

ASSURANT INC  
Form 10-Q  
August 02, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2016

OR

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Assurant, Inc.

(Exact name of registrant as specified in its charter)

Delaware 001-31978 39-1126612

(State or other jurisdiction (Commission (I.R.S. Employer  
of incorporation) File Number) Identification No.)

28 Liberty Street, 41st Floor  
New York, New York 10005  
(212) 859-7000

(Address, including zip code, and telephone number, including area code, of Registrant's Principal Executive Offices)

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 Website, 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 smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company) 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

The number of shares of the registrant's Common Stock outstanding at July 29, 2016 was 60,204,445.

ASSURANT, INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2016  
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Amounts are presented in United States of America (“U.S.”) dollars and all amounts are in thousands, except number of shares and per share amounts.



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Assurant, Inc.

Consolidated Balance Sheets (unaudited)

At June 30, 2016 and December 31, 2015

	June 30, 2016	December 31, 2015
	(in thousands except number of shares and per share amounts)	
Assets		
Investments:		
Fixed maturity securities available for sale, at fair value (amortized cost - \$8,709,444 in 2016 and \$9,470,795 in 2015)	\$ 9,744,199	\$ 10,215,328
Equity securities available for sale, at fair value (cost - \$382,168 in 2016 and \$450,563 in 2015)	434,506	500,057
Commercial mortgage loans on real estate, at amortized cost	620,185	1,151,256
Policy loans	40,349	43,858
Short-term investments	498,281	508,950
Other investments	623,977	575,323
Total investments	11,961,497	12,994,772
Cash and cash equivalents	1,232,674	1,288,305
Premiums and accounts receivable, net	1,218,299	1,260,717
Reinsurance recoverables	8,727,343	7,470,403
Accrued investment income	111,985	129,743
Deferred acquisition costs	3,001,603	3,150,934
Property and equipment, at cost less accumulated depreciation	327,861	298,414
Tax receivable	—	24,176
Goodwill	834,173	833,512
Value of business acquired	36,628	41,154
Other intangible assets, net	250,419	277,163
Other assets	387,288	469,005
Assets held in separate accounts	1,714,443	1,798,104
Total assets	\$ 29,804,213	\$ 30,036,402
Liabilities		
Future policy benefits and expenses	\$ 9,748,406	\$ 9,466,694
Unearned premiums	6,298,466	6,423,720
Claims and benefits payable	3,276,722	3,896,719
Commissions payable	357,912	393,260
Reinsurance balances payable	132,878	132,728
Funds held under reinsurance	105,475	94,417
Deferred gain on disposal of businesses	439,268	92,327
Accounts payable and other liabilities	1,876,015	2,049,810
Tax payable	81,302	—
Debt	1,165,255	1,164,656
Liabilities related to separate accounts	1,714,443	1,798,104
Total liabilities	25,196,142	25,512,435
Commitments and contingencies (Note 16)		

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Stockholders' equity			
Common stock, par value \$0.01 per share, 800,000,000 shares authorized, 60,612,310 and 65,850,386 shares outstanding at June 30, 2016 and December 31, 2015, respectively	1,502	1,497	
Additional paid-in capital	3,150,911	3,148,409	
Retained earnings	5,181,375	4,856,674	
Accumulated other comprehensive income	327,254	118,549	
Treasury stock, at cost; 89,263,289 and 83,523,031 shares at June 30, 2016 and December 31, 2015, respectively	(4,052,971	) (3,601,162	)
Total stockholders' equity	4,608,071	4,523,967	
Total liabilities and stockholders' equity	\$ 29,804,213	\$ 30,036,402	

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.  
 Consolidated Statements of Operations (unaudited)  
 Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands except number of shares and per share amounts)			
<b>Revenues</b>				
Net earned premiums	\$1,202,224	\$2,138,258	\$2,617,462	\$4,297,820
Fees and other income	328,305	323,609	685,995	603,171
Net investment income	119,820	167,786	255,527	320,059
Net realized gains on investments, excluding other-than-temporary impairment losses	21,679	11,999	184,045	18,524
Total other-than-temporary impairment losses	(53	) —	(364	) (3,208
Portion of net (gain) loss recognized in other comprehensive income, before taxes	—	—	(337	) 638
Net other-than-temporary impairment losses recognized in earnings	(53	) —	(701	) (2,570
Amortization of deferred gain on disposal of businesses	125,818	3,242	173,414	6,500
Gain on pension plan curtailment	—	—	29,578	—
Total revenues	1,797,793	2,644,894	3,945,320	5,243,504
<b>Benefits, losses and expenses</b>				
Policyholder benefits	400,814	1,267,714	944,630	2,478,441
Amortization of deferred acquisition costs and value of business acquired	342,640	353,883	676,982	722,886
Underwriting, general and administrative expenses	803,595	969,494	1,720,954	1,891,403
Interest expense	15,232	13,778	29,735	27,556
Total benefits, losses and expenses	1,562,281	2,604,869	3,372,301	5,120,286
Income before provision for income taxes	235,512	40,025	573,019	123,218
Provision for income taxes	66,163	7,236	183,352	40,385
Net income	\$169,349	\$32,789	\$389,667	\$82,833
<b>Earnings Per Share</b>				
Basic	\$2.72	\$0.48	\$6.12	\$1.20
Diluted	\$2.70	\$0.47	\$6.06	\$1.18
Dividends per share	\$0.50	\$0.30	\$1.00	\$0.57
<b>Share Data</b>				
Weighted average shares outstanding used in basic per share calculations	62,244,778	68,558,472	63,665,856	69,161,001
Plus: Dilutive securities	478,514	685,927	608,153	785,363
Weighted average shares used in diluted per share calculations	62,723,292	69,244,399	64,274,009	69,946,364
See the accompanying notes to the consolidated financial statements				

Assurant, Inc.

Consolidated Statements of Comprehensive Income (unaudited)  
 Three and Six Months Ended June 30, 2016 and 2015

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Net income	\$ 169,349	\$ 32,789	\$ 389,667	\$ 82,833
Other comprehensive income (loss):				
Change in unrealized gains on securities, net of taxes of \$(62,503), \$116,577, \$(77,339) and \$88,228, respectively	115,940	(223,064 )	145,812	(165,605 )
Change in other-than-temporary impairment gains, net of taxes of \$(104), \$152, \$571 and \$632, respectively	192	(281 )	(1,059 )	(1,175 )
Change in foreign currency translation, net of taxes of \$(46), \$(712), \$(1,655) and \$1,943, respectively	(14,524 )	20,151	(2,664 )	(45,800 )
Pension plan curtailment and amortization of pension and postretirement unrecognized net periodic benefit cost, net of taxes of \$(219), \$(1,409), \$(35,870) and \$(2,818), respectively	406	2,616	66,616	5,232
Total other comprehensive income (loss)	102,014	(200,578 )	208,705	(207,348 )
Total comprehensive income (loss)	\$ 271,363	\$ (167,789)	\$ 598,372	\$ (124,515)
See the accompanying notes to the consolidated financial statements				

Assurant, Inc.

Consolidated Statement of Stockholders' Equity (unaudited)

From December 31, 2015 through June 30, 2016

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total
	(in thousands)					
Balance at December 31, 2015	\$ 1,497	\$ 3,148,409	\$ 4,856,674	\$ 118,549	\$(3,601,162)	\$ 4,523,967
Stock plan exercises	5	(19,067 )	—	—	—	(19,062 )
Stock plan compensation	—	13,650	—	—	—	13,650
Change in tax benefit from share-based payment arrangements	—	7,919	—	—	—	7,919
Dividends	—	—	(64,966 )	—	—	(64,966 )
Acquisition of common stock	—	—	—	—	(451,809 )	(451,809 )
Net income	—	—	389,667	—	—	389,667
Other comprehensive income	—	—	—	208,705	—	208,705
Balance, June 30, 2016	\$ 1,502	\$ 3,150,911	\$ 5,181,375	\$ 327,254	\$(4,052,971)	\$ 4,608,071

See the accompanying notes to the consolidated financial statements



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Assurant, Inc.  
 Consolidated Statements of Cash Flows (unaudited)  
 Six Months Ended June 30, 2016 and 2015

	Six Months Ended June 30,	
	2016	2015
	(in thousands)	
Net cash used in operating activities	\$(301,705 )	\$168,896
Investing activities		
Sales of:		
Fixed maturity securities available for sale	1,270,337	1,219,007
Equity securities available for sale	152,472	96,541
Other invested assets	15,798	40,831
Property and equipment and other	223	3,407
Subsidiary, net of cash transferred (2)	857,799	65,002
Commercial mortgage loans on real estate (4)	268,833	—
Maturities, calls, prepayments, and scheduled redemption of:		
Fixed maturity securities available for sale	420,050	394,341
Commercial mortgage loans on real estate	44,716	123,739
Purchases of:		
Fixed maturity securities available for sale	(2,018,397 )	(1,459,405 )
Equity securities available for sale	(134,493 )	(122,710 )
Commercial mortgage loans on real estate	(33,900 )	(123,624 )
Other invested assets	(38,818 )	(9,344 )
Property and equipment and other	(47,721 )	(62,251 )
Subsidiary, net of cash transferred (3)	(19,735 )	(11,571 )
Equity interest (1)	—	(457 )
Change in short-term investments	6,536	(101,146 )
Change in policy loans	1,935	2,693
Change in collateral held/pledged under securities agreements	—	697
Net cash provided by investing activities	745,635	55,750
Financing activities		
Issuance of debt	249,625	—
Repayment of debt	(250,000 )	—
Change in tax benefit from share-based payment arrangements	7,919	(1,488 )
Acquisition of common stock	(445,601 )	(187,752 )
Dividends paid	(64,966 )	(40,450 )
Change in obligation under securities agreements	—	(697 )
Net cash used in financing activities	(503,023 )	(230,387 )
Effect of exchange rate changes on cash and cash equivalents	(2,396 )	(15,479 )
Reversal of Cash included in business classified as held for sale	5,858	—
Change in cash and cash equivalents	(55,631 )	(21,220 )
Cash and cash equivalents at beginning of period	1,288,305	1,318,656
Cash and cash equivalents at end of period	\$1,232,674	\$1,297,436

(1) Relates to the purchase of equity interest in Iké Asistencia.

(2)

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Relates to the sale of Assurant's Employee Benefits segment mainly through reinsurance transactions and supplemental and small group self-funded business.

(3) Relates primarily to the acquisition of Shipsurance, Mobile Defense and an immaterial acquisition and the purchase of renewal rights to the National Flood Insurance block of business of Nationwide Mutual Insurance Company.

(4) For further information see the Investment footnote (Note 7).

See the accompanying notes to the consolidated financial statements

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

### 1. Nature of Operations

Assurant, Inc. (the “Company”) is a holding company whose subsidiaries globally provide risk management solutions, protecting where consumers live and the goods they buy.

The Company is traded on the New York Stock Exchange under the symbol "AIZ."

Through its operating subsidiaries, the Company provides mobile device protection and related services; vehicle protection; pre-funded funeral insurance; credit insurance; renters insurance; lender-placed homeowners insurance; mortgage valuation and field services and manufactured housing insurance.

As previously announced, the Company will substantially exit the health insurance market by the end of 2016 and sold its Assurant Employee Benefits segment on March 1, 2016 mainly through a series of reinsurance transactions with Sun Life Assurance Company of Canada, a subsidiary of Sun Life Financial Inc. (“Sun Life”). See Notes 4 and 5, respectively, for more information.

### 2. Basis of Presentation

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information. Accordingly, these statements do not include all of the information and notes required by GAAP for complete financial statements.

The interim financial data as of June 30, 2016 and for the three and six months ended June 30, 2016 and 2015 is unaudited; in the opinion of management, the interim data includes all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods. The unaudited interim consolidated financial statements include the accounts of the Company and all of its wholly owned subsidiaries. All inter-company transactions and balances are eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the 2016 presentation.

The Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010, and the rules and regulations thereunder (together, the “Affordable Care Act”) introduced new and significant premium stabilization programs in 2014. These programs require the Company to record amounts to our consolidated financial statements based on assumptions and estimates that could materially change as experience develops until the Company exits the Health business and settles related receivables later in 2016.

Operating results for the three and six months ended June 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The accompanying unaudited interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

### 3. Recent Accounting Pronouncements

#### Adopted

On January 1, 2016 the Company adopted the amended guidance on presentation of debt issuance costs. This amended guidance requires that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of the debt liabilities, consistent with debt discounts or premiums, as compared to previous guidance that required capitalization as a deferred asset. The recognition and measurement guidance for debt issuance costs is not affected by the amendments. The adoption of this new presentation guidance did not impact the Company’s financial position or results of operations.

On January 1, 2016, the Company adopted the new consolidation guidance that affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. All legal entities are subject to reevaluation under the revised consolidation model. The adoption of this new consolidation guidance did not have an impact on the Company's financial position and results of operations.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

#### Not Yet Adopted

In June 2016, the Financial Accounting Standards Board (“FASB”) issued amended guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, the amended guidance eliminates the probable initial recognition threshold, and, instead requires an entity to reflect the current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses are measured in a manner similar to current GAAP, however the amended guidance requires that credit losses be presented as an allowance rather than as a write-down. The amendments affect loans, debt securities, trade receivables, net investments in leases, off balance sheet credit exposures, reinsurance receivables, and any other financial assets not excluded from the scope that have the contractual right to receive cash. The amended guidance is effective in fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Therefore, the Company is required to adopt the guidance on January 1, 2020. Early adoption is permitted as of the fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is evaluating the requirements of this amended credit losses guidance and the potential impact on the Company’s financial position and results of operations.

In March 2016, the FASB issued amended guidance on employee share-based stock compensation. This amended guidance provides areas of simplification in several aspects of accounting for employee share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The amended guidance is effective in fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Therefore, the Company is required to adopt the guidance on January 1, 2017. Early adoption is permitted in any interim or annual period. The Company is evaluating the requirements of this amended share-based stock compensation guidance and the potential impact on the Company’s financial position and results of operations.

In February 2016, the FASB issued new guidance on leases. The new guidance will replace the current lease guidance. The new guidance requires that entities recognize the assets and liabilities associated with leases on the balance sheet and to disclose key information about leasing arrangements. The new guidance is effective in fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Therefore, the Company is required to adopt the guidance on January 1, 2019. Early adoption is permitted. The Company is evaluating the requirements of this new lease guidance and the potential impact on the Company’s financial position and results of operations.

In January 2016, the FASB issued amended guidance on the measurement and classification of financial instruments. This amended guidance requires that all equity investments be measured at fair value with changes in fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the fair value option has been elected for financial liabilities. The amendments eliminate the requirement to disclose the methods and significant assumptions used to estimate the fair value for financial instruments measured at amortized cost, however public business entities will be required to use the exit price when measuring the fair value of financial instruments measured at amortized cost for disclosure purposes. In addition, the new guidance requires financial assets and financial liabilities to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. The amended guidance is effective in fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Therefore, the Company

is required to adopt the guidance on January 1, 2018. For the provision related to presentation of financial liabilities, early adoption is permitted for financial statements that have not been previously issued. The Company is evaluating the requirements of this amended measurement and classification of financial instruments guidance and the potential impact on the Company's financial position and results of operations.

In May 2014, the FASB issued amended guidance on revenue recognition. In March, April and May 2016, the FASB issued implementation amendments to the May 2014 amended revenue recognition guidance. The amended guidance, including the implementation amendments (together, the "amended guidance"), affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards. Insurance contracts are within the scope of other standards and therefore are specifically excluded from the scope of the amended revenue recognition guidance. The core principle of the amended guidance is that an entity recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. To achieve the core principle, the entity applies a five step process outlined in the amended guidance. The amended guidance also includes a cohesive set of

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

disclosure requirements. In August 2015, the FASB issued guidance to defer the effective date of the revenue recognition guidance. The amended guidance is effective for interim and annual periods beginning after December 15, 2017 and earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Therefore, the Company is required to adopt the guidance on January 1, 2018. An entity can choose to apply the amended guidance using either the full retrospective approach or a modified retrospective approach. The Company is evaluating the requirements of the revenue recognition guidance as it relates to its non-insurance contract revenue and the potential impact on the Company's financial position and results of operations.

#### 4. Reorganization

On June 7, 2015, the Company concluded its comprehensive review of strategic alternatives for the Assurant Health business segment and decided to sharpen its focus on housing and lifestyle specialty protection products and services. The Company expects to substantially complete its exit from the health insurance market by the end of 2016. As part of this process, Assurant reinsured its supplemental and small-group self-funded lines of business and sold certain legal entities to National General Holdings Corp. ("National General"), effective October 1, 2015.

The following table presents information regarding exit-related charges, commencing with those taken in the second quarter of 2015:

	Severance and retention	Long-lived asset impairments and contract and lease terminations	Other transaction costs	Total
Balance at January 1, 2015	\$—	\$—	\$—	\$—
Charges	—	—	—	—
Cash payments	—	—	—	—
Balance at March 31, 2015	\$—	\$—	\$—	\$—
Charges	14,435	22,307	4,996	41,738
Non-cash adjustment	—	(21,247 )	(2,947 )	(24,194 )
Cash payments	—	—	—	—
Balance at June 30, 2015	\$ 14,435	\$ 1,060	\$ 2,049	\$ 17,544
Charges	20,927	13	5,795	26,735
Cash payments	(10,728 )	(168 )	(4,338 )	(15,234 )
Balance at September 30, 2015	\$ 24,634	\$ 905	\$ 3,506	\$ 29,045
Charges	16,344	17	795	17,156
Cash payments	(4,413 )	(152 )	(3,808 )	(8,373 )
Balance at December 31, 2015	\$ 36,565	\$ 770	\$ 493	\$ 37,828
Charges	14,561	4,903	(47 )	19,417
Cash payments	(16,181 )	(136 )	(436 )	(16,753 )
Balance at March 31, 2016	\$ 34,945	\$ 5,537	\$ 10	\$ 40,492
Charges	6,383	(32 )	7	6,358
Cash payments	(15,489 )	(214 )	(17 )	(15,720 )

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Balance at June 30, 2016	\$25,839	\$ 5,291	\$ —	\$31,130
Amount expected to be incurred, including charges to date	\$82,752	\$ 27,208	\$ 11,546	\$121,506
Premium deficiency charges				\$182,627
Total amount expected to be incurred, including charges to date				\$304,133

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

Amounts in the above table are primarily included in underwriting, general and administrative expenses on the Consolidated Statements of Operations.

The total amount expected to be incurred is an estimate that is subject to change as facts and circumstances evolve. For instance, severance and retention estimates could change if employees previously identified for separation resign from the Company before the date through which they are required to be employed in order to receive severance and retention benefits.

The premium deficiency reserve liability decreased from \$91,574 at March 31, 2016 to \$79,422 at June 30, 2016. The decrease is consistent with the estimate of second quarter utilization expected at March 31, 2016.

Future cash payments, for these exit-related charges, are expected to be substantially complete by December 31, 2016.

#### 5. Dispositions

On March 1, 2016, the Company completed the sale of its Assurant Employee Benefits segment through a series of transactions with Sun Life, for net cash consideration of \$926,174 and contingent consideration of \$16,000 related to specified account renewals. The transaction was primarily structured as a reinsurance arrangement, as well as the sale of certain legal entities that included ceding commission and other consideration. The reinsurance transaction does not extinguish the Company's primary liability on the policies issued or assumed by subsidiaries that are parties to the reinsurance agreements, thus any gains associated with the prospective component of the reinsurance transaction are deferred and amortized over the contract period, including contractual renewal periods, in proportion to the amount of insurance coverage provided. The Company also has an obligation to continue to write and renew certain policies for a period of time until Sun Life commences policy writing and renewal.

The Company was required to allocate the proceeds considering the relative fair value of the transaction components, including the sale of certain legal entities, the reinsurance for existing claims (accounted for as retroactive reinsurance) and reinsurance for inforce policies with remaining terms and future business (primarily accounted for as prospective reinsurance). As of the close date, the Company originally estimated a gain of \$638,517 (which was subsequently increased to \$640,497 in the second quarter 2016 based on closing adjustments) based on proceeds compared to the relative net assets transferred and other expenses incurred along with realized gains on invested assets transferred. Of this amount, \$120,077 was recognized at the close of the transaction and \$518,440 was required to be deferred. The total deferred gain amount will primarily be recognized as revenue over the contract period in proportion to the amount of insurance coverage provided, including estimated contractual renewals pursuant to rate guarantees. The Company recognized \$122,835 and \$167,428 of amortization of the deferred gain for the three and six months ended June 30, 2016, respectively. The total pre-tax gain recognized during the six months ended June 30, 2016 was \$287,505.

Over half of the remaining \$352,992 deferred gain related to this transaction as of June 30, 2016 is expected to be earned over the remainder of 2016 and over 90% is expected to be earned by the end of 2018. The ultimate amortization pattern will be dependent on a number of factors including the exact timing of when Sun Life commences directly writing and renewing policies and the sales and persistency on business the Company is obligated to write and renew in the interim.

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

The following represents a summary of the pre-tax gain recognized in 2016 by transaction component, as well as the related classification within the financial statements:

Total expected gain, after adjustment	\$640,497
Transaction closing gains on March 1, 2016:	
Gain on sale of entities, net of transaction costs	\$41,098
Novations, resulting in recognized gains	60,913 (b)
Loss on retroactive reinsurance component, before realized gains	(128,661 ) (c)
Net loss prior to realized gains on transferred securities supporting retroactive component	(26,650 ) (a)
Realized gains on transferred securities supporting retroactive component	146,727 (c)
Net gain realized as of March 1, 2016	\$120,077
Deferred gain as of March 1, 2016, after adjustment	
Amortization of deferred gain for the three months ended March 31, 2016	44,593 (d)
Amortization of deferred gain for the three months ended June 30, 2016	122,835 (d)
Deferred gain as of June 30, 2016	\$352,992 (e)
Total net gains realized for 2016	\$287,505

(a) Amount classified within underwriting, general and administrative expenses within the Consolidated Statements of Operations.

(b) Novations of certain insurance policies directly to Sun Life allowed for immediate gain recognition.

Reinsurance of existing claims liabilities requires retroactive accounting necessitating losses to be recognized immediately. However, upon transfer of the associated assets supporting the liabilities, the Company recognized realized gains which more than offset the retroactive losses. The Company was required to classify the realized gains as part of net realized gains on investments, within the Consolidated Statements of Operations.

(c) Amount classified as amortization of deferred gain on disposal of businesses within the Consolidated Statements of Operations.

(d) Amount classified as a component of the deferred gain on disposal of businesses within the Consolidated Balance Sheets.

The Company will review and evaluate the estimates affecting the deferred gain each period or when significant information affecting the estimates becomes known to the Company, and will adjust the prospective revenue to be recognized accordingly.

The Assurant Employee Benefits segment pretax income was \$16,747 and \$32,920 for the periods ending June 30, 2016 and 2015, respectively (excluding the aforementioned gains realized in 2016 which are included in the Corporate & Other segment).

## 6. Acquisitions

On July 1, 2016, the Company acquired 100% of American Title, Inc., a leader in title and valuation services for home equity lenders, for approximately \$45,000 in cash, with a possible earn out payment based on future performance. The initial accounting for this acquisition is incomplete due to the timing of the acquisition date, thus the estimated range of outcomes for the contingent consideration and the total amount of other intangible assets and goodwill for Assurant Specialty Property is not yet available.

On March 14, 2016, the Company acquired certain renewal rights to the National Flood Insurance Program block of business of Nationwide Mutual Insurance Company. The estimated acquisition-date fair value of the consideration transferred totaled \$20,329, which consists of an initial cash payment of \$1,000 and an expected contingent payment of \$19,329. The contingent consideration arrangement is based on future expected revenue. In connection with this asset acquisition, the Company recorded \$20,329 of renewal rights intangible assets which are amortizable over a five-year period. The contingent payment may change over time, with any resulting adjustments required to be evaluated and recorded as adjustments through the income statement when a change in estimated payment is determined.

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

## 7. Investments

The following tables show the cost or amortized cost, gross unrealized gains and losses, fair value and other-than-temporary impairment (“OTTI”) of the Company's fixed maturity and equity securities as of the dates indicated:

	June 30, 2016				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI (a)
Fixed maturity securities:					
U.S. government and government agencies and authorities	\$ 165,841	\$ 7,158	\$(1 )	\$ 172,998	\$—
States, municipalities and political subdivisions	526,189	48,884	—	575,073	—
Foreign governments	504,131	92,848	(297 )	596,682	—
Asset-backed	2,877	1,245	(221 )	3,901	1,197
Commercial mortgage-backed	43,858	780	—	44,638	—
Residential mortgage-backed	878,548	69,198	(67 )	947,679	14,585
U.S. corporate	4,982,779	630,941	(13,220 )	5,600,500	15,060
Foreign corporate	1,605,221	202,343	(4,836 )	1,802,728	2,041
Total fixed maturity securities	\$ 8,709,444	\$ 1,053,397	\$(18,642 )	\$ 9,744,199	\$ 32,883
Equity securities:					
Common stocks	\$ 12,329	\$ 7,794	\$(1 )	\$ 20,122	\$—
Non-redeemable preferred stocks	369,839	45,611	(1,066 )	414,384	—
Total equity securities	\$ 382,168	\$ 53,405	\$(1,067 )	\$ 434,506	\$—
	December 31, 2015				
	Cost or Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI in AOCI (a)
Fixed maturity securities:					
U.S. government and government agencies and authorities	\$ 150,681	\$ 3,891	\$(537 )	\$ 154,035	\$—
States, municipalities and political subdivisions	647,335	48,389	(94 )	695,630	—
Foreign governments	497,785	65,188	(723 )	562,250	—
Asset-backed	3,499	1,367	(204 )	4,662	1,285
Commercial mortgage-backed	22,169	352	—	22,521	—
Residential mortgage-backed	953,247	48,676	(3,409 )	998,514	15,343
U.S. corporate	5,429,783	513,254	(73,344 )	5,869,693	15,705
Foreign corporate	1,766,296	164,295	(22,568 )	1,908,023	2,180
Total fixed maturity securities	\$ 9,470,795	\$ 845,412	\$(100,879)	\$ 10,215,328	\$ 34,513

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Equity securities:

Common stocks	\$13,048	\$6,623	\$(7	) \$19,664	\$—
Non-redeemable preferred stocks	437,515	45,495	(2,617	) 480,393	—
Total equity securities	\$450,563	\$52,118	\$(2,624	) \$500,057	\$—

Represents the amount of OTTI recognized in accumulated other comprehensive income (“AOCI”). Amount includes (a) unrealized gains and losses on impaired securities relating to changes in the value of such securities subsequent to the impairment measurement date.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

The Company's states, municipalities and political subdivisions holdings are highly diversified across the U.S. and Puerto Rico, with no individual state's exposure (including both general obligation and revenue securities) exceeding 0.5% of the overall investment portfolio as of June 30, 2016 and December 31, 2015. At June 30, 2016 and December 31, 2015, the securities include general obligation and revenue bonds issued by states, cities, counties, school districts and similar issuers, including \$265,348 and \$319,654, respectively, of advance refunded or escrowed-to-maturity bonds (collectively referred to as "pre-refunded bonds"), which are bonds for which an irrevocable trust has been established to fund the remaining payments of principal and interest. As of June 30, 2016 and December 31, 2015, revenue bonds account for 51% and 50% of the holdings, respectively. Excluding pre-refunded revenue bonds, the activities supporting the income streams of the Company's revenue bonds are across a broad range of sectors, primarily highway, water, airport and marina, higher education, specifically pledged tax revenues, and other miscellaneous sources such as bond banks, finance authorities and appropriations.

The Company's investments in foreign government fixed maturity securities are held mainly in countries and currencies where the Company has policyholder liabilities, which allow the assets and liabilities to be more appropriately matched. At June 30, 2016, approximately 82%, 7% and 4% of the foreign government securities were held in the Canadian government/provincials and the governments of Brazil and Germany, respectively. At December 31, 2015, approximately 79%, 8% and 5% of the foreign government securities were held in the Canadian government/provincials and the governments of Brazil and Germany, respectively. No other country represented more than 3% of the Company's foreign government securities as of June 30, 2016 and December 31, 2015.

The Company has European investment exposure in its corporate fixed maturity and equity securities of \$732,886 with a net unrealized gain of \$75,160 at June 30, 2016 and \$888,923 with a net unrealized gain of \$67,957 at December 31, 2015. Approximately 23% and 25% of the corporate European exposure is held in the financial industry at June 30, 2016 and December 31, 2015, respectively. The Company's largest European country exposure (the United Kingdom) represented approximately 4% and 5% of the fair value of the Company's corporate securities as of June 30, 2016 and December 31, 2015, respectively. Approximately 7% of the fair value of the corporate European securities are pound and euro-denominated and are not hedged to U.S. dollars, but held to support those foreign-denominated liabilities. The Company's international investments are managed as part of the overall portfolio with the same approach to risk management and focus on diversification.

The Company has exposure to the energy sector in its corporate fixed maturity securities of \$638,143 with a net unrealized gain of \$47,797 at June 30, 2016 and \$779,720 with a net unrealized loss of \$6,985 at December 31, 2015. Approximately 85% and 89% of the energy exposure is rated as investment grade as of June 30, 2016 and December 31, 2015, respectively.

The cost or amortized cost and fair value of fixed maturity securities at June 30, 2016 by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers of the securities may have the right to call or prepay obligations with or without call or prepayment penalties.

	Cost or Amortized Cost	Fair Value
Due in one year or less	\$424,041	\$429,125
Due after one year through five years	1,671,193	1,757,547
Due after five years through ten years	2,118,236	2,241,236

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Due after ten years	3,570,691	4,320,073
Total	7,784,161	8,747,981
Asset-backed	2,877	3,901
Commercial mortgage-backed	43,858	44,638
Residential mortgage-backed	878,548	947,679
Total	\$8,709,444	\$9,744,199

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

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(In thousands, except number of shares and per share amounts)

The following table summarizes the proceeds from sales of available-for-sale securities and the gross realized gains and gross realized losses that have been recognized in the statement of operations as a result of those sales:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Proceeds from sales	\$606,531	\$804,476	\$2,874,248	\$1,356,989
Gross realized gains (a)	14,667	13,912	190,984	26,255
Gross realized losses (b)	5,110	5,844	31,571	11,443

(a) Six months ended June 30, 2016 gross realized gains includes \$150,701 related to the sale of Assurant Employee Benefits as described in Note 5.

(b) Six months ended June 30, 2016 gross realized losses includes \$16,427 related to the sale of Assurant Employee Benefits as described in Note 5.

The following table sets forth the net realized gains (losses), including OTTI, recognized in the statement of operations as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net realized gains related to sales and other:				
Fixed maturity securities	\$6,625	\$6,746	\$145,774	\$12,259
Equity securities	3,337	1,080	13,143	1,954
Commercial mortgage loans on real estate	9,092	—	21,545	—
Other investments	2,625	4,173	3,583	4,311
Total net realized gains related to sales and other (a)	21,679	11,999	184,045	18,524
Net realized losses related to other-than-temporary impairments:				
Fixed maturity securities	(53 )	—	(701 )	(2,570 )
Total net realized losses related to other-than-temporary impairments	(53 )	—	(701 )	(2,570 )
Total net realized gains	\$21,626	\$11,999	\$183,344	\$15,954

(a) Six months ended June 30, 2016 net gains includes \$146,727 related to the sale of Assurant Employee Benefits as described in Note 5.

#### Other-Than-Temporary Impairments

The Company follows the OTTI guidance, which requires entities to separate an OTTI of a debt security into two components when there are credit related losses associated with the impaired debt security for which the Company asserts that it does not have the intent to sell, and it is more likely than not that it will not be required to sell before recovery of its cost basis. Under the OTTI guidance, the amount of the OTTI related to a credit loss is recognized in earnings, and the amount of the OTTI related to other, non-credit factors (e.g., interest rates, market conditions, etc.) is recorded as a component of other comprehensive income. In instances where no credit loss exists but the Company intends to sell the security or it is more likely than not that the Company will have to sell the debt security prior to the anticipated recovery, the decline in market value below amortized cost is recognized as an OTTI in earnings. In



periods after the recognition of an OTTI on debt securities, the Company accounts for such securities as if they had been purchased on the measurement date of the OTTI at an amortized cost basis equal to the previous amortized cost basis less the OTTI recognized in earnings. For debt securities for which OTTI was recognized in earnings, the difference between the new amortized cost basis and the cash flows expected to be collected will be accreted or amortized into net investment income.

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Notes to Consolidated Financial Statements (unaudited)

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For the three and six months ended June 30, 2016, the Company recorded \$53 and \$364, respectively, of OTTI, of which \$53 and \$701, respectively, was related to both credit losses and securities the Company intends to sell and recorded as net OTTI losses recognized in earnings, with the remaining \$337 related to all other factors and was recorded as an unrealized gain component of AOCI. There was no OTTI recorded for the three months ended June 30, 2015. For the six months ended June 30, 2015, the Company recorded \$3,208 of OTTI, of which \$2,570 was related to credit losses and recorded as net OTTI losses recognized in earnings, with the remaining \$638 related to all other factors and recorded as an unrealized loss component of AOCI.

The following table sets forth the amount of credit loss impairments recognized within the results of operations on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the OTTI loss was recognized in AOCI, and the corresponding changes in such amounts.

	Three Months Ended June 30,	
	2016	2015
Balance, March 31,	\$30,981	\$36,057
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(709 )	(603 )
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(1,168 )	(1,146 )
Balance, June 30,	\$29,104	\$34,308

	Six Months Ended June 30,	
	2016	2015
Balance, January 1,	\$32,377	\$35,424
Additions for credit loss impairments recognized in the current period on securities previously impaired	554	—
Additions for credit loss impairments recognized in the current period on securities not previously impaired	—	2,570
Reductions for increases in cash flows expected to be collected that are recognized over the remaining life of the security	(1,318 )	(1,075 )
Reductions for credit loss impairments previously recognized on securities which matured, paid down, prepaid or were sold during the period	(2,509 )	(2,611 )
Balance, June 30,	\$29,104	\$34,308

The Company regularly monitors its investment portfolio to ensure investments that may be other-than-temporarily impaired are timely identified, properly valued, and charged against earnings in the proper period. The determination that a security has incurred an other-than-temporary decline in value requires the judgment of management.

Assessment factors include, but are not limited to, the length of time and the extent to which the market value has been less than cost, the financial condition and rating of the issuer, whether any collateral is held, the intent and ability of the Company to retain the investment for a period of time sufficient to allow for recovery for equity securities and the intent to sell or whether it is more likely than not that the Company will be required to sell for fixed maturity securities. Inherently, there are risks and uncertainties involved in making these judgments. Changes in circumstances

and critical assumptions such as a continued weak economy, a more pronounced economic downturn or unforeseen events which affect one or more companies, industry sectors, or countries could result in additional impairments in future periods for other-than-temporary declines in value. Any equity security whose price decline is deemed other-than-temporary is written down to its then current market value with the amount of the impairment reported as a realized loss in that period. The impairment of a fixed maturity security that the Company has the intent to sell or that it is more likely than not that the Company will be required to sell is deemed other-than-temporary and is written down to its market value at the balance sheet date with the amount of the impairment reported as a realized loss in that period. For all other-than-temporarily impaired fixed maturity securities that do not meet either of these two criteria, the Company is required to analyze its ability to recover the amortized cost of the security by calculating the net present value of projected future cash flows. For these other-than-temporarily impaired fixed maturity securities, the net amount recognized in earnings is equal to the difference between the amortized cost of the fixed maturity security and its net present value.

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The Company considers different factors to determine the amount of projected future cash flows and discounting methods for corporate debt and residential and commercial mortgage-backed or asset-backed securities. For corporate debt securities, the split between the credit and non-credit losses is driven principally by assumptions regarding the amount and timing of projected future cash flows. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the security at the date of acquisition. For residential and commercial mortgage-backed and asset-backed securities, 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 including default rates, recoveries and changes in value. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security prior to impairment at the balance sheet date. The discounted cash flows become the new amortized cost basis of the fixed maturity security.

In periods subsequent to the recognition of an OTTI, the Company generally accretes the discount (or amortizes the reduced premium) into net investment income, up to the non-discounted amount of projected future cash flows, resulting from the reduction in cost basis, based upon the amount and timing of the expected future cash flows over the estimated period of cash flows.

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Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

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(In thousands, except number of shares and per share amounts)

The investment category and duration of the Company's gross unrealized losses on fixed maturity securities and equity securities at June 30, 2016 and December 31, 2015 were as follows:

	June 30, 2016					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. government and government agencies and authorities	\$2,176	\$(1)	\$—	\$—	\$2,176	\$(1)
Foreign governments	—	—	27,644	(297)	27,644	(297)
Asset-backed	—	—	991	(221)	991	(221)
Residential mortgage-backed	19,861	(58)	812	(9)	20,673	(67)
U.S. corporate	235,238	(3,543)	139,876	(9,677)	375,114	(13,220)
Foreign corporate	55,075	(1,479)	39,037	(3,357)	94,112	(4,836)
Total fixed maturity securities	\$312,350	\$(5,081)	\$208,360	\$(13,561)	\$520,710	\$(18,642)
Equity securities:						
Common stock	\$339	\$(1)	\$—	\$—	\$339	\$(1)
Non-redeemable preferred stocks	13,531	(337)	13,139	(729)	26,670	(1,066)
Total equity securities	\$13,870	\$(338)	\$13,139	\$(729)	\$27,009	\$(1,067)
December 31, 2015						
	Less than 12 months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Fixed maturity securities:						
U.S. government and government agencies and authorities	\$90,008	\$(465)	\$5,564	\$(72)	\$95,572	\$(537)
States, municipalities and political subdivisions	6,881	(94)	—	—	6,881	(94)
Foreign governments	24,071	(347)	22,239	(376)	46,310	(723)
Asset-backed	—	—	1,136	(204)	1,136	(204)
Residential mortgage-backed	260,620	(3,179)	11,147	(230)	271,767	(3,409)
U.S. corporate	1,287,545	(65,631)	38,224	(7,713)	1,325,769	(73,344)
Foreign corporate	348,912	(19,616)	15,805	(2,952)	364,717	(22,568)
Total fixed maturity securities	\$2,018,037	\$(89,332)	\$94,115	\$(11,547)	\$2,112,152	\$(100,879)
Equity securities:						
Common stock	\$623	\$(7)	\$—	\$—	\$623	\$(7)
Non-redeemable preferred stocks	63,665	(1,632)	13,806	(985)	77,471	(2,617)
Total equity securities	\$64,288	\$(1,639)	\$13,806	\$(985)	\$78,094	\$(2,624)



Assurant, Inc.

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Total gross unrealized losses represent approximately 4% and 5% of the aggregate fair value of the related securities at June 30, 2016 and December 31, 2015, respectively. Approximately 27% and 88% of these gross unrealized losses have been in a continuous loss position for less than twelve months at June 30, 2016 and December 31, 2015, respectively. The total gross unrealized losses are comprised of 232 and 884 individual securities at June 30, 2016 and December 31, 2015, respectively. In accordance with its policy described above, the Company concluded that for these securities an adjustment to its results of operations for other-than-temporary impairments of the gross unrealized losses was not warranted at June 30, 2016 and December 31, 2015. These conclusions were based on a detailed analysis of the underlying credit and expected cash flows of each security. As of June 30, 2016, the gross unrealized losses that have been in a continuous loss position for twelve months or more were concentrated in the Company's corporate fixed maturity securities and in non-redeemable preferred stocks. The non-redeemable preferred stocks are perpetual preferred securities that have characteristics of both debt and equity securities. To evaluate these securities, the Company applies an impairment model similar to that used for the Company's fixed maturity securities. As of June 30, 2016, the Company did not intend to sell these securities and it was not more likely than not that the Company would be required to sell them and no underlying cash flow issues were noted. Therefore, the Company did not recognize an OTTI on those perpetual preferred securities that had been in a continuous unrealized loss position for twelve months or more. As of June 30, 2016, the Company did not intend to sell the fixed maturity securities and it was not more likely than not that the Company would be required to sell the securities before the anticipated recovery of their amortized cost basis. The gross unrealized losses are primarily attributable to widening credit spreads associated with an underlying shift in overall credit risk premium.

The Company has entered into commercial mortgage loans, collateralized by the underlying real estate, on properties located throughout the U.S. and Canada. At June 30, 2016, approximately 35% of the outstanding principal balance of commercial mortgage loans was concentrated in the states of California, New York, and Texas. Although the Company has a diversified loan portfolio, an economic downturn could have an adverse impact on the ability of its debtors to repay their loans. The outstanding balance of commercial mortgage loans range in size from \$18 to \$14,404 at June 30, 2016 and from \$17 to \$14,625 at December 31, 2015.

Credit quality indicators for commercial mortgage loans are loan-to-value and debt-service coverage ratios.

Loan-to-value and debt-service coverage ratios are measures commonly used to assess the credit quality of commercial mortgage loans. The loan-to-value ratio compares the principal amount of the loan to the fair value of the underlying property collateralizing the loan, and is commonly expressed as a percentage. The debt-service coverage ratio compares a property's net operating income to its debt-service payments and is commonly expressed as a ratio. The loan-to-value and debt-service coverage ratios are generally updated annually in the third quarter.

Assurant, Inc.

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The following summarizes the Company's loan-to-value and average debt-service coverage ratios as of the dates indicated:

Loan-to-Value	June 30, 2016			
	Carrying Value	% of Gross Mortgage Loans		Debt-Service Coverage Ratio
70% and less	\$592,516	95.1	%	1.88
71 – 80%	16,585	2.7	%	1.13
81 – 95%	8,850	1.4	%	1.26
Greater than 95%	4,816	0.8	%	3.52
Gross commercial mortgage loans	622,767	100	%	1.87
Less valuation allowance	(2,582 )			
Net commercial mortgage loans	\$620,185			

Loan-to-Value	December 31, 2015			
	Carrying Value	% of Gross Mortgage Loans		Debt-Service Coverage Ratio
70% and less	\$1,101,572	95.5	%	2.01
71 – 80%	39,080	3.4	%	1.19
81 – 95%	8,370	0.7	%	1.05
Greater than 95%	4,816	0.4	%	3.52
Gross commercial mortgage loans	1,153,838	100	%	1.98
Less valuation allowance	(2,582 )			
Net commercial mortgage loans	\$1,151,256			

All commercial mortgage loans that are individually impaired have an established mortgage loan valuation allowance for losses. An additional valuation allowance is established for incurred, but not specifically identified impairments. Changing economic conditions affect the Company's valuation of commercial mortgage loans. Changing vacancies and rents are incorporated into the discounted cash flow analysis that the Company performs for monitored loans and may contribute to the establishment of (or an increase or decrease in) a commercial mortgage loan valuation allowance for losses. In addition, the Company continues to monitor the entire commercial mortgage loan portfolio to identify risk. Areas of emphasis are properties that have exposure to specific geographic events, have deteriorating credits or have experienced a reduction in debt-service coverage ratio. During the six months ended June 30 2016, the Company did not establish or increase the valuation allowance based upon this analysis.

#### Commercial Mortgage Loan Securitization

On May 31, 2016, the Company transferred \$259,741 of certain commercial mortgage loans on real estate into a trust. Upon transfer, the loans were securitized as a source of funding for the Company and as a means of transferring the economic risk of the loans to third parties. The securitized assets are legally isolated from the creditors of the Company and are not available to satisfy its obligations and were accounted for as a sale. The securitized assets can only be used to settle obligations of the trust. The Company does not have the power to direct the activities of the



trust, nor does it provide guarantees or recourse to the trust other than standard representations and warranties. The Company retained interest in the trust in the form of subordinate securities issued by the trust. The trust is a variable interest entity ("VIE") that the Company does not consolidate.

The cash proceeds, including accrued investment income, from the securitization were \$269,828, with a corresponding realized gain of \$9,092. At closing, the Company purchased \$30,822 of securities at fair value from the trust. As of June 30, 2016, the maximum loss exposure the Company has to the trust is \$30,906. The Company calculates its maximum loss exposure based on the unlikely event that all the assets in the trust become worthless and the effect it would have on the Company's consolidated balance sheets based upon its retained interest in the trust. The securities purchased from the trust are included within fixed maturity securities available for sale at fair value on the consolidated balance sheet and are part of the

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Company's ongoing other-than-temporary impairment review. See Note 8, Fair Values, Inputs, and Valuation Techniques for Financial Assets and Liabilities Disclosures for further description of the Company's fair value inputs and valuation techniques.

#### Variable Interest Entities

A VIE is a legal entity which does not have sufficient equity at risk to allow the entity to finance its activities without additional financial support or in which the equity investors, as a group, do not have the characteristic of a controlling financial interest. The Company's investments in VIEs include private equity limited partnerships and real estate joint ventures. These investments are generally accounted for under the equity method and included in the consolidated balance sheets in other investments. The Company's maximum exposure to loss with respect to these investments is limited to the investment carrying amounts reported in the Company's consolidated balance sheet in addition to any required unfunded commitments. As of June 30, 2016, the Company's maximum exposure to loss is \$231,364 in recorded carrying value and \$64,928 in unfunded commitments. See Commercial Mortgage Loan Securitization section above for the disclosures relating to the commercial mortgage loan securitization trust.

#### 8. Fair Value Disclosures

##### Fair Values, Inputs and Valuation Techniques for Financial Assets and Liabilities Disclosures

The fair value measurements and disclosures guidance defines fair value and establishes a framework for measuring fair value. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with this guidance, the Company has categorized its recurring basis financial assets and liabilities into a three-level fair value hierarchy based on the priority of the inputs to the 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). The inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and takes into account factors specific to the asset or liability.

The levels of the fair value hierarchy are described below:

Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access.

Level 2 inputs utilize other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly, for substantially the full term of the asset. Level 2 inputs include quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active and inputs other than quoted prices that are observable in the marketplace for the asset. The observable inputs are used in valuation models to calculate the fair value for the asset.

Level 3 inputs are unobservable but are significant to the fair value measurement for the asset, and include situations where there is little, if any, market activity for the asset. These inputs reflect management's own assumptions about the assumptions a market participant would use in pricing the asset.

The Company reviews fair value hierarchy classifications on a quarterly basis. Changes in the observability of valuation inputs may result in a reclassification of levels for certain securities within the fair value hierarchy.

Assurant, Inc.

Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

The following tables present the Company's fair value hierarchy for assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 and December 31, 2015. The amounts presented below for Other investments, Cash equivalents, Other assets, Assets and Liabilities held in separate accounts and Other liabilities differ from the amounts presented in the consolidated balance sheets because only certain investments or certain assets and liabilities within these line items are measured at estimated fair value. Other investments are comprised of investments in the Assurant Investment Plan, American Security Insurance Company Investment Plan, Assurant Deferred Compensation Plan, modified coinsurance arrangements and other derivatives. Other liabilities are comprised of investments in the Assurant Investment Plan and other derivatives. The fair value amount and the majority of the associated levels presented for Other investments and Assets and Liabilities held in separate accounts are received directly from third parties.

	June 30, 2016			
	Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
Fixed maturity securities:				
U.S. government and government agencies and authorities	\$ 172,998	\$—	\$ 172,998	\$—
State, municipalities and political subdivisions	575,073	—	572,073	3,000
Foreign governments	596,682	932	595,750	—
Asset-backed	3,901	—	3,901	—
Commercial mortgage-backed	44,638	—	13,629	31,009
Residential mortgage-backed	947,679	—	947,679	—
U.S. corporate	5,600,500	—	5,535,793	64,707
Foreign corporate	1,802,728	—	1,774,085	28,643
Equity securities:				
Common stocks	20,122	19,438	684	—
Non-redeemable preferred stocks	414,384	—	412,084	2,300
Short-term investments	498,281	223,017	b 275,264	c —
Other investments	287,103	66,495	a 219,751	c 857 d
Cash equivalents	726,424	699,356	b 27,068	c —
Other assets	8,251	—	7,954	e 297 e
Assets held in separate accounts	1,668,611	1,488,102	a 180,509	c —
Total financial assets	\$ 13,367,375	\$ 2,497,340	\$ 10,739,222	\$ 130,813
<b>Financial Liabilities</b>				
Other liabilities	\$ 92,499	\$ 66,495	a \$ 26	e \$ 25,978 e
Liabilities related to separate accounts	1,668,611	1,488,102	a 180,509	c —
Total financial liabilities	\$ 1,761,110	\$ 1,554,597	\$ 180,535	\$ 25,978



Assurant, Inc.

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(In thousands, except number of shares and per share amounts)

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
<b>Financial Assets</b>				
<b>Fixed maturity securities:</b>				
U.S. government and government agencies and authorities	\$ 154,035	\$—	\$ 154,035	\$—
State, municipalities and political subdivisions	695,630	—	695,630	—
Foreign governments	562,250	944	561,306	—
Asset-backed	4,662	—	4,662	—
Commercial mortgage-backed	22,521	—	22,317	204
Residential mortgage-backed	998,514	—	998,514	—
U.S. corporate	5,869,693	—	5,835,189	34,504
Foreign corporate	1,908,023	—	1,879,381	28,642
<b>Equity securities:</b>				
Common stocks	19,664	18,981	683	—
Non-redeemable preferred stocks	480,393	—	478,143	2,250
Short-term investments	508,950	453,335	b 55,615	c —
Other investments	253,708	62,076	a 189,407	c 2,225 d
Cash equivalents	908,936	907,248	b 1,688	c —
Other assets	1,320	—	886	e 434 e
Assets held in separate accounts	1,750,556	1,570,000	a 180,556	c —
<b>Total financial assets</b>	<b>\$ 14,138,855</b>	<b>\$ 3,012,584</b>	<b>\$ 11,058,012</b>	<b>\$ 68,259</b>
<b>Financial Liabilities</b>				
Other liabilities	\$ 89,765	\$ 62,076	a \$ 6	e \$ 27,683e
Liabilities related to separate accounts	1,750,556	1,570,000	a 180,556	c —
<b>Total financial liabilities</b>	<b>\$ 1,840,321</b>	<b>\$ 1,632,076</b>	<b>\$ 180,562</b>	<b>\$ 27,683</b>

a. Mainly includes mutual funds.

b. Mainly includes money market funds.

c. Mainly includes fixed maturity securities.

d. Mainly includes fixed maturity securities and other derivatives.

e. Mainly includes other derivatives.

There were no transfers between Level 1 and Level 2 financial assets during either period. However, there were transfers between Level 2 and Level 3 financial assets during the periods, which are reflected in the “Transfers in” and “Transfers out” columns below. Transfers between Level 2 and Level 3 most commonly occur from changes in the availability of observable market information and re-evaluation of the observability of pricing inputs. Any remaining unpriced securities are submitted to independent brokers who provide non-binding broker quotes or are priced by

other qualified sources.

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Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

The following tables summarize the change in balance sheet carrying value associated with Level 3 financial assets and liabilities carried at fair value during the three and six months ended June 30, 2016 and 2015:

Three Months Ended June 30, 2016

	Balance, beginning of period	Total (losses) gains (realized/ unrealized) included in earnings (1)	Net unrealized gains (losses) included in other comprehensive income (2)	Purchases	Sales	Transfers in (3)	Balance, end of period
<b>Financial Assets</b>							
<b>Fixed Maturity Securities</b>							
States, municipalities and political subdivisions	\$—	\$ —	\$ —	\$ 3,600	\$(600 )	\$—	\$3,000
Commercial mortgage-backed	154	(291 )	374	30,822	(50 )	—	31,009
U.S. corporate	37,400	146	1,169	14,516	(930 )	12,406	64,707
Foreign corporate	28,492	18	854	—	(721 )	—	28,643
<b>Equity Securities</b>							
Non-redeemable preferred stocks	2,360	—	(60 )	—	—	—	2,300
Other investments	1,552	(663 )	(9 )	—	(23 )	—	857
Other assets	361	(64 )	—	—	—	—	297
<b>Financial Liabilities</b>							
Other liabilities	(27,592 )	1,614	—	—	—	—	(25,978 )
<b>Total level 3 assets and liabilities</b>	<b>\$42,727</b>	<b>\$ 760</b>	<b>\$ 2,328</b>	<b>\$ 48,938</b>	<b>\$(2,324)</b>	<b>\$ 12,406</b>	<b>\$ 104,835</b>

Three Months Ended June 30, 2015

	Balance, beginning of period	Total (losses) gains (realized/ unrealized) included in earnings (1)	Net unrealized (losses) gains included in other comprehensive income (2)	Purchases	Sales	Transfers out (3)	Balance, end of period
<b>Financial Assets</b>							
<b>Fixed Maturity Securities</b>							
Commercial mortgage-backed	\$354	\$ —	\$ (3 )	\$ —	\$(47 )	\$—	\$304
U.S. corporate	96,798	(64 )	(1,491 )	6,523	(2,473 )	(52,777 )	46,516
Foreign corporate	4,192	640	(535 )	—	(1,003 )	—	3,294
<b>Equity Securities</b>							



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Non-redeemable preferred stocks	2,060	—	60	—	—	—	2,120
Other investments	2,460	(33 )	(11 )	—	(35 )	—	2,381
Other assets	944	(156 )	—	—	—	—	788
Financial Liabilities							
Other liabilities	(26,181 )	(2,473 )	—	77	—	—	(28,577 )
Total level 3 assets and liabilities	\$80,627	\$ (2,086 )	\$ (1,980 )	\$ 6,600	\$ (3,558)	\$ (52,777)	\$26,826

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Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

	Six Months Ended June 30, 2016							Balance, end of period
	Balance, beginning period	Total (losses) gains (realized/ unrealized) included in earnings (1)	Net unrealized gains (losses) included in other comprehensive income (2)	Purchases	Sales	Transfers in (3)	Transfers out (3)	
<b>Financial Assets</b>								
<b>Fixed Maturity Securities</b>								
States, municipalities and political subdivisions	\$—	\$ —	\$ —	\$ 3,600	\$(600 )	\$—	\$—	\$3,000
Commercial mortgage- backed	204	(291 )	373	30,822	(99 )	—	—	31,009
U.S. corporate	34,504	278	1,380	22,616	(1,646 )	12,406	(4,831 )	64,707
Foreign corporate	28,642	31	694	—	(724 )	—	—	28,643
<b>Equity Securities</b>								
Non-redeemable preferred stocks	2,250	—	50	—	—	—	—	2,300
Other investments	2,225	(1,299 )	(20 )	—	(49 )	—	—	857
Other assets	434	(137 )	—	—	—	—	—	297
<b>Financial Liabilities</b>								
Other liabilities	(27,683 )	1,705	—	—	—	—	—	(25,978 )
<b>Total level 3 assets and liabilities</b>	<b>\$40,576</b>	<b>\$ 287</b>	<b>\$ 2,477</b>	<b>\$ 57,038</b>	<b>\$(3,118)</b>	<b>\$ 12,406</b>	<b>\$(4,831)</b>	<b>\$ 104,835</b>

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Notes to Consolidated Financial Statements (unaudited)

Three and Six Months Ended June 30, 2016 and 2015

(In thousands, except number of shares and per share amounts)

	Six Months Ended June 30, 2015							
	Balance, beginning of period	Total (losses) gains (realized/ unrealized) included in earnings (1)	Net unrealized (losses) gains included in other comprehensive income (2)	Purchases	Sales	Transfers in (3)	Transfers out (3)	Balance, end of period
Financial Assets								
Fixed Maturity Securities								
Commercial mortgage- backed	\$403	\$ —	\$ (6 )	\$ —	\$(93 )	\$ —	\$ —	\$ 304
Residential mortgage- backed	4,645	—	—	—	—	—	(4,645)	—
U.S. corporate	100,133	12 )	(655 )	6,523	(4,594	2,130	(56,909)	46,516
Foreign corporate	4,142	680	(491 )	—	(1,037	—	—	3,294
Equity Securities								
Non-redeemable preferred stocks	2,000							