 and December 31, 2015, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

	March 31, 2016			December 31, 2015		
	Gross Unrealized Losses	% of Total	%	Gross Unrealized Losses	% of Total	%
Less than 20%	\$275,128	71.2	%	\$463,109	73.8	%
20% or more for less than six months	69,739	18.0		142,495	22.7	
20% or more for six months or greater	41,663	10.8		21,847	3.5	
Total	\$386,530	100.0	%	\$627,451	100.0	%

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

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for 1,450 and 2,080 fixed maturity and equity securities that have estimated fair values below amortized cost as of March 31, 2016 and December 31, 2015, respectively (dollars in thousands). These investments are presented by class and grade of security, as well as the length of time the related fair value has remained below amortized cost.

	Less than 12 months		12 months or greater		Total	
	Gross		Gross		Gross	
March 31, 2016:	Estimated	Unrealized	Estimated	Unrealized	Estimated	Unrealized
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
Investment grade securities:						
Corporate securities	\$2,082,050	\$79,986	\$1,557,209	\$112,210	\$3,639,259	\$192,196
Canadian and Canadian provincial governments	49,560	113	—	—	49,560	113
Residential mortgage-backed securities	217,618	5,773	104,341	4,456	321,959	10,229
Asset-backed securities	629,257	25,390	237,331	12,243	866,588	37,633
Commercial mortgage-backed securities	256,118	3,936	52,341	1,995	308,459	5,931
U.S. government and agencies	129,048	801	70,288	2,148	199,336	2,949
State and political subdivisions	14,632	510	55,295	7,529	69,927	8,039
Other foreign government, supranational and foreign government-sponsored enterprises	107,785	3,274	115,085	5,922	222,870	9,196
Total investment grade securities	3,486,068	119,783	2,191,890	146,503	5,677,958	266,286
Below investment grade securities:						
Corporate securities	573,014	65,766	137,674	28,670	710,688	94,436
Residential mortgage-backed securities	22,774	411	10,445	481	33,219	892
Asset-backed securities	6,506	1,368	8,818	1,696	15,324	3,064
Commercial mortgage-backed securities	—	—	3,207	293	3,207	293
Other foreign government, supranational and foreign government-sponsored enterprises	36,134	2,482	58,897	10,013	95,031	12,495
Total below investment grade securities	638,428	70,027	219,041	41,153	857,469	111,180
Total fixed maturity securities	\$4,124,496	\$189,810	\$2,410,931	\$187,656	\$6,535,427	\$377,466
Non-redeemable preferred stock	\$15,334	\$356	\$22,821	\$7,754	\$38,155	\$8,110
Other equity securities	13,263	702	11,649	252	24,912	954
Total equity securities	\$28,597	\$1,058	\$34,470	\$8,006	\$63,067	\$9,064

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December 31, 2015:	Less than 12 months		12 months or greater		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Corporate securities	\$6,388,148	\$323,961	\$294,755	\$40,861	\$6,682,903	\$364,822
Canadian and Canadian provincial governments	122,746	2,532	—	—	122,746	2,532
Residential mortgage-backed securities	452,297	7,036	82,314	4,057	534,611	11,093
Asset-backed securities	581,701	9,825	199,298	7,100	780,999	16,925
Commercial mortgage-backed securities	514,877	9,806	31,177	997	546,054	10,803
U.S. government and agencies	1,010,387	57,718	—	—	1,010,387	57,718
State and political subdivisions	157,837	5,349	13,016	3,718	170,853	9,067
Other foreign government, supranational and foreign government-sponsored enterprises	702,962	18,279	38,379	4,206	741,341	22,485
Total investment grade securities	9,930,955	434,506	658,939	60,939	10,589,894	495,445
Below investment grade securities:						
Corporate securities	554,688	71,171	114,427	31,076	669,115	102,247
Residential mortgage-backed securities	22,646	282	7,679	298	30,325	580
Asset-backed securities	6,772	201	9,335	1,250	16,107	1,451
Commercial mortgage-backed securities	3,253	248	767	117	4,020	365
Other foreign government, supranational and foreign government-sponsored enterprises	60,668	7,356	31,693	11,803	92,361	19,159
Total below investment grade securities	648,027	79,258	163,901	44,544	811,928	123,802
Total fixed maturity securities	\$10,578,982	\$513,764	\$822,840	\$105,483	\$11,401,822	\$619,247
Non-redeemable preferred stock	\$12,331	\$2,175	\$12,191	\$3,787	\$24,522	\$5,962
Other equity securities	38,327	2,242	—	—	38,327	2,242
Total equity securities	\$50,658	\$4,417	\$12,191	\$3,787	\$62,849	\$8,204

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

Unrealized losses on below investment grade securities as of March 31, 2016 are primarily related to high-yield corporate and other foreign government, supranational and foreign government-sponsored enterprise securities. Unrealized losses decreased across most security types as treasury rates decreased during the first three months of 2016.

Investment Income, Net of Related Expenses

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

	Three months ended	
	March 31, 2016	2015
Fixed maturity securities available-for-sale	\$312,414	\$269,768
Mortgage loans on real estate	39,792	34,772
Policy loans	16,134	14,040

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Funds withheld at interest	55,980	112,260
Short-term investments	975	695
Other invested assets	9,824	12,027
Investment income	435,119	443,562
Investment expense	(17,853)	(16,671)
Investment income, net of related expenses	\$417,266	\$426,891

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Investment Related Gains (Losses), Net

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

	Three months ended March 31,	
	2016	2015
Fixed maturity and equity securities available for sale:		
Other-than-temporary impairment losses on fixed maturity securities recognized in earnings	\$(33,817)	\$(2,527)
Gain on investment activity	27,192	19,201
Loss on investment activity	(11,787)	(13,596)
Other impairment losses and change in mortgage loan provision	(2,060)	(4,168)
Derivatives and other, net	(100,414)	8,673
Total investment related gains (losses), net	\$(120,886)	\$7,583

The fixed maturity impairments for the three months ended March 31, 2016 and 2015 were largely related to high-yield energy and emerging market corporate securities. The fluctuations in investment related gains (losses) for derivatives and other for the three months ended March 31, 2016, compared to the same period in 2015, are primarily due to changes in the fair value of embedded derivatives related to modified coinsurance and funds withheld treaties. During the three months ended March 31, 2016 and 2015, the Company sold fixed maturity and equity securities with fair values of \$242.6 million and \$199.6 million at losses of \$11.8 million and \$13.6 million, respectively. The Company generally does not buy and sell securities on a short-term basis.

Securities Borrowing and Other

The Company participates in securities borrowing programs whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from third parties. The borrowed securities are used to provide collateral under affiliated reinsurance transactions. The Company is required to maintain a minimum of 100% of the fair value, or par value, under certain programs, of the borrowed securities as collateral. The collateral consists of rights to reinsurance treaty cash flows. If cash flows from the reinsurance treaties are insufficient to maintain the minimum collateral requirement, the Company may substitute cash or securities to meet the requirement. No cash or securities have been pledged by the Company for this purpose.

The Company also participates in a repurchase/reverse repurchase program in which securities, reflected as investments on the Company's condensed consolidated balance sheets, are pledged to a third party. In return, the Company receives securities from the third party with an estimated fair value equal to a minimum of 100% of the securities pledged. The securities received are not reflected on the Company's condensed consolidated balance sheets. The following table includes the amount of borrowed securities, repurchased securities pledged and repurchased/reverse repurchased securities pledged and received as of March 31, 2016 and December 31, 2015 (dollars in thousands).

	March 31, 2016		December 31, 2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Borrowed securities	\$268,800	\$282,780	\$259,540	\$266,297
Repurchase program/reverse repurchase program:				
Securities pledged	454,264	479,427	443,435	465,889
Securities received	n/a	479,482	n/a	481,197

The following table presents information on the securities pledged as collateral by the Company related to its repurchase/reverse repurchase program as of March 31, 2016 and December 31, 2015 (dollars in thousands).

Collateral associated with certain borrowed securities is not included within the table, as the collateral pledged to each counterparty is the right to reinsurance treaty cash flows.

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	March 31, 2016				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Collateral on repurchase program					
Corporate securities	\$—	\$—	—\$1,445	\$157,995	\$159,440
Residential mortgage-backed securities	—	—	—	97,398	97,398
U.S. government and agencies	—	—	—	212,081	212,081
Foreign government	—	—	—	3,303	3,303
Other	7,205	—	—	—	7,205
Total borrowings	\$7,205	\$—	—\$1,445	\$470,777	\$479,427

Gross amount of recognized liabilities for repurchase agreement in preceding table \$479,482

Amounts related to agreements not included in offsetting disclosure \$55

	December 31, 2015				
	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 Days	30-90 Days	Greater than 90 Days	Total
Collateral on repurchase program					
Corporate securities	\$—	\$2,951	\$—	—\$147,324	\$150,275
Residential mortgage-backed securities	—	—	—	97,639	97,639
U.S. government and agencies	—	—	—	199,431	199,431
Foreign government	—	—	—	3,358	3,358
Other	15,186	—	—	—	15,186
Total borrowings	\$15,186	\$2,951	\$—	—\$447,752	\$465,889

Gross amount of recognized liabilities for repurchase agreement in preceding table \$481,197

Amounts related to agreements not included in offsetting disclosure \$15,308

Mortgage Loans on Real Estate

Mortgage loans represented approximately 7.6% and 7.5% of the Company's total investments as of March 31, 2016 and December 31, 2015. The Company makes mortgage loans on income producing properties that are geographically diversified, with the largest concentration being in the state of California, which represented 22.2% and 22.3% of mortgage loans on real estate as of March 31, 2016 and December 31, 2015, respectively. Loan-to-value ratios at the time of loan approval are 75% or less. The distribution of mortgage loans by property type, gross of valuation allowances, is as follows as of March 31, 2016 and December 31, 2015 (dollars in thousands):

Property type:	March 31, 2016		December 31, 2015	
	Recorded Investment	% of Total	Recorded Investment	% of Total
Office building	\$1,044,806	31.7 %	\$980,858	31.3 %
Retail	1,011,124	30.6	1,026,018	32.7
Industrial	656,171	19.9	527,485	16.8

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Apartment	399,653	12.1	420,014	13.4
Other commercial	187,566	5.7	182,389	5.8
Total	\$3,299,320	100.0%	\$3,136,764	100.0%

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The maturities of the mortgage loans, gross of valuation allowances, as of March 31, 2016 and December 31, 2015 are as follows (dollars in thousands):

	March 31, 2016		December 31, 2015	
	Recorded Investment	% of Total	Recorded Investment	% of Total
Due within five years	\$844,192	25.6 %	\$873,280	27.8 %
Due after five years through ten years	1,709,137	51.8	1,561,535	49.8
Due after ten years	745,991	22.6	701,949	22.4
Total	\$3,299,320	100.0 %	\$3,136,764	100.0 %

Information regarding the Company's credit quality indicators, as determined by the Company's internal evaluation methodology for its recorded investment in mortgage loans, gross of valuation allowances, as of March 31, 2016 and December 31, 2015 is as follows (dollars in thousands):

Internal credit quality grade:	March 31, 2016		December 31, 2015	
	Recorded Investment	% of Total	Recorded Investment	% of Total
High investment grade	\$1,739,464	52.8 %	\$1,621,601	51.7 %
Investment grade	1,449,516	43.9	1,397,996	44.6
Average	86,600	2.6	87,196	2.8
Watch list	13,483	0.4	13,550	0.4
In or near default	10,257	0.3	16,421	0.5
Total	\$3,299,320	100.0 %	\$3,136,764	100.0 %

The age analysis of the Company's past due recorded investment in mortgage loans, gross of valuation allowances, as of March 31, 2016 and December 31, 2015 is as follows (dollars in thousands):

	March 31, 2016	December 31, 2015
31-60 days past due	\$1,891	\$—
61-90 days past due	—	—
Greater than 90 days	—	—
Total past due	1,891	—
Current	3,297,429	3,136,764
Total	\$3,299,320	\$3,136,764

The following table presents the recorded investment in mortgage loans, by method of measuring impairment, and the related valuation allowances as of March 31, 2016 and December 31, 2015 (dollars in thousands):

	March 31, 2016	December 31, 2015
Mortgage loans:		
Individually measured for impairment		