

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

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
For the quarterly period ended June 30, 2015

OR

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

Commission File Number 1-11848

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

MISSOURI  
(State or other jurisdiction  
of incorporation or organization)  
16600 Swingley Ridge Road  
Chesterfield, Missouri 63017  
(Address of principal executive offices)  
(636) 736-7000  
(Registrant's telephone number, including area code)

43-1627032  
(IRS employer  
identification number)

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  No

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

Yes  No

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

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

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

Yes  No

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

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## PART I - FINANCIAL INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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## REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

(Unaudited)

## 1. Business and Basis of Presentation

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

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

## 2. Earnings Per Share

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

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

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

the individual quarterly amounts.

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## 3. Accumulated Other Comprehensive Income

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

	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup>	Pension and Postretirement Benefits	Total
Balance, December 31, 2014	\$81,847	\$ 1,624,773	\$(49,491 )	\$ 1,657,129
Other comprehensive income (loss) before reclassifications	(89,220 )	(612,314 )	733	(700,801 )
Deferred income tax benefit (expense)	(6,616 )	204,252	(222 )	197,414
Other comprehensive income (loss) before reclassifications, net of income tax	(95,836 )	(408,062 )	511	(503,387 )
Amounts reclassified to (from) AOCI	—	(6,192 )	1,965	(4,227 )
Deferred income tax benefit (expense)	—	537	(688 )	(151 )
Amounts reclassified to (from) AOCI, net of income tax	—	(5,655 )	1,277	(4,378 )
Balance, June 30, 2015	\$(13,989 )	\$ 1,211,056	\$(47,703 )	\$ 1,149,364
	Accumulated Other Comprehensive Income (Loss), Net of Income Tax			
	Accumulated Currency Translation Adjustments	Unrealized Appreciation (Depreciation) of Investments <sup>(1)</sup>	Pension and Postretirement Benefits	Total
Balance, December 31, 2013	\$207,083	\$ 820,245	\$(21,721 )	\$ 1,005,607
Other comprehensive income (loss) before reclassifications	(9,162 )	949,650	(257 )	940,231
Deferred income tax benefit (expense)	9,122	(302,873 )	251	(293,500 )
Other comprehensive income (loss) before reclassifications, net of income tax	(40 )	646,777	(6 )	646,731
Amounts reclassified to (from) AOCI	—	(37,661 )	1,570	(36,091 )
Deferred income tax benefit (expense)	—	12,963	(550 )	12,413
Amounts reclassified to (from) AOCI, net of income tax	—	(24,698 )	1,020	(23,678 )
Balance, June 30, 2014	\$207,043	\$ 1,442,324	\$(20,707 )	\$ 1,628,660

(1) Includes cash flow hedges. See Note 5 - “Derivative Instruments” for additional information on cash flow hedges. The following table presents the amounts of AOCI reclassifications for the three and six months ended June 30, 2015 and 2014 (dollars in thousands):

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

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

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

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

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## 4. Investments

## Fixed Maturity and Equity Securities Available-for-Sale

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

June 30, 2015:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$16,000,887	\$730,409	\$241,890	\$16,489,406	58.8	% \$—
Canadian and Canadian provincial governments	2,655,763	1,140,904	2,860	3,793,807	13.5	—
Residential mortgage-backed securities	1,154,732	47,241	11,094	1,190,879	4.2	(300 )
Asset-backed securities	1,051,093	19,915	8,384	1,062,624	3.8	354
Commercial mortgage-backed securities	1,471,419	63,699	9,649	1,525,469	5.4	(1,609 )
U.S. government and agencies	1,332,518	18,149	86,669	1,263,998	4.5	—
State and political subdivisions	478,262	38,891	10,981	506,172	1.8	—
Other foreign government, supranational and foreign government-sponsored enterprises	2,160,658	88,674	17,712	2,231,620	8.0	—
Total fixed maturity securities	\$26,305,332	\$2,147,882	\$389,239	\$28,063,975	100.0	% \$(1,555 )
Non-redeemable preferred stock	\$91,717	\$2,477	\$3,620	\$90,574	70.9	%
Other equity securities	37,642	434	982	37,094	29.1	
Total equity securities	\$129,359	\$2,911	\$4,602	\$127,668	100.0	%
December 31, 2014:	Amortized Cost	Unrealized Gains	Unrealized Losses	Estimated Fair Value	% of Total	Other-than- temporary impairments in AOCI
Available-for-sale:						
Corporate securities	\$14,010,604	\$965,523	\$90,544	\$14,885,583	58.4	% \$—
Canadian and Canadian provincial governments	2,668,852	1,196,420	7	3,865,265	15.2	—
Residential mortgage-backed securities	991,867	52,640	6,611	1,037,896	4.1	(300 )
Asset-backed securities	1,059,660	20,301	10,375	1,069,586	4.2	354
Commercial mortgage-backed securities	1,453,657	87,593	8,659	1,532,591	6.0	(1,609 )
U.S. government and agencies	501,352	25,014	515	525,851	2.0	—
State and political subdivisions	378,457	51,117	3,498	426,076	1.7	—
Other foreign government, supranational and foreign government-sponsored enterprises	2,041,148	110,065	13,089	2,138,124	8.4	—
Total fixed maturity securities	\$23,105,597	\$2,508,673	\$133,298	\$25,480,972	100.0	% \$(1,555 )
Non-redeemable preferred stock	\$93,540	\$7,350	\$1,527	\$99,363	78.3	%

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

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

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

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

	June 30, 2015		December 31, 2014	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Fixed maturity securities guaranteed or issued by: Canadian province of Ontario	\$ 921,150	\$ 1,295,793		