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RGA Reinsurance Company

(New Zealand Branch)

Annual Financial Report for the year ended 31 December 2009

Registered Office & Principal Place of Business:

C/- KPMG
10 Customhouse Quay
Wellington

Other Place of Business:

Suite No 4, Level 5
22 The Terrace
Wellington



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RGA Reinsurance Company (New Zealand Branch)

Statement of Comprehensive Income for the Year Ended 31 December 2009

	Note	2009 \$	2008 \$
Revenue			
Premium revenue from reinsurance contracts	6	68,038,176	66,910,413
Outward reinsurance expense		(2,013,487)	(2,130,894)
Net insurance premium revenue		66,024,689	64,779,519
Investment revenue	7	(6,117,978)	9,341,621
Other revenue	8	186,351	453,192
Total Revenue		60,093,062	74,574,332
Claims expense from reinsurance contracts	9	49,033,701	42,040,148
Reinsurance recoveries		(2,123,702)	(658,704)
Net claims expense		46,909,999	41,381,444
Policy acquisition costs	11	9,771,181	7,320,386
Other expenses	11	10,223,944	12,764,036
Movement in net insurance contract liabilities	19(a)	12,877,861	671,889
Total Expenses		79,782,985	62,137,755
Profit/(loss) before related income tax expense		(19,689,923)	12,436,577
Income tax expense	21	39,981	77,114
Profit/(loss) for the year		(19,729,904)	12,359,463
Other comprehensive income for the year		-	-
Total comprehensive income/(loss) for the year	17	(19,729,904)	12,359,463

The Notes to the Financial Statements on pages 5 to 25 form an integral part of these financial statements.

RGA Reinsurance Company (New Zealand Branch)

Statement of Financial Position as at 31 December 2009

	Note	2009 \$	2008 \$
Assets			
Cash and cash equivalents		7,798,634	8,194,669
Premium receivable	12	6,600,270	7,421,295
Other receivables	12	2,922,937	1,327,431
Funds withheld		765,792	1,645,075
Investments	13	116,887,951	83,001,742
Total assets		134,975,584	101,590,212
Liabilities			
Outstanding claims payable	14	15,274,290	11,342,199
Other payables	14	2,650,166	1,112,405
Net insurance contract liabilities assumed	19	14,122,285	1,244,424
Total liabilities		32,046,741	13,699,028
Net assets		102,928,843	87,891,184
Head office account		116,181,360	81,413,797
Retained profit / (deficit)		(13,252,517)	6,477,387
Total deemed equity		102,928,843	87,891,184

The Notes to the Financial Statements on pages 5 to 25 form an integral part of these financial statements.

RGA Reinsurance Company (New Zealand Branch)

Statement of Changes in Equity for the year ended 31 December 2009

	Head Office Account	Retained Earnings	Total
Balance at 1 January 2008	60,549,840	(5,882,076)	54,667,764
Profit/(loss) after taxation	-	12,359,463	12,359,463
Transfer in from Head Office	-	-	-
Increase in Head Office Current Account	20,863,957	-	20,863,957
Balance at 31 December 2008	81,413,797	6,477,387	87,891,184
Profit/(loss) after taxation	-	(19,729,904)	(19,729,904)
Transfer in from Head Office	38,644,312	-	38,644,312
Increase/(decrease) in Head Office Current Account	(3,876,749)	-	(3,876,749)
Balance at 31 December 2009	116,181,360	(13,252,517)	102,928,843

The Notes to the Financial Statements on pages 5 to 25 form an integral part of these financial statements.

Signed for and on behalf of the board of RGA Reinsurance Company:


Todd Larson, Director


Jack Lay, Director

May 31, 2010
Date

May 31, 2010
Date

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

1. Nature of business activities

RGA Reinsurance Company – New Zealand Branch (“The Branch”) was established on 29 November 1996. The Branch’s principal business activity is life reinsurance. There were no significant changes in the nature of the activities of the Branch during the year.

2. Summary of significant accounting policies

Basis of preparation

The financial report is presented in New Zealand dollars.

The Branch is a branch of RGA Reinsurance Company, a company incorporated in the United States of America. The parent entity in the RGA Group is Reinsurance Group of America Incorporated, a company incorporated in the United States of America.

The financial statements have been prepared in accordance with the New Zealand Financial Reporting Act 1993, the Companies Act 1993 and the Life Insurance Act 1908.

The financial statements have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (“NZ GAAP”). They comply with IFRS and other Financial Reporting Standards, as appropriate to profit-oriented entities that qualify for and apply all differential reporting concessions.

The Branch is a qualifying entity under the Framework for Differential Reporting. The criteria that establish this are that the entity does not have public accountability and all of its owners are members of the entity's governing body. The Branch has taken advantage of all available differential reporting exemptions apart from certain disclosure exemptions.

The financial statements were authorised for issue by the Directors on 31 May 2010.

The Financial Statements have been prepared on the historical cost basis modified to include the financial assets and financial liabilities at fair value.

The significant policies that have been adopted in the preparation of the financial statements are:

(a) Principles for life insurance business

The life insurance operations of the Branch are conducted as required by the Life Insurance Act 1908 and are reported in aggregate in the Statement of Comprehensive Income, Statement of Financial Position and Statement of Changes in Equity of the Branch. The life reinsurance operations of the Branch comprise the selling and administration of life reinsurance contracts. All contracts are non-investment linked business. All business written by the Branch is non-participating and all profits and losses are allocated to equity.

Contracts that involve the acceptance of significant insurance risk are accounted for as life insurance contracts. Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if “an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance” (i.e. have no discernible effects on the economics of the transaction). Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness.

Notes to the Financial Statements for the Year Ended 31 December 2009

2. Summary of significant accounting policies (continued)

(b) Revenue recognition

Revenue is recognised for the major business activities as follows:

Premium revenue

Premiums with a regular due date are recognised as revenue on an accrual basis. As is customary in the reinsurance business, ceding companies continually update, refine and revise information provided to the reinsurers. Such revised information is used by the Branch in the preparation of its financial statements and the financial effects resulting from the incorporation of revised data are reflected in the current year's Statement of Comprehensive Income. Premiums with an unknown due date are recognised as revenue on a cash received basis.

Deposit components of a contract are unbundled and recognised as an asset. The Branch categorised such assets as "funds withheld", interest thereon is recognised in "other revenues".

Rendering of services

Revenue from the rendering of services is recognised upon delivery of the service to the customer.

Interest revenue

Interest is recognised as it accrues.

(c) Outwards reinsurance premiums

Premium ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance service received. Accordingly, a portion of outwards reinsurance premium may be treated as a prepayment at the balance date.

(d) Claims

Claims incurred relate to life insurance contracts (providing services and bearing risks including protection business) and are treated as expenses. Claims are recognised when the liability to the policyholder under the policy contract has been established, or upon notification of the insured event depending on the type of claim.

(e) Policy acquisition costs

Acquisition costs relate to the fixed and variable costs incurred in acquiring new business during the financial year. They do not include general growth and development costs incurred. The actual acquisition costs incurred are recorded in the Statement of Comprehensive Income.

The proportion of life acquisition costs not recovered by specific charges received from the cedant at inception is deferred provided that these amounts are recoverable from future profit margins. The deferred amounts are recognised in the Statement of Financial Position as a reduction in insurance contract liabilities and are amortised through the Statement of Comprehensive Income over the expected duration of the relevant policies.

Notes to the Financial Statements
for the Year Ended 31 December 2009

2. Summary of significant accounting policies (continued)

(f) Basis of expense apportionments

Expense apportionments have been made as follows:

- Where an item of expense relates directly to a category of business, the expense will be included in the records relating to that category of business.
- Where an item of expense does not relate directly to one category of business, the expense will be apportioned between the relevant categories of business on the basis of an appropriate underlying driver. Drivers include time weighted salary, number of Full Time Equivalent (FTE) staff and premium income.

(g) Reinsurance and other recoveries receivable

Reinsurance and other recoveries receivable on paid claims, reported claims not yet paid, IBNR and unexpired risk liabilities are recognised as a reduction in expense. Recoveries receivable are assessed in a manner similar to the assessment of outstanding claims. Recoveries receivable are measured as the present value of the expected future receipts, calculated on the same basis as the liability for outstanding claims.

(h) Outstanding claims liability

For claims with a lump sum benefit, the liability for outstanding claims is measured as the sum reinsured on any claim notified to the Branch prior to the balance date.

For claims with a disability benefit, the liability for outstanding claims is measured as any outstanding amounts payable for claims notified prior to the balance date.

(i) Receivables

Premium receivable

The collectability of outstanding premiums is assessed at year-end and specific provision is made for any doubtful accounts.

Trade debtors

Trade debtors are generally settled within 30-90 days and are therefore carried at amounts due.

(j) Assets backing insurance contract liabilities

The Branch has determined that all financial assets held are assets backing insurance contract liabilities.

The accounting policies applying to financial assets held to back life insurance activities are:

Financial assets are classified as fair value through profit and loss. Initial recognition is at cost and subsequent measurement is at fair value. Unrealised profits and losses on subsequent measurement to fair value are recognised in the Statement of Comprehensive Income.

Notes to the Financial Statements **for the Year Ended 31 December 2009**

2. Summary of significant accounting policies (continued)

(j) Assets backing insurance contract liabilities (continued)

Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value of the amounts deposited or drawn. The carrying amounts of cash assets approximate to their fair value. Cash includes cash on hand, deposits held at call with banks and investments in money market instruments, net of bank overdrafts ;
- Trade and other receivables are stated at cost less impairment losses;
- Listed fixed interest securities: fair value is taken as the bid price of the instrument;
- Unlisted fixed interest securities, if held, are recorded at fund managers' valuation.

(k) Income tax

The Branch adopts the tax payable method of tax accounting. Income tax expense for the current period equals to the income tax payable for the same period. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or receivable).

(l) Deferred acquisition costs

Insurance contracts

The costs incurred in acquiring specific life insurance contracts include commission payments, underwriting costs and other acquisition costs deferrable under the relevant standards.

(m) Cash

Cash includes cash on hand and at bank and deposits held at call with financial institutions that are readily convertible to known amounts of cash.

(n) Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the financial asset is reduced by the impairment loss directly for all.

(O) Standards and interpretations effective in the current period

In the current year, the Branch has adopted NZ IAS 1 Presentation of Financial Statements (revised 2007) which is applicable for annual reporting periods beginning on or after 1 January 2009. Initial application of this standard did not affect any of the amounts recognised in the financial statements, but changed the presentation of the statement of comprehensive income and statement of changes in equity. There was no change in accounting policy relating to recognition or measurement due to the initial adoption of this standard.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

3. Accounting estimates and judgements

The Branch makes estimates and assumptions that affect the reported amounts of assets and liabilities as at the year end. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The main areas where critical accounting judgments and estimates are applied are noted below.

(a) Insurance contract liabilities

Insurance contract liabilities for life insurance contracts are computed using statistical or mathematical methods. The computations are made by suitably qualified personnel on the basis of recognised actuarial methods, with due regard to relevant actuarial principles. The methodology takes into account the risks and uncertainties of the particular classes of life insurance business written. Deferred policy acquisition costs are connected with the measurement basis of life insurance liabilities and are equally sensitive to the factors that are considered in the liability measurement.

The key factors that affect the estimation of these liabilities and related assets are:

- mortality and morbidity experience on life insurance products, including enhancements to policyholder benefits;
- discontinuance experience, which affects the Branch's ability to recover the cost of acquiring new business over the lives of the contracts;
- data supplied by ceding companies in relation to the underlying policies being reinsured;
- the cost of providing benefits and administering these insurance contracts; and
- the discount rate applied to calculate the present value of future benefits.

In addition, factors such as regulation, inflation, interest rates, taxes, investment market conditions and general economic conditions affect the level of these liabilities. Details of specific actuarial policies and methods are set out in Note 4.

(b) Assets arising from reinsurance contracts

Assets arising from reinsurance contracts are also computed using the above methods where required.

Notes to the Financial Statements **for the Year Ended 31 December 2009**

4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial investigation is 31 December 2009. Mr. Peter Davies (B.Bus.Sc., FIA, FNZSA) conducted the actuarial investigation. The amount of insurance contract liabilities has been determined in accordance with the methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries by Mr. Davies. Mr. Davies is satisfied as to the accuracy of the data upon which policy liabilities have been determined.

(a) Insurance contract Liabilities

Policy liabilities have been determined in accordance with the New Zealand Society of Actuaries PS No 3. "Determination of Life Insurance Policy Liabilities".

The major product groups are individual risk business (lump sum and disability income) and group business. Policy liabilities are reviewed annually and were calculated by the "accumulation" method. The result of using this method is not materially different to the "projection" method required under NZ IFRS 4 Appendix C, Life Insurance.

Mr. Davies, in determining the policy liabilities, has taken account of the deferral and future recovery of acquisition costs, resulting in policy liabilities being lower than otherwise with those costs being amortised over the period that they will be recoverable. The amortisations of these costs were established by financial model projections of representative policy portfolios. The costs are assumed to be amortised in line with expected premiums.

(b) Disclosure of assumptions

Actuarial assumptions about future experience are required for the insurance contract liability determination to establish the recoverability and amortisation rate of the deferred acquisition costs, and to calculate any required present value liabilities. The assumptions used were best estimate assumptions. The key assumptions were:

Mortality and morbidity

Mortality:	Tables derived from the NZ04 Insured lives tables with allowance for subsequent improvements in mortality, subdivided into smoker and non-smoker classes and adjusted to the classes of life insurance written.
Disability:	Tables derived from the IAD89-93 tables with the principal adjustment being a reduction in assumed claim termination rates at some intermediate duration.
Trauma:	Trauma claims were derived from various studies of the incidence of the individual trauma conditions.

Rates of discontinuance

Future rates of discontinuance for the major classes of business are assumed in aggregate to be between 14% to 25% based on the type of business and age of the life insured.

Rates of taxation

The Branch is taxed as a resident insurer for tax purposes. The Branch is liable to taxation on 30% (2008: 30%) of the underwriting profit less expenses plus investment income.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

4. Summary of significant actuarial methods and assumptions (continued)

Maintenance Expenses

Maintenance expenses are assumed to remain a stable percentage of inforce premiums over the life of the business. These have been assumed at expected ongoing costs. Benefits and premiums are assumed to increase by the rate of inflation, or by some other factor, where specified for the policies being reinsured.

Discount rates

The discount rates are based on a risk free rate of return for the expected term of the liabilities. The yield curve for New Zealand government bonds was used as a basis to determine the appropriate discount rate for calculation of the insurance contract liabilities as per below:

- 5.8% pa (2008: 4.40% pa) for individual disability business.
- 6.1% pa (2008: 4.60% pa) for deferred acquisition costs and recoverability of expenses.

Discount rates, as stated above, are gross of tax, but net of investment costs.

Inflation

The assumed inflation rates are set after considering current market conditions, the Reserve Bank of New Zealand's inflation targets, the implied real discount rate and the average duration of the liabilities.

(c) Effects of changes in actuarial assumptions from 31 December 2008 to 31 December 2009

Assumption category	Effect on net profit margins \$'000 increase/(decrease)	Effect on net insurance contract liabilities \$'000 increase/(decrease)
Discount rates	N/A	461
Mortality and morbidity	N/A	(11,974)
Discontinuance rates	N/A	2,060
Expenses	N/A	2,959
Total	N/A	(6,494)

Insurance contract liabilities are valued on an accumulation basis where profit margins are not applicable. Note that figures in the table above are before tax.

(d) Processes used to select assumptions

Discount rate

Benefits under life insurance contracts are discounted for the time value of money using risk-free discount rates based on current observable objective rates that relate to the nature, structure and term of future obligations.

Tax

The future assumed tax rate is zero, taking account of the branch's current tax loss position, and expected future levels of taxable income.

Notes to the Financial Statements for the Year Ended 31 December 2009

4. Summary of significant actuarial methods and assumptions (continued)

Mortality and morbidity

An appropriate base table of mortality (and morbidity) is chosen or derived from industry or population experience for the type of product being written. An investigation into the actual experience of the major cedants of the Branch over recent years is performed and statistical methods are used to adjust the rates reflected in the table to a best estimate of mortality or morbidity for future years. Where data is sufficient to be statistically credible, the statistics generated by the data are generally used without reference to an industry table.

Discontinuance

An investigation into the actual experience of the major cedants of the Branch over the recent years is performed and the results compared with existing assumptions for discontinuances. Statistical methods are used to determine the suitability of current assumptions and/or adjust the basis for any trends in the data to arrive at a best estimate of future discontinuance rates.

Interest rates

The gross interest rates used are the annualised gross yield to redemption of benchmark government securities.

Sensitivity analysis

The Branch conducts sensitivity analyses to quantify the exposure to risk of changes in the key underlying variables such as interest rate, security prices, mortality, morbidity and inflation. The valuations included in the reported results and the Branch's best estimate of future performance is calculated using certain assumptions about these variables. The movement in any key variable will impact the performance and net assets of the Branch and as such represents a risk.

Notes to the Financial Statements for the Year Ended 31 December 2009

4. Summary of significant actuarial methods and assumptions (continued)

Variable	Impact of movement in underlying variable
Expense risk	An increase in the level or inflationary growth of expenses over assumed levels will decrease profit and shareholder equity.
Interest rate risk	A reduction in interest rates would result in an increase in the life insurance contract liabilities, although this would be offset by increases to the market value of fixed interest investments. The impact on profit and shareholder equity depends on the relative profiles of assets and liabilities; to the extent these are not matched.
Mortality rates	For insurance contracts providing death benefits, greater mortality rates would lead to higher levels of claims occurring sooner than anticipated, increasing associated claims cost and therefore reducing profit and shareholder equity.
Morbidity rates	The cost of health-related claims depends on both the incidence of policyholders becoming ill and the duration they remain ill. Higher than expected incidence and duration would likely increase claim costs, reducing profit and shareholders equity.
Discontinuance	The impact of the discontinuance rate assumption depends on a range of factors including the type of contract, the surrender value basis (where applicable) and the duration in force. For example, an increase in discontinuance rates at earlier durations of the life insurance contracts usually has a negative effect on performance and net assets. However, due to the interplay between the factors, there is not always an adverse outcome from an increase in discontinuance rates.
Inflation risk	The impact of the inflation rate assumption varies depending on the type of policy. For example an increase in future inflation will increase the cost for disabled lives but will also increase the premium revenue for products that have indexed benefits.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

4. Summary of significant actuarial methods and assumptions (continued)

The table below illustrates how changes in key assumptions regarding future experience would impact the reported profit and equity of the Branch (before tax and after retrocession).

	Change in variable	Profit / (loss)	Equity at 31 December
		2009 \$	2009 \$
Balance per financial statements		(19,729,904)	102,928,843
Result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(38,254,927)	(38,254,927)
Worsening of discontinuance rate	20%	(6,013,048)	(6,013,048)
Improvement in discontinuance rate	20%	8,073,879	8,073,879
Increase in discount rate	1%	456,048	456,048
Reduction in discount rate	1%	(592,601)	(592,601)
Increase in future maintenance expenses	10%	(1,931,136)	(1,931,136)
Increase in future inflation rates	1%	(785,735)	(785,735)

Notes to the Financial Statements for the Year Ended 31 December 2009

5. Risk and capital management policies and procedures

The financial condition and operating results of the Branch are affected by a number of key risks, including interest rate risk, credit risk, market risk, currency risk, liquidity risk, insurance risk, compliance risk and operational risk. The objective of the Branch's risk management procedures is to ensure that these risks are properly managed.

(a) Risk management policies and procedures for mitigating financial and non-financial risks

The Branch has in place a process to review its control and risk management framework. It regularly reviews and assesses its risk exposure and the effectiveness of its control framework. The Branch's objective is to satisfactorily manage the identified risks in line with the Branch's risk tolerance. Various procedures are put in place to control and mitigate the risks faced by the Branch depending on the nature of the risk. The Branch's overall risk exposure is monitored by management.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities and the use of maximum acceptable limits for other financial risks such as liquidity risk and credit risk.

Insurance risks are controlled through the use of underwriting procedures, adequate premium rates, policy charges and sufficient reinsurance arrangements. Tight controls are also maintained over claims management practices to ensure correct and timely payment of insurance claims.

Compliance risk and operational risk are both monitored by management. The Branch has a process in place for regularly reporting to the parent on the effectiveness of the controls used to mitigate these risks.

(b) Strategy for managing insurance risk

Portfolio of risks

The Branch issues term life and disability reinsurance treaties covering both individual and group business. The Branch has a risk strategy that summarises the Branch's approach to risk and risk management.

Risk strategy

In compliance with contractual and policy requirements, a strategy is in place to ensure that the risks underwritten should not jeopardise the Branch's ability to pay benefits and claims when due. The strategy involves the identification of risks by type, impact and likelihood, the implementation processes and controls to mitigate the risks, and continuous monitoring and improvement of the procedures in place to minimise the chance of an adverse compliance or operational risk event occurring. Included in this strategy is the process for underwriting and product pricing to ensure products are appropriately priced.

Capital position

Capital is allocated to the Branch where business is written to ensure that the solvency reserve (New Zealand Society of Actuaries Professional standard No. 5 Solvency Reserving for Life Insurance Business) is met. Additional capital is held to ensure a buffer exists above the reserve that allows for further adverse experience and/or additional growth of the business without impacting these regulatory requirements. There is a process in place for monitoring the level of capital and requesting additional capital should the need arise.

Notes to the Financial Statements **for the Year Ended 31 December 2009**

5. Risk and capital management policies and procedures (continued)

(c) Methods to monitor and assess insurance risk exposures

Asset management

The parent assigns adequate assets to support life insurance liabilities of the Branch. These assets are publicly traded fixed interest securities.

Management reporting

The Branch reports and monitors its financial and operational results on a regular basis. The results are summarised to give an overall view of the Branch's performance, including its gross and net exposure and its spread for product risks. The process undertaken and controls over the process are reviewed by the parent. Additionally, an annual review is undertaken by the parent's internal auditors.

(d) Methods to limit or transfer insurance risk exposures

Reinsurance

To limit the exposure, the Branch has its own reinsurance program (commonly referred to as retrocession) in place. The Branch retrocedes business to external entities, either by surplus or quota share arrangements.

Underwriting procedures

Strategic underwriting decisions are put into effect using the underwriting procedures detailed in the Branch's underwriting manual. Such procedures include limits to delegated authorities and signing powers. Individual underwriting decisions are to be supported by the policies and procedures manual and, if necessary, by obtaining a medical opinion. Underwriting decisions are regularly monitored and reviewed. Where authority is delegated to cedants, the Branch has processes in place for auditing the underwriting processes used by the ceding company.

Claims management

Procedures exist for the verification, assessment and payment of claims. Income protection claims are monitored on a monthly basis. Strict claims management procedures ensure the timely and correct payment of claims in accordance with policy and/or treaty conditions. Where authority is delegated to cedants, the Branch has processes in place for auditing the claims assessment processes used by the ceding company.

Asset and liability management techniques

The Branch's investment policy, enacted through its parent, contains objectives and constraints to reflect the nature of its liabilities. The compliance of the investment portfolio with the investment policy is monitored regularly. The extent of any asset liability mismatch is also monitored regularly as it is allowed for in the Branch's prudential reserves.

(e) Concentration of Insurance Risk

The branch's exposure to concentrations of insurance risk is mitigated by having a diversified portfolio and by retroceding portions of certain risks. The portfolio is controlled and monitored through the branch's Risk Management Strategy and Framework.

Notes to the Financial Statements **for the Year Ended 31 December 2009**

5. Risk and capital management policies and procedures (continued)

(f) Terms and conditions of insurance contracts

The nature of the terms of the insurance contracts written is such that certain external variables can be identified on which related cash flows for claims payments depend. The table below provides an overview of the key variables upon which the amount of related cash flows are dependent.

Type of contract	Non-participating life insurance contracts with fixed and guaranteed terms (term life and disability).
Details of contract workings	Guaranteed benefits payable on death, ill health or maturity that are fixed and guaranteed and not at the discretion of the issuer.
Nature of compensation for claims	Benefits, defined by the insurance contract, are determined by the contract and are not directly affected by the performance of underlying assets or the performance of the contracts as a whole.
Key variables that affect the timing and uncertainty of future cash flows	Mortality, morbidity, interest rates, discontinuance rates and expenses

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

6. Insurance premium revenue

Premium revenue from reinsurance contracts

2009	2008
\$	\$
68,038,176	66,910,413

7. Investment revenue

Interest income:

Bank deposits

Investments at fair value through profit or loss

Gain/(Loss) on disposal of investments

Change in fair value of financial assets carried at fair value
through profit or loss

Total investment revenue

307,866	729,361
5,332,263	3,910,966
148,584	(142,001)
(11,906,691)	4,843,295
(6,117,978)	9,341,621

8. Other revenue

Reinsurance allowances

Interest revenue on funds withheld

Total other income

87,057	211,211
99,294	241,981
186,351	453,192

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

9. Gross claims expense

Claims expense from reinsurance contracts

2009	2008
\$	\$
49,033,701	42,040,148

10. Auditors remuneration

Audit fees paid and payable

106,434	96,746
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The Branch's auditor is Deloitte Touche Tohmatsu.

11. Operating expenses

Policy acquisition costs

Commission

Other

7,174,701	5,434,067
2,596,480	1,886,319
9,771,181	7,320,386

Policy maintenance cost

Commission

Other

7,151,612	10,520,222
3,072,332	2,243,814
10,223,944	12,764,036
19,995,125	20,084,422

Total operating expenses

12. Receivables

Premium Receivable⁽¹⁾

6,600,270	7,421,295
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Other receivables

Receivable from reinsurance

Lease rental bond

Investment income accrued and receivable

Total other receivables

1,671,123	167,440
1,079	-
1,250,735	1,159,991
2,922,937	1,327,431

(1) Premium receivable balance is net of prepaid and unallocated cash.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

13. Investments

Financial assets at fair value through profit or loss:

Interest bearing securities:

National Government

Private Sector (Unsecured)

Total Investment Assets

2009	2008
\$	\$
1,030,130	1,049,562
115,857,821	81,952,180
116,887,951	83,001,742

The Branch has deposited government stock with the face value of \$1,000,000 (2008: \$1,000,000) with the Public Trust as required by the Life Insurance Act of 1908 and the Insurance Companies Deposits Act 1955. These deposits are required to be maintained while the Branch transacts life and non-life business in New Zealand.

14. Payables

Outstanding claims payable⁽¹⁾

15,274,290	11,342,199
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Other payables

Related entities

Income tax payable

Other Creditors

Total other payables

1,177,672	377,005
81,925	209,086
1,390,569	526,314
2,650,166	1,112,405

(1) Claim payable balance is net of prepaid and unallocated cash.

15. Head Office

RGA Reinsurance Company – New Zealand Branch is a branch of RGA Reinsurance Company, a company incorporated in the United States of America.

16. Related Parties

During the year, the Branch carried out the following transactions with related parties:

RGA Australian Holdings Pty Ltd (RGAH), a wholly owned subsidiary of Reinsurance Group of America Inc, provides the Branch with administration and management services. The Branch incurred and paid \$5,239,117 expenditure for services in 2009 (\$3,715,144 in 2008). As at 31 December 2009, amounts payable to RGAH were \$ 1,177,672 (\$378,877 receivable from RGAH in 2008). The amount payable is not subject to interest charges or any repayment conditions.

Notes to the Financial Statements
for the Year Ended 31 December 2009**17. Statement of sources of operating profit / (loss)**

The Branch operating profit/(loss) after income tax of the insurance fund is represented by:

	2009	2008
	\$	\$
Planned margins of revenues over expenses released	-	-
Difference between actual and assumed experience	(13,039,068)	(997,742)
Effects of changes to underlying assumptions	(460,983)	197,253
Reversal / (capitalisation) of expected future losses	(1,391,967)	1,812,497
Investment earnings on assets in excess of insurance contract liabilities	(4,837,886)	11,347,455
Branch profit/(loss) after tax	(19,729,904)	12,359,463

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

18. Prudential reserving requirement of the life fund

NZ IFRS 4 and the Prudential Reserving Professional Standard No. 5.01 from the New Zealand Society of Actuaries mandate disclosure of the solvency position of the Branch. This requires disclosure of a hypothetical Branch solvency position, as if the Branch were a separate entity. This means that the assets reported below are a notional allocation of the parent's total assets to the NZ Branch. The Branch position is:

	2009 \$	2008 \$
Prudential reserving requirement	120,329,501	102,911,464
Represented by:		
- Current Termination Value--CTV (2)	65,368,411	54,699,628
- Other Liabilities	2,650,165	6,106,398
- Solvency Reserve	52,310,925	42,105,438
	120,329,501	102,911,464
Assets available for solvency reserve	64,796,752	47,502,344
Determined as:		
- Excess of Net Policy Liability over Current Termination Value	(38,132,092)	(40,388,840)
- Capital and Retained Profits required for solvency	90,443,016	82,494,279
- Excess Assets	12,485,828	5,396,905
	64,796,752	47,502,344
Solvency Reserve %	76.9	69.2
Coverage of Solvency Reserve	1.2	1.1

Explanatory Notes:

- The Prudential Reserving Requirement is the minimum level of assets required to be held in the Life Fund, as per Professional Standard No 5 of the New Zealand Society of Actuaries.
- Other liabilities for this purpose exclude accrued claims (but includes provisions for disputed claims expenses) and retrocession payables as they are included in the current termination value.
- For consistency with the current termination value, the net policy liability includes accrued claims and retrocession payables for this purpose.

Notes to the Financial Statements
for the Year Ended 31 December 2009

19. Net Policy Liabilities Assumed Under Reinsurance

Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

	Note	2009 \$	2008 \$
Gross insurance contract liabilities at 1 January		4,503,556	3,124,000
Increase in insurance contract liabilities reflected in the Statement of Comprehensive Income	(i)	13,652,042	1,379,556
Gross insurance contract liabilities at 31 December		18,155,598	4,503,556
Liabilities ceded under reinsurance			
Opening balance at 1 January		3,259,132	2,551,465
Increase in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	774,181	707,667
Closing balance at 31 December		4,033,313	3,259,132
Net insurance contract liabilities at 31 December		14,122,285	1,244,424
(i) less (ii) = increase in net insurance contract liabilities as disclosed in the Statement of Comprehensive Income		12,877,861	671,889
Expected to be realised within 12 months		26,794,996	22,017,791
Expected to be realised in more than 12 months		(12,672,711)	(20,773,367)
		14,122,285	1,244,424

(b) Components of net life insurance contract liabilities

Future policy benefits	50,024,248	40,114,247
Future bonuses ⁽¹⁾	-	-
Future expenses ⁽¹⁾	-	-
Planned margins over future expenses ⁽¹⁾	-	-
Future charges for acquisition costs	(35,901,963)	(38,869,823)
Balance of future revenues ⁽¹⁾	-	-
Net life insurance contract liabilities	14,122,285	1,244,424

(1) These components are not explicitly determined under the accumulation approach to calculating insurance contract liabilities.

Notes to the Financial Statements for the Year Ended 31 December 2009

20. Financial risk management

The Branch undertakes transactions in a range of financial instruments including cash assets, receivables, payables and fixed income investments. These activities result in exposure to a number of financial risks including currency risk, market risk, credit risk, operational risk and liquidity risk.

Financial risks are generally monitored and controlled by selecting appropriate assets to back insurance contract liabilities. The Branch has developed and implemented Risk and Capital Management policies, which are described in Note 5. The assets are regularly monitored by the parent to ensure asset and liability mismatching and other risks such as currency risk, liquidity risk and credit risk are maintained within acceptable limits. In addition, the Branch holds an additional reserve, within the solvency reserve to allow for currency risks.

Throughout the year 2009, the Branch held no derivative financial instrument contracts (2008: nil activity).

(a) Credit risk

Credit risk represents the loss that would be recognised if counterparties failed to perform as contracted. The Branch seeks to minimise its credit risk by the appropriate selection and spread of investment assets.

The Branch's maximum exposure to credit risk at balance date is the fair value of financial assets as indicated in the Statement of Financial Position. The carrying amount of financial assets is not past due or impaired.

(b) Liquidity risk

Liquidity risk represents the risk that the Branch will have difficulty in meeting its obligations associated with Insurance Contracts as they fall due as a result of a lack of cash. The Branch minimises its liquidity risk by appropriate selection of maturity duration for its investments.

The maturity profile of the insurance contract liabilities is shown in note 19 (a).

(c) Market risk

The Branch is required to record its investment assets at fair value, with unrealised movements in market value recognised as income or expense in the period in which they occur. Accordingly, the full extent of exposure to market movements is reflected in the statement of financial position. The Branch manages market risk by maintaining a balanced portfolio with an appropriate selection and spread of investment assets.

21. Income Tax

The Branch is subject to a special tax regime. Generally, two tax bases are maintained: the life office base that is subject to tax on investment income less expenses plus underwriting income, and the policyholder base that taxes benefits as they accrue to policyholders under the policies in the form of claim, surrender and maturity payments and increments in the value of policies.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2009

21. Income Tax (continued)

The Branch is also taxed on a third base for its non-life business. The Branch is liable to taxation on the underwriting profit less expenses plus investment income.

The prima facie tax on operating profit differs from the income tax provided in the accounts as follows:

	2009 \$'000	2008 \$'000
Operating profit/(loss) before tax	(19,689,923)	12,436,577
Prima facie tax on operating profit/(loss) At 30% (2008: 30%)	(5,906,977)	3,730,973
<i>Tax effect of</i>		
<i>Non assessable income/expenses</i>	5,906,977	(3,730,973)
Withholding tax	39,981	77,114
Total income tax expense attributable to operating profit	39,981	77,114

On 15 September 2009, the New Zealand Government enacted law resulting in complete change in the basis of taxation for Life Insurance business. The Branch will be liable to taxation on the underwriting profit less expenses plus investment income. The new legislation applies to the Branch from 1 July 2010.

Independent Auditor's Report to the Members of RGA Reinsurance Company – New Zealand Branch

We have audited the accompanying financial statements of RGA Reinsurance Company – New Zealand branch, which comprise the statement of financial position as at 31 December 2009, the statement of comprehensive income and statement of changes in equity for the year ended on that date, a summary of significant accounting policies and other explanatory notes as set out on pages 2 to 25.

Directors' Responsibility for the Annual Report

The directors of the branch are responsible for the preparation and fair presentation of the financial statements in accordance with New Zealand law and generally accepted accounting practice. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Our firm carries out other assurance engagements for RGA Reinsurance Company. The firm has no other relationship with or interests in RGA Reinsurance Company or its subsidiaries.

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

Auditor's Opinion

We have obtained all the information and explanations we have required.


In our opinion:

- 1) the financial statements of RGA Reinsurance Company – New Zealand Branch:
 - a) give a true and fair view of RGA Reinsurance Company – New Zealand branch's financial position as at 31 December 2009 and of its performance for the year ended on that date;
 - b) comply with generally accepted accounting practice in New Zealand; and
- 2) proper accounting records have been kept by RGA Reinsurance Company – New Zealand branch, as far as appears from our examination of those records.

Fundamental Uncertainty

The New Zealand branch is part of RGA Reinsurance Company, which is incorporated in the United States of America. The assets of the branch are legally available for the satisfaction of debts of the entire company, not solely those appearing on the accompanying statement of financial position and its debts may result in claims against assets not appearing thereon.


DELOITTE TOUCHE TOHMATSU


Stuart Alexander
Partner
Chartered Accountants
Sydney, 31 May 2010

RG&A Reinsurance Company

Statutory-Basis Financial Statements as of and
for the Years Ended December 31, 2009 and 2008,
Additional Information as of and
for the Year Ended December 31, 2009, and
Independent Auditors' Report

RGa REINSURANCE COMPANY

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
RGA Reinsurance Company
Chesterfield, Missouri

We have audited the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus of RGA Reinsurance Company (the "Company") as of December 31, 2009 and 2008, and the related statutory-basis statements of operations and capital and surplus, and cash flow for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

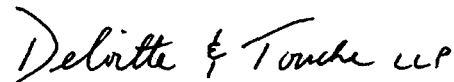
We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described more fully in Note 2 to the financial statements, the Company prepared these financial statements using accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration, and such practices differ from accounting principles generally accepted in the United States of America. The effects on such financial statements of the differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of RGA Reinsurance Company as of December 31, 2009 or 2008, or the results of its operations or its cash flows for the years then ended.

However, in our opinion, the statutory-basis financial statements referred to above present fairly, in all material respects, the admitted assets, liabilities, and capital and surplus of RGA Reinsurance Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended, on the basis of accounting described in Note 2.

Our 2009 audit was conducted for the purpose of forming an opinion on the basic 2009 statutory-basis financial statements taken as a whole. The supplemental schedule of investment risk interrogatories, the supplemental summary investment schedule, and the supplemental schedule of selected financial data as of and for the year ended December 31, 2009 are presented for purposes of additional analysis and are not a required part of the basic 2009 statutory-basis financial statements. These schedules are the responsibility of the Company's management. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2009 statutory-basis financial statements. The effects on these schedules of the differences between the statutory basis of accounting and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material. Accordingly, in our opinion, such schedules do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the information shown therein. However, in our opinion, such schedules are fairly stated in all material respects when considered in relation to the basic 2009 statutory-basis financial statements taken as a whole.



May 27, 2010

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2009 AND 2008 (In thousands of dollars, except share data)

	2009	2008
ADMITTED ASSETS		
INVESTED ASSETS:		
Bonds	\$ 5,975,093	\$ 4,711,458
Preferred stocks	124,934	308,850
Common stocks — affiliates	895	709
Common stocks — nonaffiliates	32,818	18,920
Mortgage loans on real estate	785,693	769,048
Policy loans	1,136,564	1,096,713
Cash, cash equivalents and short-term investments	321,098	230,480
Other invested assets	156,456	55,913
Total invested assets	8,533,551	7,192,091
Accrued investment income	70,440	55,576
Premium deferred and uncollected	803,116	1,039,561
Amounts due from reinsurers	140,806	199,986
Funds withheld on reinsurance assumed	5,295,334	4,491,308
Deferred federal income tax recoverable	24,786	9,831
Receivables from parent, subsidiaries and affiliates	10,316	7,493
Other assets	15,084	13,140
TOTAL	<u>\$ 14,893,433</u>	<u>\$ 13,008,986</u>

See notes to statutory-basis financial statements.

(Continued)

RGa REINSURANCE COMPANY

**STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS,
LIABILITIES, AND CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2009 AND 2008
(In thousands of dollars, except share data)**

	2009	2008
LIABILITIES, AND CAPITAL AND SURPLUS		
LIABILITIES:		
Policyholders' liabilities:		
Policy reserves:		
Life insurance	\$ 7,583,990	\$ 6,894,097
Accident and health insurance	354,640	87,782
Liability for deposit-type contracts	410,685	199,327
Policy and contract claims:		
Life insurance	899,275	946,457
Accident and health insurance	97,056	64,843
Commissions, expenses, and taxes accrued and payable	117,817	144,578
Amounts due to reinsurers	140,641	222,753
Funds withheld on reinsurance ceded	3,011,224	2,799,561
Income tax due and accrued	221,322	41
Asset valuation reserve	14,254	2,567
Payables to parent, subsidiaries and affiliates	4,033	3,117
Other liabilities	614,876	539,718
Unauthorized reinsurance liability	7,071	392
Total liabilities	<u>13,476,884</u>	<u>11,905,233</u>
COMMITMENTS AND CONTINGENT LIABILITIES (See Note 14)		
CAPITAL AND SURPLUS:		
Common capital stock — par value of \$100 per share; 100,000 shares authorized; 25,000 shares issued and outstanding	2,500	2,500
Surplus notes	100,299	100,299
Additional paid-in-surplus	818,000	760,000
Unassigned surplus	495,750	240,954
Total capital and surplus	<u>1,416,549</u>	<u>1,103,753</u>
TOTAL	<u>\$14,893,433</u>	<u>\$13,008,986</u>

See notes to statutory-basis financial statements.

(Concluded)

TD C Lm
John B. Long

May 31, 2010
May 31, 2010

RGa REINSURANCE COMPANY

STATUTORY STATEMENTS OF OPERATIONS AND CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of dollars)

	2009	2008
REVENUE:		
Premiums and annuity considerations	\$ 2,239,593	\$ 2,854,128
Net investment income	458,152	411,959
Commissions and expense allowances on reinsurance ceded	458,498	513,225
Adjustments on reinsurance ceded	(535,845)	320,564
Other income	<u>73,642</u>	<u>64,547</u>
Total revenue	<u>2,694,040</u>	<u>4,164,423</u>
BENEFITS AND EXPENSES:		
Policyholder benefits	1,995,532	3,127,264
Change in reserves for life and accident and health contracts	(686,875)	(76,428)
Commissions and expense allowances	829,668	973,605
General and administrative expenses and taxes	182,865	135,421
Other expenses	<u>-</u>	<u>(11,599)</u>
Total benefits and expenses	<u>2,321,190</u>	<u>4,148,263</u>
GAIN FROM OPERATIONS BEFORE DIVIDENDS AND INCOME TAX EXPENSE (BENEFIT)	372,850	16,160
DIVIDENDS TO POLICYHOLDERS	<u>6,752</u>	<u>9,397</u>
NET GAIN FROM OPERATIONS BEFORE INCOME TAX EXPENSE (BENEFIT)	366,098	6,763
INCOME TAX EXPENSE (BENEFIT)	<u>219,503</u>	<u>(36,961)</u>
NET GAIN FROM OPERATIONS	146,595	43,724
CAPITAL LOSSES — Net of income tax expense, and transfers to the interest maintenance reserve	<u>(83,406)</u>	<u>(85,474)</u>
NET INCOME (LOSS)	<u>63,189</u>	<u>(41,750)</u>

See notes to statutory-basis financial statements.

(Continued)

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of dollars)

	2009	2008
OTHER CAPITAL AND SURPLUS CHANGES:		
Change in net unrealized capital losses — net of income taxes	\$ 7,961	\$ (15,359)
Change in net deferred income tax	31,745	(11,989)
Change in nonadmitted assets and related items	35,076	(52,004)
Change in surplus as a result of reinsurance	123,043	(46,371)
Change in asset valuation reserve	(11,687)	30,247
Surplus contribution	58,000	58,000
Change in accounting principles	12,150	-
Other items — net	(6,681)	(1,155)
Total other capital and surplus changes	249,607	(38,631)
NET CHANGE IN CAPITAL AND SURPLUS	312,796	(80,381)
CAPITAL AND SURPLUS — Beginning of year	1,103,753	1,184,134
CAPITAL AND SURPLUS — End of year	<u>\$1,416,549</u>	<u>\$1,103,753</u>

See notes to statutory-basis financial statements.

(Concluded)

David L. Lam

May 31, 2010

John B. Lee

May 31, 2010

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

(In thousands of dollars)

	2009	2008
CASH FLOW FROM OPERATIONS:		
Cash received:		
Premiums and deposit-type funds	\$ 1,855,479	\$ 2,910,142
Net investment income	429,204	401,177
Reinsurance ceded and other income	671,276	471,460
Income taxes refunded	43,556	-
	<u>2,999,515</u>	<u>3,782,779</u>
Total cash received from operations		
Cash paid:		
Policyholder benefits and dividends to policyholders	972,972	2,145,436
Commissions, expenses, and taxes	1,039,470	1,101,198
Net transfers from separate accounts	-	(11,599)
Income taxes	-	62,556
	<u>2,012,442</u>	<u>3,297,591</u>
Total operating charges paid		
Net cash received from operations	<u>987,073</u>	<u>485,188</u>
CASH FLOW FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,595,623	1,118,472
Common and preferred stocks	81,182	29,494
Mortgage loans on real estate	59,319	60,608
Other invested assets	4,727	1,376
Miscellaneous proceeds	7,918	3,544
	<u>1,748,769</u>	<u>1,213,494</u>
Total investment proceeds		
Cost of investments acquired:		
Bonds	2,687,302	1,780,295
Common and preferred stocks	52,818	122,876
Mortgage loans on real estate	84,107	4,475
Other invested assets	37,503	31,445
Net increase in loans to policyholders	39,850	37,275
	<u>2,901,580</u>	<u>1,976,366</u>
Total cost of investments acquired		
Net cash used in investments	<u>(1,152,811)</u>	<u>(762,872)</u>

See notes to statutory-basis financial statements.

(Continued)

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOW FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008 (In thousands of dollars)

	2009	2008
CASH FLOW FROM FINANCING AND MISCELLANEOUS SOURCES:		
Surplus notes, capital and surplus paid-in	\$ 58,000	\$ 58,000
Borrowed funds	226,550	199,325
Net deposits on deposit-type contracts	211,403	199,325
Other applications — net	<u>(239,597)</u>	<u>40,390</u>
Net cash from financing and miscellaneous sources	<u>256,356</u>	<u>297,715</u>
NET CHANGE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	90,618	20,031
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — Beginning of year	<u>230,480</u>	<u>210,449</u>
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — End of year	<u>\$ 321,098</u>	<u>\$ 230,480</u>

See notes to statutory-basis financial statements.

(Concluded)

RGa REINSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008

1. ORGANIZATION AND NATURE OF BUSINESS

RGA Reinsurance Company ("RGA Reinsurance" or the "Company") is a wholly owned subsidiary of Reinsurance Company of Missouri, Incorporated ("RCM"), which is a wholly owned subsidiary of Reinsurance Group of America, Incorporated ("RGA, Inc."). Prior to September 12, 2008, General American Life Insurance Company ("General American"), a Missouri life insurance company, directly owned approximately 51.7%, of the outstanding shares of common stock of RGA, Inc. General American is a wholly owned subsidiary of MetLife, Inc. ("MetLife"), a New York insurance and financial services holding company. On September 12, 2008, MetLife disposed of its majority interest in RGA, Inc. by exchanging 90.7% of its shares of RGA, Inc. common stock to MetLife shareholders for shares of MetLife common stock.

The Company is engaged in U.S. life reinsurance and, to a lesser extent, in Canadian life reinsurance, and international life and disability reinsurance. Reinsurance is an arrangement under which an insurance company, the "reinsurer," agrees to indemnify another insurance company, the "ceding company", for all or a portion of the insurance risks underwritten by the ceding company. Reinsurance is designed to (i) reduce the net liability on individual risks, thereby enabling the ceding company to increase the volume of business it can underwrite, as well as increase the maximum risk it can underwrite on a single life or risk; (ii) stabilize operating results by leveling fluctuations in the ceding company's loss experience; (iii) assist the ceding company to meet applicable regulatory requirements; and (iv) enhance the ceding company's financial strength and surplus position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statutory-Basis Accounting Practices — The accompanying statutory-basis financial statements were prepared in conformity with accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration ("MDI"). The MDI requires that insurance companies domiciled in the State of Missouri prepare their statutory-basis financial statements in accordance with the National Association of Insurance Commissioners' ("NAIC") *Accounting Practices and Procedures Manual* ("NAIC SAP"), subject to any deviations as prescribed or permitted by the MDI. Accounting practices and procedures of the NAIC as prescribed or permitted by the MDI comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America ("GAAP"). The effects on these financial statements of the differences between the statutory basis of accounting and GAAP are not reasonably determinable, however, the more significant of these variances from GAAP are:

- (a) As the Company maintains an Asset Valuation Reserve ("AVR"), investments in bonds are reported at amortized cost, except for those with an NAIC designation of 6, which are reported at the lower of amortized cost or fair value. Under GAAP, they are carried at either amortized cost or fair value based on their classification according to the Company's intent to sell or ability and intent to hold the securities.
- (b) As the Company maintains an AVR, investments in preferred stocks rated NAIC 3 or higher are recorded at cost or amortized cost and preferred stocks rated NAIC 4 or lower are recorded at the

lower of cost, amortized cost, or fair value. Under GAAP, preferred stocks are reported at fair value.

- (c) Costs related to acquiring business, such as commissions, premium taxes and other items, are charged to operations as incurred rather than being deferred and amortized in relation to the revenue/gross profit streams from the related contracts.
- (d) Statutory-basis policy benefit reserves are based on statutory-basis mortality and interest assumptions without the consideration of withdrawals. Statutory-basis policy reserves generally differ from policy reserves under GAAP, which are based on the Company's estimates of mortality, interest, and withdrawals. The effect, if any, on reserves due to a change in reserve on account of change in valuation basis is recorded directly to unassigned surplus rather than included in the determination of net gain from operations.
- (e) Assets are included in the statutory-basis statements of admitted assets, liabilities, and capital and surplus at "admitted asset value", and "nonadmitted assets" are excluded through a charge or credit to surplus.
- (f) The statutory-basis statements of admitted assets, liabilities, and capital and surplus are presented net of the effects of reinsurance.
- (g) Additional liabilities are provided for reinsurance ceded to unauthorized reinsurers, which are not required for GAAP.
- (h) Overdue amounts from reinsurers are non-admitted assets under NAIC SAP. Under GAAP, the overdue amount is recorded net of allowance for non-collection.
- (i) The AVR, determined by formula, represents a reserve against possible losses on investments and is recorded as a liability through a charge to surplus. An AVR is not required for GAAP.
- (j) Certain capital gains and losses resulting from the sale of debt securities may be subject to deferral as an interest maintenance reserve ("IMR") and amortized through the stated maturity dates. An IMR is not required for GAAP.
- (k) Investments in domestic life insurance subsidiaries and other subsidiaries and affiliates that have significant ongoing insurance related operations are carried at their net statutory-basis equity value with changes in value being recorded directly to surplus. Entities in which the reporting entity has a majority voting interest or is the primary beneficiary of a variable interest entity are not consolidated. Investments in noninsurance subsidiaries and affiliated entities that have significant ongoing operations beyond the holding of assets that are primarily for the direct or indirect benefit or use of the reporting entity or its affiliates are recorded based on the audited GAAP equity of the investee.
- (l) Deferred income taxes are calculated on temporary differences between statutory-basis and tax-basis reporting (rather than the difference between GAAP and tax-basis reporting). In addition, under NAIC SAP, there are limitations as to the amount of deferred income tax assets that may be reported as admitted assets. Deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse by the end of the subsequent calendar year, plus (2) the lesser of the remaining gross deferred income tax assets expected to be realized within one year of the balance sheet date or 10% of capital and surplus excluding any net deferred income tax assets,

electronic data processing (“EDP”) equipment and operating software and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing gross deferred income tax liabilities. The remaining deferred income tax assets are non-admitted. Deferred income taxes do not include amounts for state taxes.

- (m) Increases in surplus, net of federal income tax, resulting from the reinsurance of in-force blocks of business are identified separately as a surplus item and recognition of the surplus increase as income are reflected on a net of tax basis as earnings emerge from the business reinsured.
- (n) Surplus notes are included as surplus rather than reflected as debt under GAAP.
- (o) Statutory-basis financial statements do not provide for a statement of comprehensive income.
- (p) Goodwill under GAAP is calculated as the difference between the cost of acquiring the entity and the fair value of the assets received and liabilities assumed. Under NAIC SAP, goodwill is calculated as the difference between the cost of acquiring the entity and the reporting entity’s share of the historical book value of the acquired entity. However, under NAIC SAP, the total amount of goodwill recorded as an admitted asset is limited to 10% of the Company’s current capital and surplus adjusted to exclude goodwill, EDP equipment, operating system software, and net deferred income tax assets. Under GAAP, goodwill is not amortized. Under NAIC SAP, goodwill is amortized on a straight-line basis over a period of ten years.

As of December 31, 2009 and 2008, only one MDI prescribed accounting practice differing from the NAIC SAP was applicable to the Company’s statutory-basis financial statements. Specifically, the MDI requires that surplus note interest accrued but not approved for payment be reported as a direct reduction of surplus and an addition to the surplus note balance. Under NAIC SAP, surplus note interest is not to be reported until approved for payment and is reported as a reduction of net investment income in the Statement of Operations. The MDI has the right to permit other specific practices that deviate from NAIC SAP.

There were no differences between the Company’s reported net income or surplus under NAIC SAP and practices prescribed and permitted by the MDI at December 31, 2009 and 2008.

Revenues and Expenses — Life premiums are reflected as earned on the policy anniversary date. Accident and health premiums are reported as revenue when due and earned on a pro rata basis over the period covered by the policy. Deferred life premiums represent modal premiums (other than annual) to be billed in the year subsequent to the commencement of the policy year. Uncollected premiums represent premiums receivable that are more than 90 days past due. Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred. Investment income is recognized as earned.

Investments — Investment securities are valued as prescribed by the NAIC. Bonds with a NAIC designation of 5 or higher are stated at amortized cost. Bonds with a NAIC designation of 6 are stated at the lower of market value or amortized cost. Bonds are amortized using the scientific to worst method. The retrospective adjustment method is used to value all securities except where the yield had become negative or loan-backed securities that have been impaired. Interest only securities or securities where the yield has become negative are valued using the prospective method. For loan-backed securities, the retrospective adjustment method is used except in the case of a security with a recognized other-than-temporary impairment. Loan-backed securities that have been other-than-temporarily impaired are carried at their impaired value and will be evaluated in subsequent periods. If there is a significant

increase in cash flows expected to be collected, such changes will be accounted for as a prospective adjustment to the accretable yield.

Common stocks are stated at market value except for investments in stocks of uncombined subsidiaries and affiliates in which the Company has an interest of 20% or more which are carried on the equity basis.

Preferred stocks with a NAIC designation of 3 or higher are stated at amortized cost. Preferred stocks with a NAIC designation lower than 3 are stated at the lower of market value or amortized cost.

Mortgage loans on real estate are stated at the balance of unpaid principal, net of any unamortized premium or discount and less any valuation allowance.

Policy loans are carried at the outstanding principal balance. Policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk.

Other invested assets are comprised of investments in limited partnerships, receivables for securities, other long-term assets and derivative instruments which include interest rate swaps, consumer price index swaps and credit default swaps. Investments in limited partnerships are recorded at net asset value and investments in receivables for securities and other long-term assets are recorded at cost. Derivative instruments that qualify as fair value hedges are carried at amortized cost and derivative instruments used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value.

The Company is exposed to credit-related risk in the event of nonperformance by reinsurance counterparties, but does not expect any counterparties to fail to meet their obligations. As appropriate, master netting agreements are arranged and collateral is obtained in the form of rights to securities to lower the Company's exposure to credit risk. It is the Company's policy to deal primarily with highly rated companies. There are no significant concentrations with counterparties. The Company has established minimum credit quality standards for counterparties and seeks to obtain collateral or other credit support when considered appropriate.

The Company's investment in Reinsurance Partners, Inc. common stock is recorded on the statutory-basis equity method and is included in common stocks — affiliates on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

Investment income is recognized as it accrues or is legally due. All investment income due and accrued that is over 90 days past due is excluded from surplus. Realized gains and losses on sales of investments are included in net income, net of amounts transferred to the IMR, as are write-downs of securities where declines in value are deemed to be other-than-temporary. The cost of investment securities sold is determined based upon the specific identification method. Unrealized gains and losses on stocks are reflected as a direct charge to surplus.

Cash and bonds on deposit with regulatory authorities were \$8.0 million and \$7.7 million as of December 31, 2009 and 2008, respectively. Bonds and mortgage loans of \$1.9 billion and \$1.5 billion were held in trust to satisfy collateral requirements for reinsurance business as of December 31, 2009 and 2008. Cash and bonds in the amount of \$696.4 million and \$289.7 million were pledged to the Federal Home Loan Bank as collateral against future borrowings as of December 31, 2009 and 2008, respectively.

Certain capital gains and losses realized on the sale of invested assets which resulted from changes in the level of interest rates are recorded in an IMR, net of related income taxes. The IMR is amortized into operating income over the approximate remaining maturities of the investments sold. Certain other realized gains and losses from the sale or decrease in valuation basis due to change in credit quality of invested assets are presented separately from operating income, net of applicable income taxes.

The NAIC has established an AVR for the potential losses on investments. This reserve is maintained for the purpose of stabilizing surplus against the effect of fluctuations in the value of certain bond, stock, mortgage loan, and real estate investments by a direct charge to surplus.

Impairment losses on preferred stock securities are considered to be other-than-temporary when the Company believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the security. A decline in fair value which is deemed to be other-than-temporary includes situations where the Company has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a preferred stock is other-than-temporary, an impairment loss is recognized as a realized loss equal to the entire difference between the preferred stock's carrying value and its fair value at the balance sheet date.

The way in which impairment losses on bonds are recognized in the statutory-basis financial statements is dependent on the facts and circumstances related to the specific security and the type of bond. If the Company intends to sell a bond or it is more likely than not that it would be required to sell a bond before the recovery of its amortized cost, it recognizes an other-than-temporary impairment ("OTTI") in earnings equal to the difference between the security's fair value and amortized cost. Further, for non-loan-backed securities the Company determines if the decline in value is only interest related and if so, an OTTI is not recognized as long as the Company does not have the intent to sell. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the non-loan-backed security or if other factors such as the length of time and extent to which fair value has been less than cost, compliance with covenants, general market conditions or if the financial condition and short-term prospects of the issuer indicate that an OTTI should be recorded, the Company records an OTTI equal to the difference between the security's fair value and amortized cost in earnings. For loan-backed securities, the Company compares the present value of expected future cash flows to amortized cost. If amortized cost exceeds the present value of the futures cash flows an OTTI is recognized in earnings equal to the difference between the present value of expected future cash flows and amortized cost. The actual value at which such financial instruments could actually be sold or settled with a willing buyer may differ from such estimated fair values. Non-interest related OTTI losses are recorded through the AVR. If a security is written down to fair value due to the intent to sell or the Company does not have the intent and ability to retain the investment in the security for a period of time sufficient to recover the amortized cost basis, the non-interest related portion of the OTTI loss is recorded through the AVR and the interest related OTTI is recorded through the IMR.

The Company measures impairments of mortgage loans based on the fair value of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan is recognized as an impairment by establishing a valuation allowance with a corresponding charge to unrealized gain or loss or by adjusting an existing valuation for the impaired loan with a corresponding charge to unrealized gain or loss. The unrealized gain or loss on impairment is included in the calculation of the AVR. A mortgage loan is considered to be impaired when, based on current information and events, it is probable that a reporting entity will be unable to collect all amounts due according to the contractual terms of the mortgage agreement.

Electronic Data Processing ("EDP") Equipment and Operating Software — EDP equipment and operating software is recorded at cost less accumulated depreciation. Depreciation is charged to

operations using the straight-line method, generally over three years. Maintenance and repairs are charged to expense as incurred.

Funds Withheld on Reinsurance Assumed — Funds withheld on reinsurance assumed represent amounts contractually withheld by ceding companies in accordance with reinsurance agreements. Interest accrues on these assets at rates defined by the treaty terms.

Policy Reserves — The liability for future life policy benefits is based on statutory mortality and interest requirements without consideration of withdrawals. The liability for future policy benefits on interest sensitive products is not less than the cash value of the contracts. The mortality table and interest assumptions currently being used on the majority of new ordinary life policies is the 2001 Commissioners Standard Ordinary (“CSO”) table, with the 2001 CSO Preferred Structure set of tables applicable to US term coinsurance, with 4.0% interest, using the reserve methodology specified under the Valuation of Life Insurance Policies regulation (XXX) for policies issued January 1, 2000 and later, floored at the unearned modal tabular cost of insurance. With respect to the majority of ordinary life policies issued prior to January 1, 2000, the mortality table and interest assumptions are primarily from the 1958 and 1980 CSO tables with 2.0% to 6.0% interest, using a unitary methodology floored at the unearned modal tabular cost of insurance.

Future policy benefits on accident and health insurance are generally based on unearned premiums computed on a pro rata basis as well as prescribed morbidity tables, such as the 1985 Commissioner’s Individual Disability table for disability business. The Company also provides a liability for accident and health claims which represents an estimate of the ultimate cost of unpaid claims incurred through December 31 of each year.

The Company waives deduction of deferred fractional premiums upon death of insured and returns any portion of the final premium beyond the date of death. Surrender values are not promised in excess of the legally computed reserves. All policies issued or assumed by the Company with ratings based upon multiple mortality tables have an extra reserve equal to one-half of the extra premium. The Company had approximately \$1.4 billion of insurance in force and \$0.7 million of reserves, and \$2.8 billion of insurance in force and \$4.3 million of reserves, at December 31, 2009 and 2008, respectively, for which the gross premiums are less than the net premiums according to the standard valuation set by the MDI. The Tabular Interest, Tabular Less Actual Reserve Released, and Tabular Cost have been calculated on a theoretical basis as described in the NAIC annual statement instructions. The Company had no other increases in reserves on account of changes in valuation changes or other increases (net). Management believes this liability will be adequate to cover such costs; however, the ultimate liability may be more or less than the estimated liability.

Income Taxes — Income taxes are charged to operations based on the Company’s income that is currently taxable. Deferred taxes are established for the tax effects of temporary differences between the statutory-basis financial reporting and tax bases of assets and liabilities.

Additional Information Regarding Statements of Cash Flow — Cash, cash equivalents and short-term investments include cash on deposit and highly liquid investments with an original maturity of one year or less.

Foreign Currency Translation — The translation of the foreign currency into U.S. dollars is performed for asset and liability accounts using current exchange rates in effect at the statutory-basis financial statement date and for revenue and expense accounts using a weighted-average exchange rate for each year. Gains or losses resulting from such translation are included in unrealized capital gains or

losses. The Company's material foreign functional currencies are the Australian dollar, Canadian dollar, Japanese yen and Korean won.

Statutory-Basis Fair Value of Financial Instruments — The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

Bonds, Preferred Stocks and Common Stocks — non-affiliates — The statutory-basis fair values for bonds, preferred stocks, and common stocks — non-affiliates have been determined by using available market information and the valuation methodologies described in Note 6 to the statutory-basis financial statements. Considerable judgment is often required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not necessarily be indicative of amounts that could be realized in a current market exchange. The use of different assumptions or valuation methodologies may have a material effect on the estimated fair value. Publicly traded fixed maturity securities are valued based upon quoted market prices or estimates from independent pricing services. Private placement fixed maturity securities are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. The statutory-basis fair values of loan-backed bonds are estimated using values obtained from independent pricing services and based on expected future cash flows using a current market rate applicable to the yield, credit quality, and maturity of the investments.

Mortgage Loans on Real Estate — The statutory-basis fair values for mortgage loans are estimated using discounted cash flow calculations that are based on interest rates currently being offered for similar loans to borrowers with similar credit ratings, credit quality, and maturity of the investments. Loans that exceed 100% loan-to-value are valued at the estimated fair value of the underlying collateral.

Policy Loans — Policy loans typically carry an interest rate that is adjusted annually based on a market index and therefore carrying value approximates fair value.

Derivatives — The statutory-basis fair values for derivative instruments are determined using standard market valuation techniques, including published swap curves and other available market data.

Cash, Cash Equivalents, Short-Term Investments — The carrying amounts for these instruments approximate their statutory-basis fair values.

Other Invested Assets — The fair value of limited partnerships included in other invested assets is based on net asset values.

Liability for Deposit-Type Contracts — The statutory-basis fair values for liabilities under deposit-type contracts are estimated using discounted cash flow calculations, which are based on interest rates currently being offered for similar contracts with maturities consistent with those remaining for the contracts being valued.

Management's Estimates — The preparation of statutory-basis financial statements in accordance with statutory-basis accounting principles requires management to make estimates and assumptions that affect the reported amounts of admitted assets and liabilities and disclosure of contingent assets and liabilities at the date of the statutory-basis financial statements and the reported amounts of revenues and expenses during the reporting period. Accounts that the Company deems to be sensitive to changes in estimates include premiums deferred and uncollected, policy reserves, policy and contract claims, provision for adverse litigation, valuation of investment impairments and income taxes. In all instances, actual results could differ from management's estimates.

Recent Statutory-Basis Accounting Pronouncements — In December 2009, the NAIC issued Statement of Statutory Accounting Principles (“SSAP”) No. 100, *Fair Value Measurements* (“SSAP 100”). SSAP 100 is effective for reporting periods ending on or after December 31, 2010. SSAP 100 defines fair value, establishes a framework for measuring fair value and establishes disclosure requirements about fair value. The adoption of this statement is not expected to have a significant impact on the Company’s statutory-basis financial statements.

In November 2009, the NAIC issued SSAP No. 10R, *Taxes – Revised, A Temporary Replacement of SSAP No. 10* (“SSAP 10R”). SSAP 10R is effective only for December 31, 2009 annual financial statements and 2010 interim and annual financial statements. SSAP 10R modifies two components of the admission calculation that may be utilized by certain reporting entities subject to risk-based capital requirements that meet certain risk-based capital thresholds. The adoption of this statement did not have a significant impact on the Company’s statutory-basis financial statements.

In September 2009, the NAIC issued SSAP No. 43R, *Loan-backed and Structured Securities – Revised* (“SSAP 43R”). SSAP 43R is generally effective for reporting periods ending on or after September 30, 2009. SSAP 43R revises accounting and reporting for investments in loan-backed securities and structured securities. The adoption of this statement resulted in a \$12.1 million increase to surplus in the Company’s statutory-basis financial statements.

In November 2008, the NAIC issued SSAP No. 98, *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments, an Amendment of SSAP No. 43 — Loan-Backed and Structured Securities* (“SSAP 98”). SSAP 98 was to be effective for reporting periods beginning on or after September 30, 2009. SSAP 98 revised certain statutory accounting principles for impairment analysis and subsequent valuation of loan-backed and structured securities. The adoption of SSAP 43R superseded SSAP 98.

In September 2008, the NAIC issued SSAP No. 99, *Accounting for Certain Securities Subsequent to an Other-Than-Temporary Impairment* (“SSAP 99”). SSAP 99 is effective for reporting periods beginning on or after January 1, 2009. SSAP 99 revises treatment of premium or discount applicable to certain securities subsequent to the recognition of an other-than-temporary impairment. Paragraph 13 of SSAP 99 was superseded by SSAP 43R. The adoption of this statement did not have a significant impact on the Company’s statutory-basis financial statements.

In September 2008, the NAIC issued SSAP No. 91R, *Accounting for Transfers of Servicing of Financial Assets and Extinguishments of Liabilities* (“SSAP 91R”). SSAP 91R is effective for reporting periods beginning on or after January 1, 2009. SSAP 91R substantially revises certain aspects of accounting and reporting for transfers and servicing of financial assets. The adoption of this statement did not have a significant impact on the Company’s statutory-basis financial statements.

Change in Accounting Principle — As a result of the Company’s application of SSAP 43R, the Company recognized a \$12.1 million increase in surplus reported as an adjustment to the balance of unassigned funds (surplus) as of July 1, 2009.

Reclassification — Certain prior year amounts reported herein do not agree to the Annual Statement due to reclassifications made in the current year Annual Statement presentation related to hybrid securities. In the prior year, under statutory guidance, hybrid securities were included within preferred stocks. In the current year, these securities should be included within bonds. The prior year hybrid securities balance with the Annual Statement was reclassified to bonds in order to provide comparability with current year disclosures throughout the Annual Statement, including Schedule D.

The amounts (in thousands) that differ are:

	Per Annual Statement	Per Statutory- Basis Financial Statements
Bonds	\$4,840,016	\$4,711,458
Preferred Stocks	180,292	308,850

3. INVESTMENTS

Major categories of net investment income consist of the following (in thousands):

	2009	2008
Bonds (including IMR amortization)	\$ 348,062	\$ 283,741
Preferred stocks	11,468	20,799
Mortgage loans on real estate	46,242	48,921
Loans to policyholders	68,212	64,962
Cash, cash equivalents, and short-term investments	2,547	5,855
Other	3,963	7,432
Gross investment income (including IMR amortization)	480,494	431,710
Investment expenses	15,032	11,524
Interest and depreciation expense	7,310	8,227
Net investment income	<u>\$ 458,152</u>	<u>\$ 411,959</u>

Bonds and Preferred Stocks — The carrying value and estimated fair values of the Company's bond and preferred stock investments at December 31, 2009 and 2008, by category, are as follows (in thousands):

	2009			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$ 3,401,192	\$ 213,699	\$ 62,897	\$ 3,551,994
U.S. government and agencies	517,270	10,379	9,369	518,280
State and local governments and agencies	96,408	273	15,588	81,093
Canadian and Canadian provincial governments	6,351	350	-	6,701
Mortgage-backed/asset-backed securities	1,649,544	27,353	196,729	1,480,168
Hybrids	175,624	2,865	22,868	155,621
Other foreign government	128,704	377	10,195	118,886
Total bonds	<u>\$ 5,975,093</u>	<u>\$ 255,296</u>	<u>\$ 317,646</u>	<u>\$ 5,912,743</u>
Preferred stocks	<u>\$ 124,934</u>	<u>\$ 2,256</u>	<u>\$ 8,455</u>	<u>\$ 118,735</u>

	2008			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$ 2,998,440	\$ 34,807	\$ 420,064	\$ 2,613,183
U.S. government and agencies	286,821	7,773	174	294,420
State and local governments and agencies	103,013	85	21,314	81,784
Canadian and Canadian provincial governments	5,156	340	-	5,496
Mortgage-backed/asset-backed securities	1,296,508	10,707	343,427	963,788
Other foreign government	<u>21,520</u>	<u>2,230</u>	<u>-</u>	<u>23,750</u>
Total bonds	<u>\$ 4,711,458</u>	<u>\$ 55,942</u>	<u>\$ 784,979</u>	<u>\$ 3,982,421</u>
Preferred stocks	<u>\$ 308,850</u>	<u>\$ 157</u>	<u>\$ 110,144</u>	<u>\$ 198,863</u>

As of December 31, 2009, excluding investments issued or guaranteed by the U.S. government, the Company held securities with a carrying value of \$162.7 million issued by the Federal National Mortgage Corporation and \$159.1 million issued by the Federal Home Loan Mortgage Corporation and \$138.3 million issued by the Bank of New York Mellon Corporation, all of which exceeded 10% of the Company's capital and surplus. As of December 31, 2008, excluding investments issued or guaranteed by the U.S. government, the Company held securities with a carrying value of \$207.3 million issued by Federal National Mortgage Corporation and \$224.8 million issued by the Federal Home Loan Mortgage Corporation, all of which exceeded 10% of the Company's capital and surplus.

The carrying and estimated fair values of the Company's bond investments at December 31, 2009, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations without penalties (in thousands):

	Carrying Value	Estimated Fair Value
Due in one year or less	\$ 53,897	\$ 55,395
Due after one year through five years	689,895	716,883
Due after five years through ten years	1,883,552	1,955,707
Due after ten years	1,698,205	1,704,590
Mortgaged-backed/asset-backed securities	<u>1,649,544</u>	<u>1,480,168</u>
Total	<u>\$ 5,975,093</u>	<u>\$ 5,912,743</u>

Proceeds from the sales and maturities of bonds were \$1.6 billion and \$1.1 billion in 2009 and 2008, respectively. Gross gains of approximately \$61.3 million and \$12.1 million and gross losses of \$42.8 million and \$29.8 million were realized on these sales in 2009 and 2008, respectively.

Proceeds from sales of common and preferred stocks were \$81.2 million and \$29.5 million in 2009 and 2008, respectively. Gross gains of approximately \$7.8 million and \$0.1 million and gross losses of \$11.6 million and \$1.4 million were realized on these sales in 2009 and 2008, respectively.

The cost of investments sold is generally determined on a first-in, first-out method and includes the effects of any related amortization of premium or accretion of discount. Realized capital gains and losses are reported net of income taxes and exclude \$12.8 million of pre-tax capital gain and \$17.1 million of pre-tax capital loss transferred into the IMR in 2009 and 2008, respectively.

The following table presents the total gross unrealized losses for 678 and 1,164 bonds and preferred stocks as of December 31, 2009 and 2008, respectively, where the estimated fair value had declined and remained below carrying value by the indicated amount (in thousands):

	<u>At December 31, 2009</u>		<u>At December 31, 2008</u>	
	Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses	Percent of Total
Less than 20%	\$ 138,433	42 %	\$ 205,255	23 %
20% or more for less than six months	-	-	486,865	54
20% or more for six months or greater	<u>187,668</u>	<u>58</u>	<u>203,003</u>	<u>23</u>
Total	<u>\$ 326,101</u>	<u>100 %</u>	<u>\$ 895,123</u>	<u>100 %</u>

At December 31, 2009 and 2008, gross unrealized losses on common stocks — non-affiliates was \$0.2 million and \$0.

While all of these securities are monitored for potential impairment, the Company's experience indicates that the first two categories do not present as great a risk of impairment, and often, fair values recover over time. These securities have generally been adversely affected by overall economic conditions, primarily an increase in the interest rate environment.

The following tables present the estimated fair values and gross unrealized losses for the 678 and 1,164 bonds and preferred stocks that have estimated fair values below carrying value as of December 31, 2009 and 2008, respectively. These investments are presented by class and grade of security. The length of time the related estimated fair value has remained below carrying value is provided for bonds and preferred stock securities as of December 31, 2009 and 2008.

(In thousands)	As of December 31, 2009					
	Less than 12 months		Equal to or Greater Than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Bonds:						
Corporate securities	\$ 879,531	\$ 39,376	\$ 29,085	\$ 11,698	\$ 908,616	\$ 51,074
Hybrid securities	73,162	9,573	18,064	7,993	91,226	17,566
U.S. government and agencies	282,778	9,255	-	-	282,778	9,255
State and local governments and agencies	165,964	22,419	1,296	454	167,260	22,873
Mortgage-backed/asset-backed securities	765,231	57,272	49,639	35,948	814,870	93,220
Total bonds	2,166,666	137,895	98,084	56,093	2,264,750	193,988
Preferred stocks	47,511	4,036	5,337	1,819	52,848	5,855
Total investment grade securities	2,214,177	141,931	103,421	57,912	2,317,598	199,843
Non-investment grade securities:						
Bonds:						
Corporate securities	158,139	10,838	5,764	2,012	163,903	12,850
Hybrid securities	16,806	1,326	7,050	2,949	23,856	4,275
State and local governments and agencies	-	-	5,170	2,911	5,170	2,911
Mortgage-backed/asset-backed securities	43,608	20,944	48,542	82,678	92,150	103,622
Total bonds	218,553	33,108	66,526	90,550	285,079	123,658
Preferred stocks	19,957	2,461	527	139	20,484	2,600
Total non-investment grade securities	238,510	35,569	67,053	90,689	305,563	126,258
Total	\$2,452,687	\$177,500	\$170,474	\$148,601	\$2,623,161	\$326,101

(In thousands)	As of December 31, 2008					
	Less than 12 months		Equal to or Greater Than 12 Months		Total	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
Investment grade securities:						
Bonds:						
Corporate securities	\$1,332,692	\$177,265	\$565,256	\$184,718	\$1,897,948	\$361,983
U.S. government and agencies	30,410	174	-	-	30,410	174
State and local governments and agencies	29,795	4,718	12,650	3,525	42,445	8,243
Mortgage-backed/asset-backed securities	520,685	194,618	188,061	134,681	708,746	329,299
Total bonds	1,913,582	376,775	765,967	322,924	2,679,549	699,699
Preferred stocks	65,560	25,394	117,758	79,179	183,318	104,573
Total investment grade securities	1,979,142	402,169	883,725	402,103	2,862,867	804,272
Non-investment grade securities:						
Bonds:						
Corporate securities	125,756	24,837	61,098	33,244	186,854	58,081
State and local governments and agencies	38,072	13,071	-	-	38,072	13,071
Mortgage-backed/asset-backed securities	6,613	6,633	11,073	7,495	17,686	14,128
Total bonds	170,441	44,541	72,171	40,739	242,612	85,280
Preferred stocks	747	1,260	4,108	4,311	4,855	5,571
Total non-investment grade securities	171,188	45,801	76,279	45,050	247,467	90,851
Total	\$2,150,330	\$447,970	\$960,004	\$447,153	\$3,110,334	\$895,123

The Company believes that the analysis of each security whose price has been below market for greater than twelve months indicated that the financial strength, liquidity, leverage, and future outlook support the view that the security was not other-than-temporarily impaired as of December 31, 2009. Impairment losses on preferred stock securities are considered to be other-than-temporary when the Company believes it is probable that it will be unable to collect all amounts due according to the contractual terms of the security. A decline in fair value which is deemed to be other-than-temporary includes situations where the Company has made a decision to sell a security prior to its maturity at an amount below its carrying value. If it is determined that a decline in the fair value of a preferred stock is other-than-temporary, an impairment loss is recognized as a realized loss equal to the entire difference between the preferred stock's carrying value and its fair value at the balance sheet date. If the Company intends to sell a bond or it is more likely than not that it would be required to sell a bond before the recovery of its amortized cost, it recognizes an other-than-temporary impairment ("OTTI") in earnings equal to the difference between the security's fair value and amortized cost. Further, for non-loan-backed securities the Company determines if the decline in value is only interest related and if so, an OTTI is not recognized, assuming the Company does not have the intent to sell the security. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the non-loan-backed security or if other factors such as the length of time and extent to which fair value has been less than cost, compliance with covenants, general market conditions or if the financial condition and short-term prospects of the issuer indicate that an OTTI should be recorded, the Company records an OTTI equal to the difference between the security's fair value and amortized cost in earnings. For loan-backed securities, the Company compares the present value of expected future cash flows to amortized cost. If amortized cost exceeds the present value of the future cash flows an OTTI is recognized in earnings equal to the difference between the present value of expected future cash flows and amortized cost. The unrealized losses are primarily a result of rising interest rates, changes in credit spreads and the long-dated maturities of the securities.

The Company realized losses of \$72.7 million and \$46.7 million resulting from other-than-temporary impairments of bonds during 2009 and 2008, respectively. The Company realized losses of \$9.5 million and \$26.4 million from other-than-temporary impairments of preferred stock during 2009 and 2008, respectively.

Subprime Mortgage Related Risk Exposure — In practice, the Company defines its exposure to subprime mortgage related risk with respect to residential mortgage backed securities classifying borrowers with a FICO score of 640 or less as either Residential B or Residential C borrowers. Pooled transactions are classified as subprime if they have average FICO scores of 640 or less, generally showing a distribution of FICO ranges from the low 500s to 800 in a more or less normal distribution. When classifying investments as subprime related, the Company includes traditional first mortgage loan pools as well as home equity loan pools and other, esoteric asset structures, including collateralized debt obligations ("CDO"s) and collateralized bond obligations ("CBO"s), where the underlying collateral fits the description above. The Company further noted that many home equity loan pools originated in the last 4 years are substantially of subprime quality collateral. This is due to the tendency of subprime borrowers to finance their 20% equity down payments behind the conforming 80% loan to value first mortgage lien.

Substantially all unrealized losses to this point are due to spread widening within the sector and the resulting change in asset values. The Company recorded other-than-temporary impairments related to subprime investments of \$13.2 million and \$1.9 million during 2009 and 2008, respectively. When evaluating the risks from subprime-related securities, the Company uses cash-flow modeling software assuming rates of default, loss severity and prepayment experience that remain more severe than levels currently observed in the overall market. As such, we expect no revisions at this time to our cash-flow loss expectations, which we believe to be immaterial. Further, we do not expect to become a forced

seller of securities based on, among other factors, our overall level of capitalization, the size of our subprime holdings relative to other assets, and the Company's access to alternative sources of liquidity.

As part of a continuing risk strategy, the Company minimized its exposure to the riskiest subprime vintages of 2006 and 2007 and focused any related purchases in AA and AAA quality ratings. As noted, potential purchases were stressed to high levels of defaults and severities in order to assess potential exposure to significant performance deterioration. Ongoing monitoring of holdings is continuing, specifically monitoring credit enhancements levels, ratings actions, and pool level delinquency trends. We have also avoided structures that are difficult to monitor and assess on an ongoing basis, such as CDO or CBO deals, due to their complexity and lack of detail.

As of December 31, 2009 and 2008, respectively, the Company held investments in securities with subprime mortgage exposure with amortized costs totaling \$36.2 million and \$49.2 million and estimated fair values of \$23.2 million and \$25.5 million. Those amounts include exposure to subprime mortgages through securities held directly in the Company's investment portfolios. The securities are highly rated with a credit rating on an S&P scale of approximately "A-" at December 31, 2009 and "A" at December 31, 2008. Additionally, the Company has largely avoided investing in securities originated in the second half of 2005 and beyond, which management believes was a period of lessened underwriting quality. The majority of the Company's holdings are originations from 2005 and prior periods. Although many subprime investments were downgraded during 2008, the Company still maintains a high credit quality for this portfolio. At this time the Company expects the future contractual cash flows of these securities to be sufficient to recover the amortized cost basis and an other-than-temporary impairment of these securities does not appear warranted.

The following tables summarize the securities by rating and underwriting year at December 31, 2009 and 2008 (in thousands):

December 31, 2009						
	AAA		AA		A	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2003 and Prior	\$ 5,002	\$4,126	\$ 1,841	\$1,438	\$ 3,993	\$ 2,436
2004	-	-	-	-	-	-
2005	5,114	3,641	2,506	1,836	-	-
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total	<u>\$ 10,116</u>	<u>\$ 7,767</u>	<u>\$ 4,347</u>	<u>\$ 3,274</u>	<u>\$ 3,993</u>	<u>\$ 2,436</u>

	BBB		Below Investment Grade		Total	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2003 and Prior	\$ 975	\$ 431	\$ 1,906	\$1,116	\$13,717	\$ 9,547
2004	-	-	-	-	-	-
2005	521	521	382	382	8,523	6,380
2006	4,997	1,506	4,566	2,562	9,563	4,068
2007	-	-	4,419	3,167	4,419	3,167
Total	<u>\$ 6,493</u>	<u>\$ 2,458</u>	<u>\$ 11,273</u>	<u>\$ 7,227</u>	<u>\$ 36,222</u>	<u>\$ 23,162</u>

December 31, 2008						
	AAA		AA		A	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2003 and Prior	\$ 7,199	\$ 5,705	\$ 2,335	\$ 3,428	\$ 1,813	\$ 1,227
2004	-	-	-	-	-	-
2005	3,658	2,298	3,946	2,271	-	-
2006	136	134	4,500	2,076	4,998	1,991
2007	-	-	888	283	-	-
Total	<u>\$ 10,993</u>	<u>\$ 8,137</u>	<u>\$ 11,669</u>	<u>\$ 8,058</u>	<u>\$ 6,811</u>	<u>\$ 3,218</u>

	BBB		Below Investment Grade		Total	
	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
2003 and Prior	\$ 413	\$ 78	\$ 807	\$ 105	\$ 12,567	\$ 10,544
2004	-	-	-	-	-	-
2005	1,874	1,511	5,606	1,171	15,085	7,250
2006	-	-	3,287	449	12,920	4,651
2007	-	-	7,796	2,797	8,684	3,080
Total	<u>\$ 2,287</u>	<u>\$ 1,589</u>	<u>\$ 17,496</u>	<u>\$ 4,522</u>	<u>\$ 49,256</u>	<u>\$ 25,525</u>

Federal Home Loan Bank Agreements — The Company is a member of the Federal Home Loan Bank of Des Moines (“FHLB”). While the Company occasionally enters into traditional funding agreements with the FHLB, it did not have any outstanding traditional funding agreements with the FHLB at December 31, 2009 or 2008. During 2009 and 2008, the Company entered into a funding agreement with the FHLB under a guaranteed investment contract whereby the Company issued the funding agreement in exchange for cash and for which the FHLB has been granted a blanket lien on the Company’s commercial mortgage-backed securities used to collateralize the Company’s obligations under the funding agreement. In 2009, the company also added mortgage loans to the FHLB blanket lien used to collateralize the Company’s obligations under the funding agreement.

The Company maintains control over these pledged assets, and may use, commingle, encumber or dispose of any portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. The funding agreement and the related security agreement represented by this blanket lien provides that upon any event of default by the Company, the FHLB’s recovery is limited to the amount of the Company’s liability under the outstanding funding agreement.

The Company held common stock totaling \$27.8 million and \$18.9 million at December 31, 2009 and 2008, respectively, of which \$ 17.8 million and \$8.9 million represented activity stock related to borrowings.

The Company had pledged collateral in the amount of \$696.4 million and \$289.7 million at December 31, 2009 and 2008, respectively.

The Company had \$475.2 million and \$205.1 million available as total borrowing/funding capacity at December 31, 2009 and 2008, respectively.

The amount of the Company’s liability for the funding agreements with the FHLB under guaranteed investment contracts was \$399.3 million and \$199.3 million at December 31, 2009 and 2008,

respectively, which is reflected as a deposit fund liability. The advance on this agreement is collateralized primarily by commercial mortgage-backed securities.

Mortgage Loans — The Company makes mortgage loans on income-producing properties, such as apartments, retail and office buildings, light warehouses, and light industrial facilities. Loan to value ratios at the time of loan approval are 75% or less. The minimum and maximum interest rates on new commercial loans in 2009 were 5.01% and 8.22%, respectively.

As of December 31, 2009 and 2008, the Company's mortgage loans were distributed as follows (in thousands):

States	2009		2008	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Alabama	\$ 17,291	2.2 %	\$ 17,697	2.3 %
Arizona	43,926	5.6	44,998	5.9
California	175,001	22.3	151,860	19.7
Colorado	28,818	3.7	27,713	3.6
Connecticut	-	0.0	1,443	0.2
Florida	89,016	11.3	105,322	13.7
Georgia	46,985	6.0	55,360	7.2
Illinois	46,176	5.9	52,508	6.8
Indiana	5,867	0.7	3,997	0.5
Iowa	3,036	0.4	-	0.0
Kansas	21,093	2.7	21,843	2.8
Maine	8,510	1.1	8,791	1.1
Maryland	15,146	1.9	9,548	1.2
Massachusetts	21,265	2.7	16,640	2.2
Michigan	12,507	1.6	12,694	1.7
Missouri	41,500	5.3	42,417	5.5
Nevada	9,647	1.2	4,543	0.6
New Hampshire	2,279	0.3	2,113	0.3
New Jersey	28,860	3.7	29,598	3.8
New York	22,717	2.9	26,422	3.4
North Carolina	17,167	2.2	17,732	2.3
Ohio	3,431	0.4	3,526	0.5
Oklahoma	5,051	0.6	-	0.0
Oregon	15,148	1.9	5,211	0.7
Pennsylvania	6,037	0.8	6,316	0.8
Rhode Island	4,928	0.6	5,068	0.7
South Carolina	5,946	0.8	6,203	0.8
Tennessee	3,466	0.4	3,540	0.5
Texas	23,875	3.0	27,145	3.5
Utah	4,722	0.6	-	0.0
Virginia	47,094	6.0	46,586	6.1
Washington	7,178	1.0	7,326	1.0
Wisconsin	2,010	0.2	4,888	0.6
Total	<u>\$ 785,693</u>	<u>100.0 %</u>	<u>\$ 769,048</u>	<u>100.0 %</u>

Property Type	2009		2008	
	Carrying Value	Percent of Total	Carrying Value	Percent of Total
Apartment	\$ 72,041	9.1 %	\$ 65,362	8.5 %
Retail	218,940	27.9	201,326	26.2
Office Building	229,126	29.2	227,836	29.6
Industrial	231,567	29.5	242,424	31.5
Other Commercial	<u>34,019</u>	<u>4.3</u>	<u>32,100</u>	<u>4.2</u>
Total	<u>\$ 785,693</u>	<u>100.0 %</u>	<u>\$ 769,048</u>	<u>100.0 %</u>

The carrying value of the Company's mortgage loans by maturity at December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
Due in one year through five years	\$ 309,690	\$ 239,071
Due after five years	433,744	416,220
Due after ten years	<u>42,259</u>	<u>113,757</u>
Total	<u>\$ 785,693</u>	<u>\$ 769,048</u>

The estimated fair value of the Company's mortgage loan portfolio at December 31, 2009 and 2008, was approximately \$785.8 million and \$748.9 million, respectively. There were 6 and 2 restructured loans in the amount of \$9.6 million and \$4.1 million at December 31, 2009, and 2008, respectively. The company had one loan in the amount of \$4.5 million with interest overdue greater than 180 days at December 31, 2009, and one loan in the amount of \$1.4 million with interest overdue greater than 90 days at December 31, 2008.

A mortgage loan is considered to be impaired when, based on the current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. The Company measures impairments on mortgage loans based on the fair value of the collateral less estimated costs to obtain and sell. The difference between the net value of the collateral and the recorded investment in the mortgage loan is recognized as an impairment and a valuation allowance is recorded with a corresponding charge to unrealized loss. Information regarding the Company's loan valuation allowances for mortgage loans as of December 31, 2009 and 2008 are as follows (dollars in thousands):

	2009	2008
Balance at January 1,	\$ 526	\$ -
Additions	8,327	526
Deductions	<u>(3,069)</u>	<u>-</u>
Balance at December 31,	<u>\$ 5,784</u>	<u>\$ 526</u>

As of December 31, 2009 and 2008, the Company held 9 and 6 impaired loans, respectively. The Company accrued interest income on impaired loans to the extent it is deemed collectible (delinquent

less than 90 days) and the loan continues to perform under its original or restructured contractual terms. Interest income on non-performing loans is generally recognized on a cash basis.

The Company foreclosed on 2 commercial mortgage loans during 2009 and acquired real estate in the amount of \$8.9 million. The Company did not foreclose on any commercial mortgage loans during 2008.

Derivative Instruments —The Company has utilized derivative financial instruments, primarily to protect the Company against possible changes in the fair value of its investment portfolio as a result of interest rate changes, to economically hedge liabilities embedded in certain insurance products assumed by the Company whose value is directly affected by changes in a designated benchmark consumer price index, to reduce its risk against a drop in bond prices due to credit concerns of certain bond issuers, and to diversify its credit risk exposure in certain portfolios. The Company uses customized over-the-counter derivative financial instruments. The Company's use of derivative financial instruments historically has not been significant to its financial position.

Interest rate swaps are used by the Company primarily to reduce market risks from changes in interest rates and to alter interest rate exposure arising from mismatches between assets and liabilities (duration mismatches). With an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed rate and floating rate interest amounts as calculated by reference to an agreed notional principal amount. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments to be made by the counterparty at each due date.

Consumer Price Index ("CPI") swaps are used by the Company primarily to economically hedge liabilities embedded in certain insurance products assumed by the Company whose value is directly affected by changes in a designated benchmark consumer price index. With a CPI swap transaction, the Company agrees with another party to exchange the actual amount of inflation realized over a specified period of time for a fixed amount of inflation determined at inception. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments to be made by the counterparty at each due date. Most of these swaps will require a single payment to be made by one counterparty at the maturity date of the swap.

The Company purchases credit default swaps to reduce its risk against a drop in bond prices due to credit concerns of certain bond issuers. If a credit event, as defined by the contract, occurs, the Company is able to put the bond back to the counterparty at par.

The Company also invests in credit default swaps to diversify its credit risk exposure in certain portfolios. These credit default swaps are over-the-counter instruments in which the Company receives payments at specified intervals to insure credit risk on a portfolio of 125 U.S. investment-grade securities. Generally, if a credit event, as defined by the contract, occurs, the contract will require the swap to be settled gross by the delivery of par quantities or value of the referenced investment securities equal to the specified swap notional amount in exchange for the payment of cash amounts by the Company equal to the par value of the investment security surrendered.

The Company holds interest rate swaps that are designated and qualified as fair value hedges of interest rate risk. These derivative instruments are carried at amortized cost and generally require an insignificant amount of cash at inception of the contract. In accordance with SSAP No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation, and Replication (Synthetic Asset) Transactions*, the Company, at inception, designates the derivative as a hedge of the fair value of a recognized asset or liability. A derivative designated as a hedging instrument must be highly effective in

offsetting designated risk. Effectiveness of the hedge is formally assessed at inception and throughout the life of the hedging relationship.

All derivative instruments qualifying for hedge accounting are valued consistently with the hedged item. The changes in carrying value for these derivatives, which qualify for hedge accounting, are recorded consistently with the hedged item, at amortized cost.

Upon termination of a derivative that qualified for hedge accounting, the gain or loss is reflected as an adjustment to the basis of the hedged item and is recognized in income consistent with the hedged item.

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. There were no instances in which the Company discontinued fair value hedge accounting due to a hedged firm commitment no longer qualifying as a fair value hedge.

The Company uses various other derivative instruments for risk management purposes that either do not qualify for hedge accounting treatment or have not currently been qualified by the Company for hedge accounting treatment, to achieve the objectives stated above. All derivative instruments used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value. The changes in fair value of these derivatives are recorded as a component of surplus as unrealized gains (losses).

The Company may be exposed to credit-related losses in the event of nonperformance by counterparties to derivative financial instruments. Generally, the current credit exposure of the Company's derivative contracts is limited to their fair value as of the reporting date. The credit exposure of the Company's derivative transactions is represented by the fair value of contracts after consideration of any collateral received with a net positive fair value at the reporting date.

The Company enters into various collateral arrangements, which require both the pledging and accepting of collateral in connection with its derivative instruments. As of December 31, 2009, the Company pledged collateral of \$9.3 million to swap counterparties, which is included in other assets. There was no collateral pledged to swap counterparties as of December 31, 2008. The Company held no cash collateral in connection with derivative instruments as of December 31, 2009 and 2008.

The table below summarizes the notional and admitted value of the Company's derivatives as of December 31, 2009. Note that the Company had no derivatives with admitted values at December 31, 2008.

(Dollars in thousands)	December 31, 2009		
	Notional	Admitted Value	
		Asset	Liability
Derivatives not designated as hedging instruments:			
Interest rate swaps	\$2,692,200	\$54,314	\$56,586
CPI swaps	124,034	1,631	-
Credit default swaps	57,500	409	-
Total non-hedging derivatives	2,873,734	56,354	56,586
Total derivatives	2,873,734	56,354	56,586

Loan-Backed Securities — The fair value of loan-backed securities at December 31, 2009 is \$1.5 billion. All prepayment rates (Conditional Prepayment Rate and Prepayment Speed Assumptions)

as well as corresponding principal prepayment start and end dates are provided by a proprietary prepayment modeling system. As of December 31, 2009, the Company did not have any issuers whose amortized cost is greater than 10% of capital and surplus.

Securities within the scope of SSAP 43R with a recognized other-than-temporary impairment, disclosed in the aggregate, classified on the basis for the other-than-temporary impairment are as follows (in thousands):

Basis	Aggregate Other-Than-Temporary Impairment
Intent to sell	\$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-
Present value of cash flows expected to be collected is less than the amortized cost basis of the security	<u>39,818</u>
Total	<u>\$ 39,818</u>

Following represents security details on credit impairments taken on loan-backed and structured securities pursuant to SSAP 43R where the present value of cash flows expected to be collected is less than the amortized cost basis of the securities (in thousands):

CUISIP	Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized in Earnings in 2009	Amortized Cost After Current Period OTTI	Fair Value of Security After Current Period OTTI
02147XAT4	09/30/09	\$ 6,049	\$ (722)	\$ 5,327	\$ 3,848
05948KX87	09/30/09	2,100	(382)	1,718	817
12495RAA5	09/30/09	2,214	(1,993)	221	221
17311YAD5	09/30/09	3,922	(391)	3,531	2,612
22540VXF4	09/30/09	383	(91)	291	231
225470VP5	09/30/09	7,992	(63)	7,929	6,458
32027NXG1	09/30/09	143	(32)	111	111
46628MAH9	09/30/09	2,047	(1,504)	543	66
46632MAJ9	09/30/09	5,180	(2,648)	2,531	819
70069FMV6	09/30/09	2,796	(2,613)	183	57
964041AJ6	09/30/09	10,000	(2,500)	7,500	7,500
02147XAT4	12/31/09	5,394	(750)	4,644	4,094
22540VXF4	12/31/09	291	(61)	231	80
22942JAS2	12/31/09	198	(39)	160	119
46632MAJ9	12/31/09	2,530	(315)	2,215	850
55312YAL6	12/31/09	8,251	(2,032)	6,219	1,195
61754KAP0	12/31/09	4,797	(2,408)	2,388	866
92978QAK3	12/31/09	4,863	(187)	4,676	1,517

The aggregate amount of unrealized losses and fair values for all impaired securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss (in thousands):

Basis	Aggregate Unrealized Losses	Aggregate Fair Value
Securities that have been in a continuous unrealized loss position for less than 12 months	\$ 24,394	\$ 394,875
Securities that have been in a continuous unrealized loss position for 12 months or longer	<u>162,239</u>	<u>472,843</u>
Total	<u>\$ 186,633</u>	<u>\$ 867,718</u>

The Company considers the following in reaching the conclusion that the impairments are not other-than-temporary for loan-backed securities: the length of time and the extent to which the fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, an industry, or a geographic area; the historical and implied volatility of the fair value of the security; the payment structure of the debt security and the likelihood of the issuer being able to make payments that increase in the future; failure of the issuer of the security to make scheduled interest or principal payments; changes to the rating of the security by a rating agency; changes in management's intentions including intent to sell the security and intent and ability to hold the security until recovery; decline in expected future cash flows below amortized cost; and recoveries or additional declines in fair value subsequent to the balance sheet date and any other such factors that may revise or otherwise alter management's view regarding the ultimate recoverability of our amortized cost basis.

4. SECURITIES LENDING

The Company did not participate in a securities lending program during 2009. At December 31, 2008, the Company did not have any securities lending transactions outstanding. However, during 2008, the Company did participate in securities lending activities and earned \$110,000 of income under these transactions.

5. REVERSE REPURCHASE AGREEMENTS

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities. At December 31, 2009 and 2008, the Company did not have any reverse repurchase agreements outstanding. However, during 2009 and 2008, the Company did participate in reverse repurchase agreements and incurred \$26,815 and \$701,000, respectively, of interest expense under these agreements.

6. STATUTORY-BASIS FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the admitted and the estimated statutory-basis fair values of the Company's financial instruments at December 31, 2009 and 2008. Fair values have been determined by using available market information and the valuation methodologies described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not necessarily be indicative of amounts that could be realized in a current market exchange. The use of different assumptions or valuation methodologies may have a material effect on the estimated fair value. SSAP No. 27, *Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk, Financial Instruments with Concentrations of Credit Risk and Disclosures about Fair Value of Financial Instruments*, defines the fair value of a financial instrument as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale (in thousands):

	2009		2008	
	Admitted Value	Estimated Statutory Fair Value	Admitted Value	Estimated Statutory Fair Value
Admitted assets:				
Bonds	\$ 5,975,093	\$ 5,912,743	\$ 4,711,458	\$ 3,982,421
Preferred stocks	124,934	118,735	308,850	198,863
Common stocks — affiliates	895	895	709	709
Common stocks — nonaffiliates	32,818	32,818	18,920	18,920
Mortgage loans on real estate	785,693	785,803	769,048	748,924
Real estate	8,812	8,850	-	-
Policy loans	1,136,564	1,136,564	1,096,713	1,096,713
Short-term investments	114,634	114,704	115,328	115,328
Other invested assets	91,290	86,696	55,913	60,092
Derivative assets	56,354	56,354	-	-
Cash and cash equivalents	206,464	206,464	115,152	115,152
Accrued investment income	70,440	70,440	55,576	55,576
Liabilities:				
Liability for deposit-type contracts	410,685	410,685	199,327	199,327
Derivative instruments	56,586	56,586	-	-

Certain financial instruments are periodically measured at fair value, such as when impaired, or, for certain bonds and preferred stock, when carried at the lower of cost or market.

The fair value of an asset is the amount at which that asset could be bought or sold in a current transaction between willing parties, that is, other than in a forced or liquidation sale. The fair value of a liability is the amount at which that liability could be incurred or settled in a current transaction between willing parties, that is, other than in a forced or liquidation sale.

Fair values are based on quoted market prices when available. When market prices are not available, fair value is generally estimated using discounted cash flow analyses, incorporating current market inputs for similar financial instruments with comparable terms and credit quality (matrix pricing). In instances where there is little or no market activity for the same or similar instruments, the Company estimates fair value using methods, models and assumptions that management believes market participants would use to determine a current transaction price. These valuation techniques involve some level of management estimation and judgment which becomes significant with increasingly complex instruments or pricing

models. Where appropriate, adjustments are included to reflect the risk inherent in a particular methodology, model or input used.

The Company's financial assets and liabilities carried at fair value have been classified, for disclosure purposes, based on a hierarchy defined by general accounting principles for *Fair Value Measurements and Disclosures*. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets and liabilities (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). An asset's or a liability's classification is based on the lowest level input that is significant to its measurement. For example, a Level 3 fair value measurement may include inputs that are both observable (Levels 1 and 2) and unobservable (Level 3). The levels of the fair value hierarchy are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities. The Company's Level 1 assets and liabilities include investment securities that are traded in exchange markets.

Level 2 — Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or market standard valuation methodologies and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 assets and liabilities include investment securities with quoted prices that are traded less frequently than exchange-traded instruments. This category primarily includes U.S. and foreign corporate securities, residential and commercial mortgage-backed securities and derivative instruments, among others. Management values most of these securities using inputs that are market observable.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using market standard valuation methodologies described above. When observable inputs are not available, the market standard methodologies for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, this category generally includes U.S. and foreign corporate securities (primarily private placements), asset-backed securities (including those with exposure to subprime mortgages), and to a lesser extent, certain residential and commercial mortgage-backed securities, among others.

Financial Assets Measured at Fair Value on a Recurring Basis — The following table provides information as of December 31, 2009 and 2008 about the Company's financial assets and liabilities measured at fair value on a recurring basis (in thousands):

December 31, 2009	Fair Value Measurements Using:				Total Gains/ (Losses)
	Level 1	Level 2	Level 3	Total at 12/31/09	
Assets:					
Common stock	\$ 1,925	\$ 27,770	\$ -	\$ 29,695	\$ 186
Derivative assets	<u>-</u>	<u>56,354</u>	<u>-</u>	<u>56,354</u>	813
Total	<u>\$ 1,925</u>	<u>\$ 84,124</u>	<u>\$ -</u>	<u>\$ 86,049</u>	
Liabilities — derivative liabilities	<u>\$ -</u>	<u>\$ 56,586</u>	<u>\$ -</u>	<u>\$ 56,586</u>	
Total	<u>\$ -</u>	<u>\$ 56,586</u>	<u>\$ -</u>	<u>\$ 56,586</u>	

December 31, 2008	Fair Value Measurements Using:				Total Gains/ (Losses)
	Level 1	Level 2	Level 3	Total at 12/31/2008	
Common stock	<u>\$ -</u>	<u>\$ 18,920</u>	<u>\$ -</u>	<u>\$ 18,920</u>	<u>\$ -</u>

As of December 31, 2009, the Company's investments in common stocks that are reported at fair value are classified as Level 1 and Level 2. The Level 1 assets represent listed common stocks. The Level 2 assets at December 31, 2009 and 2008 represent an equity investment in the Federal Home Loan Bank. Fair values of common stocks reported in this category are determined based on quoted prices, however, the FHLB common stock is traded less frequently than an exchange-traded instrument. As of December 31, 2009, all derivative instruments used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value and are classified as Level 2. Values are determined using standard market valuation techniques, including published swap curves and other available market data.

Financial Assets Measured at Fair Value on a Non-recurring Basis — Certain financial assets are measured at fair value on a non-recurring basis, such as certain bonds and preferred stock valued at the lower of cost or fair value, or investments that are impaired during the reporting period and recorded at fair value on the balance sheet at December 31, 2009 and 2008. The following table summarizes the assets measured at fair value on a non-recurring basis as of December 31, 2009 and 2008 (dollars in thousands):

December 31, 2009	Fair Value Measurements Using:				Total Gains/ (Losses)
	Level 1	Level 2	Level 3	Total at 12/31/2009	
Bonds	\$ -	\$ 6,331	\$ 25,403	\$ 31,734	\$ (27,749)
Preferred stock	<u>403</u>	<u>-</u>	<u>4,879</u>	<u>5,282</u>	<u>(5,589)</u>
Total	<u>\$ 403</u>	<u>\$ 6,331</u>	<u>\$ 30,282</u>	<u>\$ 37,016</u>	<u>\$ (33,338)</u>

December 31, 2008	Fair Value Measurements Using:			Total at 12/31/2008	Total Gains/ (Losses)
	Level 1	Level 2	Level 3		
Bonds	\$ -	\$2,783	\$6,041	\$8,824	\$(25,833)
Preferred stock	<u>305</u>	<u>92</u>	<u>323</u>	<u>720</u>	<u>(24,810)</u>
Total	<u>\$ 305</u>	<u>\$2,875</u>	<u>\$6,364</u>	<u>\$9,544</u>	<u>\$(50,643)</u>

7. FEDERAL INCOME TAXES

The Company is included in a consolidated federal income tax return with RGA, Inc., RCM, RGA Reinsurance Company (Barbados) Limited, RGA Americas Reinsurance Company, Ltd., RGA Worldwide Reinsurance Company, Ltd., Reinsurance Partners, Inc., RGA Technology Partners, Inc., Timberlake Financial L.L.C., Timberlake Reinsurance Company II and Parkway Reinsurance Company. The method of allocation is subject to written agreement, approved by the Board of Directors. Allocation is based upon separate return calculations with current credit for net losses. Intercompany tax balances are settled annually. When available, the Company utilizes net operating loss carryforwards to offset taxable income under terms of the tax sharing agreement. At December 31, 2009 and 2008, the Company had no operating loss carryforwards.

The components of the net deferred tax asset at December 31 are as follows:

	Ordinary	Capital	2009 Total	2008 Total	Change
Total deferred tax assets (admitted and non-admitted)	\$ 147,468	\$ -	\$ 147,468	\$ 105,855	\$ 41,613
Statutory valuation allowance adjustment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Adjusted gross deferred tax assets	147,468	-	147,468	105,855	41,613
Total deferred tax liabilities	<u>24,356</u>	<u>8,001</u>	<u>32,357</u>	<u>18,203</u>	<u>14,154</u>
Net deferred tax asset (liability)	123,112	(8,001)	115,111	87,652	27,459
Deferred tax asset non-admitted	<u>90,325</u>	<u>-</u>	<u>90,325</u>	<u>77,821</u>	<u>12,504</u>
Net admitted deferred tax assets	<u>\$ 32,787</u>	<u>\$ (8,001)</u>	<u>\$ 24,786</u>	<u>\$ 9,831</u>	<u>\$ 14,955</u>

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10R are as follows:

	Ordinary	Capital	2009 Total	2008 Total	Change
10 a. Federal Income Taxes recoverable through loss carryback	\$ -	\$ -	\$ -	\$ -	\$ -
10 b.i. Adjusted Gross DTA expected to be realized in one year	32,787	(8,001)	24,786	9,831	14,955
10 b.ii. 10% adjusted statutory and capital surplus limit	<u>140,642</u>	<u>140,642</u>	<u>140,642</u>	<u>110,375</u>	<u>30,267</u>
Admitted pursuant to 10 b. (lesser of i. or ii.)	32,787	(8,001)	24,786	9,831	14,955
10 c. Admitted pursuant to 10 c.	-	-	-	-	-
Additional admitted pursuant to 10 e.i, ii a, and ii b	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
Total admitted adjusted gross deferred tax asset	<u>\$ 32,787</u>	<u>\$ (8,001)</u>	<u>\$ 24,786</u>	<u>\$ 9,831</u>	<u>\$ 14,955</u>

The Company has not elected to admit deferred tax assets pursuant to paragraph 10 e. for the current reporting period. Such election was not available in 2008.

The following table provides the Company's assets, capital and surplus, and RBC information with the DTA calculated under SSAP 10R paragraphs 10(a) to (c) and the additional DTA determined under SSAP 10R paragraph 10.e., if any, as of December 31, 2009 (in thousands):

	SSAP 10R 10.a.-c.	SSAP 10R 10. e.	Difference
Admitted deferred tax assets	\$ 24,786	\$ 24,786	\$ -
Admitted assets	14,893,433	14,893,433	-
Statutory capital and surplus	1,416,549	1,416,549	-
Total adjusted capital	1,430,803	1,430,803	-
Authorized control level used in 10.d.	211,602	211,602	-

The tax effects of temporary differences that give rise to significant portions of the deferred income tax assets and deferred income tax liabilities at December 31, 2009 and 2008, and their related changes are approximately as follows (in thousands):

	2009	2008	Change
Deferred income tax assets — ordinary:			
Reserves	\$ 75,663	\$ 20,990	\$ 54,673
Bond writedowns and premium amortization	13,202	22,121	(8,919)
Non deductible accruals	23,528	23,711	(183)
Proxy deferred acquisition costs capitalized for tax	34,663	38,815	(4,152)
Non deductible foreign taxes	<u>412</u>	<u>218</u>	<u>194</u>
Deferred income tax assets	<u>147,468</u>	<u>105,855</u>	<u>41,613</u>
Deferred income tax liabilities:			
Ordinary:			
Tax mark to mark adjustments on hedged assets	8,657	7,872	785
Tax-basis versus statutory-basis investment differences	8,593	-	8,593
Other — net	7,106	6,616	490
Capital — tax effect of unrealized gains	<u>8,001</u>	<u>3,715</u>	<u>4,286</u>
Deferred income tax liabilities	<u>32,357</u>	<u>18,203</u>	<u>14,154</u>
Net deferred income tax asset	115,111	87,652	27,459
Less total deferred income tax asset non-admitted in accordance with SSAP 10R, Income Taxes	<u>90,325</u>	<u>77,821</u>	<u>12,504</u>
Net admitted deferred income tax asset	<u>\$ 24,786</u>	<u>\$ 9,831</u>	<u>\$ 14,955</u>
Change in deferred income tax asset non-admitted	<u>\$ 12,504</u>	<u>\$ (3,877)</u>	

The change in the net deferred income tax asset during 2009 and 2008 is as follows (in thousands):

	2009	2008
Net change in deferred income tax asset	\$ 27,459	\$ (3,719)
Tax effect of unrealized gains (losses)	<u>4,286</u>	<u>(8,270)</u>
Change in net deferred income tax asset	<u>\$ 31,745</u>	<u>\$ (11,989)</u>

The components of the current income tax expense (benefit) for the years ended December 31, 2009 and 2008, are as follows (in thousands):

	2009	2008
Federal	\$ 218,147	\$ (37,811)
Foreign	<u>1,356</u>	<u>850</u>
Income tax expense (benefit)	219,503	(36,961)
Federal capital gains	<u>-</u>	<u>-</u>
Total	<u>\$ 219,503</u>	<u>\$ (36,961)</u>

The provision for federal and foreign income taxes incurred is different from that which would be obtained by applying the statutory-basis federal income tax rate to pre-tax income as a result of the following (in thousands):

	2009		2008	
	Amount	Percent of Pre-tax Income	Amount	Percent of Pre-tax Income
Provision computed at statutory rate	\$ 128,134	35.0 %	\$ 2,367	35.0 %
Provision to return adjustments	(6,975)	(1.9)	(75)	(1.1)
Interest maintenance reserve	(457)	(0.1)	(468)	(6.9)
Policy reserves	54,488	14.9	(19,190)	(283.7)
In-force reinsurance	43,065	11.8	(16,230)	(240.0)
Change in net deferred income taxes	(31,745)	(8.7)	11,989	177.3
Other — net	<u>1,248</u>	<u>0.3</u>	<u>(3,365)</u>	<u>(49.8)</u>
Total statutory income taxes	<u>\$ 187,758</u>	<u>51.3 %</u>	<u>\$ (24,972)</u>	<u>(369.2)%</u>

	2009	2008
Income tax expense (benefit)	\$ 219,503	\$ (36,961)
Change in net deferred income tax	<u>(31,745)</u>	<u>11,989</u>
Total statutory income taxes	<u>\$ 187,758</u>	<u>\$ (24,972)</u>

The reconciliation of the statutory-basis accounting pre-tax gain from operations to the taxable gain for the years ended December 31, 2009 and 2008, is as follows (in thousands):

	2009		2008	
	Balance	Tax Effect	Balance	Tax Effect
Statutory pre-tax gain from operations	\$ 366,098	\$ 128,134	\$ 6,762	\$ 2,367
Provision to return adjustments	(19,927)	(6,975)	(214)	(75)
Interest maintenance reserve	(1,307)	(457)	(1,338)	(468)
Policy reserves	155,677	54,488	(54,829)	(19,190)
In-force reinsurance	123,043	43,065	(46,371)	(16,230)
Other — net	3,567	1,248	(9,614)	(3,365)
Taxable gain (loss)	<u>\$ 627,151</u>	<u>\$ 219,503</u>	<u>\$ (105,604)</u>	<u>\$ (36,961)</u>

During 2009, the NAIC issued SSAP 10R. The application of SSAP 10R requires a company to evaluate the recoverability of deferred tax assets and to establish a valuation allowance if necessary to reduce the deferred tax asset to an amount which is more likely than not to be realized. Considerable judgment is required in determining whether a valuation allowance is necessary, and if so, the amount of such valuation allowance. Although the realization is not assured, management believes it is more likely than not that the deferred tax assets will be realized by future reversals of existing taxable temporary differences or through the utilization of tax planning strategies. Therefore, the Company has not recorded a valuation allowance as of December 31, 2009.

The Internal Revenue Service (“IRS”) has examined the Company’s tax returns for the years through and including 2005. The Company believes that any adjustments that might be required for open years will not have a material effect on the Company’s statutory-basis financial statements.

The Company incurred income taxes in the current and prior years that will be available for recoupment in the event of future net losses. The Company files income tax returns with the U.S. federal government and various state jurisdictions. As a result of being included in the RGA, Inc. consolidated federal income tax return, the Company is under continuous examination by the IRS and is subject to audit by taxing authorities in state jurisdictions where the Company has significant business operations. The income tax years under examination vary by jurisdiction.

The Company had no uncertain tax positions as of December 31, 2009 and 2008.

8. EMPLOYEE BENEFIT PLANS

Most of the Company’s U.S. employees participate in a non-contributory qualified defined benefit pension plan sponsored by the Company. The benefits under the pension plan are based on years of service and compensation levels. Certain management individuals participate in several nonqualified defined benefit and defined contribution plans sponsored by the Company. Those plans are unfunded and are deductible for federal income tax purposes when the benefits are paid. The projected obligation was approximately \$54.7 million and \$43.6 million as of December 31, 2009 and 2008, respectively.

The Company’s full time U.S. employees may participate in a defined contribution profit sharing plan. The plan also has a cash or deferred option under Internal Revenue Code section 401(k). The Company’s contributions, which are partially tied to RGA, Inc.’s financial results and employee 401(k) contributions, were approximately \$2.7 million and \$3.4 million in 2009 and 2008, respectively.

The Company also provides certain health care and life insurance benefits for retired employees. The health care benefits are provided through a self-insured welfare benefit plan. Employees become eligible for these benefits if they meet minimum age and service requirements. The retiree's cost for health care benefits varies depending upon the credited years of service. The Company recorded benefits expense of approximately \$0.8 million and \$0.8 million for 2009 and 2008, respectively, related to these postretirement plans. The projected obligation was approximately \$5.6 million and \$4.3 million as of December 31, 2009 and 2008, respectively (in thousands).

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Change in projected benefit obligation:				
Projected benefit obligation —				
Beginning of year	\$ 43,585	\$ 36,233	\$ 4,287	\$ 3,838
Service cost	3,147	2,565	613	589
Interest cost	2,890	2,352	255	228
Participant contributions	-	-	35	26
Actuarial gain (loss)	6,220	2,959	616	(154)
Benefits paid	<u>(1,184)</u>	<u>(524)</u>	<u>(217)</u>	<u>(240)</u>
Projected benefit obligation —				
End of year	<u>\$ 54,658</u>	<u>\$ 43,585</u>	<u>\$ 5,589</u>	<u>\$ 4,287</u>
Change in plan assets:				
Fair value of plan assets —				
Beginning of year	\$ 21,044	\$ 24,183	\$ -	\$ -
Actual return on plan assets	6,895	(8,745)	-	-
Employer contributions	4,168	6,130	182	215
Participant contributions	-	-	35	26
Benefits paid	<u>(1,184)</u>	<u>(524)</u>	<u>(217)</u>	<u>(241)</u>
Fair value of plan assets —				
End of year	<u>\$ 30,923</u>	<u>\$ 21,044</u>	<u>\$ -</u>	<u>\$ -</u>
Under funded	\$ (23,735)	\$ (22,541)	\$ (5,589)	\$ (4,287)
Unrecognized net actuarial losses (gains)	18,596	19,080	(194)	(838)
Unrecognized prior service cost	<u>98</u>	<u>128</u>	<u>-</u>	<u>-</u>
Accrued benefit cost	<u>\$ (5,041)</u>	<u>\$ (3,333)</u>	<u>\$ (5,783)</u>	<u>\$ (5,125)</u>
Benefit obligation for non-vested employees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,733</u>	<u>\$ 6,851</u>

The aggregate projected benefit obligation and aggregate fair value of plan assets for the pension plans were as follows (in thousands):

	2009		2008	
	Qualified Plan	Non-Qualified Plan	Qualified Plan	Non-Qualified Plan
Aggregate projected benefit obligation	\$ (35,866)	\$ (18,791)	\$ (29,953)	\$ (13,632)
Aggregate fair value of plan assets	<u>30,923</u>	<u>-</u>	<u>21,044</u>	<u>-</u>
Under funded	<u>\$ (4,943)</u>	<u>\$ (18,791)</u>	<u>\$ (8,909)</u>	<u>\$ (13,632)</u>
Accumulated benefit obligation	<u>\$ 33,729</u>	<u>\$ 15,130</u>	<u>\$ 28,328</u>	<u>\$ 11,100</u>

The Company does not expect any plan assets to be returned during the next twelve months.

For the years ended December 31, 2009 and 2008, the weighted average assumptions used to determine the accumulated benefit obligation and net benefit cost or income were as follows:

	2009	2008
Discount rate	6.30 %	6.30 %
Expected rate of return on plan assets	8.50	8.50
Rate of compensation increase	4.25	4.25

The expected rate of return on plan assets for the years ended December 31, 2009 and 2008, were determined based on the investment mix of the assets in the underlying plan portfolio.

The assumed health care cost trend rates used in measuring the accumulated nonpension postretirement benefit obligation at December 31, 2009 and 2008, were as follows:

	2009	2008
Pre-Medicare eligible claims	8% down to 5% in 2013	8% down to 5% in 2012
Medicare eligible claims	8% down to 5% in 2013	8% down to 5% in 2012

Assumed health care cost trend rates may have a significant effect on the amounts reported for health care plans. A one-percentage point change in assumed health care cost trend rates would have the following effects (in thousands):

	One Percent Increase	One Percent Decrease
Effect on total of service and interest cost components	\$ 138	\$ (113)
Effect on accumulated postretirement benefit obligation	728	(607)

The components of net periodic benefit cost were as follows (in thousands):

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Service cost	\$ 3,147	\$ 2,565	\$ 613	\$ 589
Interest cost	2,890	2,352	255	228
Expected return on plan assets	(1,945)	(2,190)	-	-
Amortization of prior actuarial losses (gains)	1,755	498	(28)	(11)
Amortization of prior service cost	29	29	-	-
Net periodic benefit cost	<u>\$ 5,876</u>	<u>\$ 3,254</u>	<u>\$ 840</u>	<u>\$ 806</u>

The Company expects to contribute \$2.1 million in pension benefits and \$0.2 million in other benefits during 2010.

The following benefit payments, which reflect expected future service as appropriate, are expected to be paid (in thousands):

	Pension Benefits	Other Benefits
2010	\$ 3,271	\$ 221
2011	3,770	251
2012	4,698	284
2013	5,173	332
2014	5,460	389
2015–2019	33,927	2,910

Results for the pension and other benefits plans are measured at December 31 for each year presented.

Allocation of the Pension Plan's total plan fair value by asset type:

	2009	2008
Asset category:		
Equity securities	62 %	71 %
Debt securities	<u>38</u>	<u>29</u>
Total	<u>100 %</u>	<u>100 %</u>

2010 target range of allocation by asset type of the Pension Plan's total plan fair value on a weighted average basis:

Asset category:	
Equity securities	60 %
Debt securities	40

Target allocations of assets are determined with the objective of maximizing returns and minimizing volatility of net assets through adequate asset diversification and partial liability immunization. Adjustments are made to target allocations based on the Company's assessment of the impact of economic factors and market conditions.

9. RELATED-PARTY TRANSACTIONS

The Company is an indirect subsidiary of RGA, Inc. and prior to September 12, 2008 was an indirect subsidiary of MetLife and has reinsurance and non-reinsurance transactions with related parties. Excluding reinsurance agreements and cost allocation transactions, the Company has no transactions with any related party that exceed 1/2 of 1% of the Company's total admitted assets as of December 31, 2009.

The Company received \$58.0 million in cash surplus contributions from RCM in both 2009 and 2008.

The Company reported \$4.0 million and \$3.1 million as amounts payable to affiliates as of December 31, 2009 and 2008, respectively, and reported \$10.3 million and \$7.5 million as amounts receivable from related parties as of December 31, 2009 and 2008, respectively. It is the policy of the Company and all related parties to settle all outstanding balances within ninety days.

The Company has agreed, under certain conditions, to assume life reinsurance business currently written by affiliated reinsurance companies under certain reinsurance agreements. These conditions generally include unusual or remote circumstances, such as change of control, insolvency, nonperformance under the reinsurance treaty, or loss of reinsurance license of such affiliate. Total net liabilities recorded by the affiliated entities associated with these reinsurance agreements were approximately \$919.2 million and \$747.2 million as of December 31, 2009 and 2008, respectively.

The Company did not have material management or service contracts and cost-sharing arrangements with a related party as of December 31, 2009 and 2008.

The Company did not have an investment in a related party in excess of 10% of the Company's admitted assets as of December 31, 2009 and 2008.

The Company did not own shares of any upstream or intermediate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company as of December 31, 2009 and 2008.

The Company did not recognize any impairment write-down for its investment in a related party for the years ended December 31, 2009 and 2008.

The Company did not have any investments in any related foreign insurance companies as of December 31, 2009 and 2008.

The Company has direct policies and both assumed and ceded reinsurance agreements with affiliates. Under these agreements, the Company reflected policy and claim reserves of \$3.5 billion, net premium income of \$2.1 billion and a net pre-tax gain of \$329.8 million in 2009. The Company reflected policy and claim reserves of \$3.2 billion, net premium income of \$(2.0) billion and a net pre-tax gain of \$459.5 million in 2008.

During 2009, the Company entered into a reinsurance agreement with Parkway Reinsurance Company ("Parkway"), an affiliate, wherein it ceded a significant amount of ordinary life business, designed to assist RGA Reinsurance in the management of statutory strain inherent in reinsurance subject to Regulation XXX. This agreement replaced a comparable agreement, effective December 31, 2007 and terminated July 1, 2009, and incorporated additional issue years and increased quota shares. As a result of these agreements, the Company reported \$85.2 billion of ceded life insurance in force, \$231.8 million of ceded premium, \$509.1 million of ceded policy reserves, \$116.9 million of ceded funds withheld and \$271.1 million of additional pre-tax surplus in 2009. The Company reported \$44.2 billion of ceded life insurance in force, \$110.8 million of ceded premium, \$168.6 million of ceded policy reserves, \$56.8 million of ceded funds withheld and \$(19.0) million of pre-tax surplus in 2008.

During 2008, the Company entered into a reinsurance agreement with RGA Americas Reinsurance Company, Ltd. ("RGA Americas"), an affiliate. Under this agreement, the Company ceded ordinary life business with reserves subject to Regulation XXX, in addition to ordinary life business not subject to Regulation XXX. As a result of this agreement, the Company reported \$124.1 billion of ceded life insurance in force, \$175.1 million of ceded premium, \$347.0 million of ceded policy reserves, \$69.4 million of ceded funds withheld and \$107.6 million of additional pre-tax surplus in 2009. The Company reported \$87.0 billion of ceded life insurance in force, \$10.0 million of ceded premium, \$185.5 million of ceded policy reserves, \$10.0 million of ceded funds withheld and \$175.5 million of pre-tax surplus in 2008.

Management does not believe that the various amounts earned or incurred on transactions with related parties would be materially different if they had been earned or incurred with an unrelated third party.

10. LEASE COMMITMENTS

The Company leases office space and furniture and equipment under noncancelable operating lease agreements which expire at various dates.

Future minimum annual rentals under noncancelable operating leases at December 31, 2009, are as follows (in thousands):

2010	\$ 5,435
2011	3,457
2012	3,344
2013	3,273
2014	2,815
Thereafter	-

Rent expenses amounted to approximately \$7.0 million and \$7.1 million for the years ended December 31, 2009 and 2008, respectively.

11. REINSURANCE

Retrocession reinsurance treaties do not relieve the Company from its obligations to policyholders or ceding companies. Failure of retrocessionaires to honor their obligations could result in losses to the Company; consequently, allowances would be established for amounts deemed uncollectible. At December 31, 2009 and 2008, no allowances were deemed necessary. The Company regularly evaluates the financial condition of its reinsurers/retrocessionaires. At December 31, 2009 and 2008, there were no reinsurance receivables associated with a single nonaffiliated reinsurer with a carrying value in excess of 5% of admitted assets.

The effect of reinsurance on premiums and deposit type funds and amounts earned is as follows (in thousands):

	2009	2008
Direct premiums and amounts assessed against policyholders	\$ 2,259	\$ 2,222
Reinsurance assumed	5,528,623	6,798,210
Reinsurance ceded	<u>3,291,289</u>	<u>3,946,304</u>
Net premiums and amounts earned	<u>\$2,239,593</u>	<u>\$2,854,128</u>

The effect of reinsurance on policyholder benefits and dividends to policyholders (in thousands):

	2009	2008
Direct	\$ 1,638	\$ 13,701
Reinsurance assumed	5,206,624	5,864,831
Reinsurance ceded	<u>3,205,978</u>	<u>2,741,871</u>
Net policyholder benefits and dividends to policyholders	<u>\$2,002,284</u>	<u>\$3,136,661</u>

The impact of reinsurance on life insurance in-force is shown in the following schedule (in millions of dollars):

	Life Insurance in Force				Assumed/ Net Percent
	Direct	Assumed	Ceded	Net	
December 31, 2009	\$ 72	\$ 1,522,937	\$ 967,900	\$ 555,109	274.35 %
December 31, 2008	70	1,460,365	976,356	484,079	301.68 %

In the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus, policy and claim reserves are net of reinsurance ceded of \$7.6 billion and \$6.8 billion at December 31, 2009 and 2008, respectively.

Reinsurance agreements, whether facultative or automatic, may provide for recapture rights on the part of the ceding company. Recapture rights permit the ceding company to reassume all or a portion of the risk formerly ceded to the reinsurer after an agreed-upon period of time, generally ten years, or in some cases due to changes in the financial condition or ratings of the reinsurer. Recapture of business previously ceded does not affect premiums ceded prior to the recapture of such business, but would reduce premiums in subsequent periods. Additionally, some treaties give the ceding company the right to request the Company to place assets in trust for their benefit to support their reserve credits.

12. RESTRICTIONS OF SURPLUS

The Company generates cash flow from premium and investment income in excess of its immediate needs for policy obligations, expenses, and other requirements. Cash flow from operations is used to fund growth in the business.

The Company has a licensed branch office to conduct business in Hong Kong. In connection with this licensing, the Company agreed to internally allocate assets, as of December 31, 2009 and 2008, with a carrying value totaling \$303.7 million and \$286.6 million, respectively, to support the Hong Kong branch's reinsurance operations.

The Company has a licensed branch office to conduct business in Japan. In connection with this licensing, the Company was required to maintain capital and surplus of no less than 200.0 million yen or \$2.2 million, and 200.0 million yen, or \$2.2 million, as of December 31, 2009 and 2008, respectively.

The Company has a licensed branch office to conduct business in South Korea. In connection with this licensing, the Company was required to maintain capital and surplus of no less than 3.0 billion Korean won, or \$2.6 million, and 3.0 billion Korean won, or \$2.4 million, as of December 31, 2009 and 2008, respectively.

The Company has a licensed branch office to conduct business in New Zealand. In connection with this licensing, the Company was required to maintain capital and surplus of no less than 1.0 million New Zealand dollars, or \$0.7 million, and 1.0 million New Zealand dollars, or \$0.6 million, as of December 31, 2009 and 2008, respectively. The Company has also agreed to internally allocate assets with a carrying value totaling \$81.6 million and \$50.4 million as of December 31, 2009 and 2008, respectively, to support the New Zealand branch's reinsurance operations.

Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company's state of incorporation, Missouri, to \$141.7 million in 2010, an amount that is

based upon restrictions relating to the greater of prior year net income or 10% of prior year statutory-basis capital and surplus, but limited to no more than current unassigned surplus.

13. RISK-BASED CAPITAL

The insurance departments of various states, including the Company's domiciliary state of Missouri, impose risk-based capital ("RBC") requirements on insurance enterprises. The RBC calculation serves as a benchmark for the regulation of life insurance companies by state insurance regulators. The requirements apply various weighted factors to financial balances or activity levels based on their perceived degree of risk.

The RBC guidelines define specific capital levels where action by the Company or regulatory intervention is required based on the ratio of a Company's actual total adjusted capital (sum of capital and surplus and AVR) to control levels determined by the RBC formula. At December 31, 2009, the Company's actual total adjusted capital exceeded all regulatory requirements; thus, no action by the Company or its regulators is required.

14. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has agreed, under certain conditions, to assume life reinsurance business currently written by affiliated reinsurance companies under certain reinsurance agreements. These conditions generally include unusual or remote circumstances, such as change of control, insolvency, nonperformance under the reinsurance treaty, or loss of reinsurance license of such affiliate. Total net liabilities recorded by the affiliated entities associated with these reinsurance agreements were approximately \$919.2 million and \$747.2 million as of December 31, 2009 and 2008, respectively.

The Company has a commitment to fund investments in limited partnerships in the amount of \$63.6 million and \$71.5 million at December 31, 2009 and 2008, respectively. The Company anticipates that the majority of this amount will be invested over the next seven years; however, contractually this commitment could become due at the request of the counterparties. Investments in limited partnerships are carried at cost and are included in other invested assets in the statutory-basis statement of admitted assets, liabilities, and capital and surplus.

The Company has obtained letters of credit in favor of various unaffiliated insurance companies from which the Company assumes business. This allows the ceding company to take statutory-basis reserve credits. The letters of credit issued by the banks represent a guarantee of performance under the reinsurance agreements. There were approximately \$1.5 million of outstanding bank letters of credit in favor of unaffiliated entities as of December 31, 2009 and 2008.

The Company is subject to litigation in the normal course of its business. The Company currently has no material litigation. However, it is possible that an adverse outcome could, from time to time, have a material adverse effect on the Company's statutory-basis net income or cash flows in a particular reporting period.

15. SURPLUS AND SURPLUS NOTES

As of December 31, 2009 and 2008, unassigned surplus was represented (reduced) by the following cumulative changes (in millions):

	2009	2008
Unrealized gains and losses, net of deferred income taxes	\$ 14.9	\$ 6.9
Asset valuation reserve	(14.3)	(2.6)
Disallowed interest maintenance reserve	(22.0)	(33.5)
Unauthorized reinsurance liability	(7.1)	(0.4)
Other non-admitted assets	(119.4)	(143.1)

On December 15, 1997, the Company issued \$40.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2027, and bear an interest rate of 7.35%, with interest payable annually on December 15. Total interest paid related to this surplus note was \$2.9 million in 2009 and 2008. As of December 31, 2009 and 2008, interest in the amount of \$0.1 million was payable on this note.

On December 11, 1998, the Company issued \$60.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2028, and bear an interest rate of 7.08% with interest payable annually on December 15. Total interest paid related to this surplus note was \$4.2 million in 2009 and 2008. As of December 31, 2009 and 2008, interest in the amount of \$0.2 million was payable on this note.

The surplus notes are not subject to redemption prior to maturity and any payment of principal or interest may be made only with the approval of the Director of the MDI. The surplus notes will rank pari passu with any other future surplus notes of RGA Reinsurance and with all other similarly subordinated claims. In the event that the Company is subject to such a proceeding, holders of indebtedness, policy claims and prior claims would be afforded a greater priority under the laws of the State of Missouri (RSMo 375.1218) and the terms of the surplus notes and, accordingly, would have the right to be paid in full before any payments of interest or principal are made to RGA, Inc.

16. RGA FINANCIAL GROUP, L.L.C.

On October 1, 2008, the Company divested its ownership interest in RGA Financial Group, L.L.C. ("RGAFG") through the payment of a \$2.7 million stockholder dividend to RCM. RGAFG is an affiliated reinsurance marketing company primarily involved in financial reinsurance. The stockholder dividend represented the unamortized goodwill included the carrying value of RGAFG as of the divestiture date. On July 1, 2000, the Company had acquired, under the statutory-basis purchase method, a 20% interest in the earnings stream of RGAFG. The purchase cost to the Company was \$13.3 million resulting in goodwill in the amount of \$13.3 million. Goodwill amortization related to the purchase of RGAFG was \$1.0 million for the period January 1, 2008 through September 30, 2008.

17. ELECTRONIC DATA PROCESSING EQUIPMENT

Depreciation and amortization of major classes of EDP assets for the year ended December 31, 2009 and 2008, are as follows (in thousands):

2009	Accumulated Depreciation December 31, 2008	Depreciation Expense 2009	Disposals 2009	Accumulated Depreciation December 31, 2009
Servers and components	\$ 5,210	\$ 1,720	\$ (1)	\$ 6,929
Personal computers	<u>1,137</u>	<u>408</u>	<u>-</u>	<u>1,545</u>
	<u>\$ 6,347</u>	<u>\$ 2,128</u>	<u>\$ (1)</u>	<u>\$ 8,474</u>

	Accumulated Amortization December 31, 2008	Amortization Expense 2009	Impairments 2009	Accumulated Amortization December 31, 2009
Nonadmitted software	<u>\$ 26,881</u>	<u>\$ 1,462</u>	<u>\$ -</u>	<u>\$ 28,343</u>

2008	Accumulated Depreciation December 31, 2007	Depreciation Expense 2008	Disposals 2008	Accumulated Depreciation December 31, 2008
Servers and components	\$ 3,529	\$ 1,790	\$ (109)	\$ 5,210
Personal computers	<u>1,011</u>	<u>383</u>	<u>(257)</u>	<u>1,137</u>
	<u>\$ 4,540</u>	<u>\$ 2,173</u>	<u>\$ (366)</u>	<u>\$ 6,347</u>

	Accumulated Amortization December 31, 2007	Amortization Expense 2008	Impairments 2008	Accumulated Amortization December 31, 2008
Nonadmitted software	<u>\$ 23,226</u>	<u>\$ 3,655</u>	<u>\$ -</u>	<u>\$ 26,881</u>

18. SUBSEQUENT EVENTS

Effective January 1, 2010, the Company completed the acquisition of ReliaStar Life Insurance Company's U.S. group life and group accident and health reinsurance business. The acquisition was structured as an indemnity coinsurance agreement and is expected to enhance the Company's expertise and product offerings in the U.S. group life and accident and health market. This acquisition is projected to initially produce approximately \$277.0 million of annual premium and \$493.0 million of statutory policy reserves. Subsequent events have been evaluated through May 27, 2010, the date the statutory-basis financial statements were available to be issued.

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**ADDITIONAL INFORMATION
(SEE INDEPENDENT AUDITORS' REPORT)**



SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES

For The Year Ended December 31, 2009

(To Be Filed by April 1)

OF The RGA REINSURANCE COMPANY

Address (City, State and Zip Code) Chesterfield, MO 63017-6039.....

NAIC Group Code 4639.....NAIC Company Code 93572.....Employer's ID Number 43-1235868.....

The Investment Risks Interrogatories are to be filed by April 1. They are also to be included with the Audited Statutory Financial Statements.

Answer the following interrogatories by reporting the applicable U. S. dollar amounts and percentages of the reporting entity's total admitted assets held in that category of investments.

1. Reporting entity's total admitted assets as reported on Page 2 of this annual statement.\$14,893,433,483
2. Ten largest exposures to a single issuer/borrower/investment.

	1	2	3	4
	Issuer	Description of Exposure	Amount	Percentage of Total Admitted Assets
2.01	FEDERAL HOME LOAN MORTGAGE CORP - STRUCT	BONDS	\$264,188,309	.....1.8 %
2.02	BANK OF NEW YORK MELLON CORP	CASH EQUIVALENTS, BONDS, PSTOCK	\$138,319,643	.....0.9 %
2.03	BANK OF AMERICA CORP	BONDS, PSTOCK, SHORT TERM	\$64,577,450	.....0.4 %
2.04	PNC FINANCIAL SERVICES GROUP INC (THE)	BONDS, PSTOCK, SHORT TERM	\$61,190,126	.....0.4 %
2.05	FEDERAL HOME LOAN MORTGAGE CORP - STRUCT	BONDS	\$57,628,957	.....0.4 %
2.06	NEW SOUTH WALES (STATE OF)	BONDS	\$55,436,736	.....0.4 %
2.07	GNMA - STRUCTURED	BONDS	\$53,350,987	.....0.4 %
2.08	REINSURANCE GROUP OF AMERICA INCORPORATED	BONDS	\$39,983,714	.....0.3 %
2.09	WELLS FARGO & COMPANY	BONDS, PSTOCK	\$39,091,321	.....0.3 %
2.10	VERIZON COMMUNICATIONS INC	BONDS	\$38,786,725	.....0.3 %

3. Amounts and percentages of the reporting entity's total admitted assets held in bonds and preferred stocks by NAIC rating.

Bonds		1	2	Preferred Stocks		3	4
3.01	NAIC-1	\$3,439,341,544	.....23.1 %	3.07	P/RP-1	\$44,875,469	.....0.3 %
3.02	NAIC-2	\$2,088,366,490	.....14.0 %	3.08	P/RP-2	\$54,797,264	.....0.4 %
3.03	NAIC-3	\$379,408,528	.....2.5 %	3.09	P/RP-3	\$21,971,017	.....0.1 %
3.04	NAIC-4	\$156,131,660	.....1.0 %	3.10	P/RP-4	\$379,545	.....0.0 %
3.05	NAIC-5	\$23,629,452	.....0.2 %	3.11	P/RP-5	\$%
3.06	NAIC-6	\$21,183,933	.....0.1 %	3.12	P/RP-6	\$2,911,147	.....0.0 %

4. Assets held in foreign investments:

4.01	Are assets held in foreign investments less than 2.5% of the reporting entity's total admitted assets?	Yes [] No [X]
4.02	Total admitted assets held in foreign investments	\$1,017,279,870 .....6.8 %
4.03	Foreign-currency-denominated investments	\$260,555,062 .....1.7 %
4.04	Insurance liabilities denominated in that same foreign currency	\$85,332,521 .....0.6 %

If response to 4.01 above is yes, responses are not required for interrogatories 5 – 10.

**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

5. Aggregate foreign investment exposure categorized by NAIC sovereign rating:

		1	2
5.01	Countries rated NAIC-1.....	\$ 950,694,797	6.4 %
5.02	Countries rated NAIC-2.....	\$ 40,812,870	0.3 %
5.03	Countries rated NAIC-3 or below.....	\$ 25,772,203	0.2 %

6. Largest foreign investment exposures by country, categorized by NAIC sovereign rating:

		1	2
Countries rated NAIC-1:			
6.01	Country 1: AUSTRALIA.....	\$ 258,277,189	1.7 %
6.02	Country 2: UNITED KINGDOM.....	\$ 177,364,480	1.2 %
Countries rated NAIC-2:			
6.03	Country 1: MEXICO.....	\$ 28,062,870	0.2 %
6.04	Country 2: INDIA.....	\$ 12,750,000	0.1 %
Countries rated NAIC-3 or below:			
6.05	Country 1: SUPRANATIONALS.....	\$ 21,412,517	0.1 %
6.06	Country 2: LIBERIA.....	\$ 2,509,544	0.0 %

		1	2
7.	Aggregate unhedged foreign currency exposure.....	\$ 260,555,062	1.7 %

8. Aggregate unhedged foreign currency exposure categorized by the country's NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1.....	\$ 237,247,464	1.6 %
8.02	Countries rated NAIC-2.....	\$ 5,172,795	0.0 %
8.03	Countries rated NAIC-3 or below.....	\$ 18,134,803	0.1 %

9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:

		1	2
Countries rated NAIC-1:			
9.01	Country 1: AUSTRALIA.....	\$ 189,555,803	1.3 %
9.02	Country 2: FRANCE.....	\$ 18,192,321	0.1 %
Countries rated NAIC-2:			
9.03	Country 1: MEXICO.....	\$ 5,172,795	0.0 %
9.04	Country 2:	\$	%
Countries rated NAIC-3 or below:			
9.05	Country 1: SUPRANATIONALS.....	\$ 16,284,664	0.1 %
9.06	Country 2: INDONESIA.....	\$ 1,850,144	0.0 %

10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:

	1	2	3	4
	Issuer	NAIC Rating		
10.01	CREDIT SUISSE GROUP AG.....	1	\$ 25,576,084	0.2 %
10.02	TELECOM ITALIA SPA.....	2	\$ 25,237,291	0.2 %
10.03	WESTPAC BANKING CORP.....	1	\$ 20,041,480	0.1 %
10.04	HSBC HOLDINGS PLC.....	1, P1	\$ 18,954,049	0.1 %
10.05	ENEL SPA.....	1	\$ 16,924,866	0.1 %
10.06	LLOYDS BANKING GROUP PLC.....	6,1,3	\$ 16,834,161	0.1 %
10.07	VODAFONE GROUP PLC.....	1	\$ 16,558,900	0.1 %
10.08	DEUTSCHE TELEKOM AG.....	2	\$ 15,410,804	0.1 %
10.09	BARCLAYS PLC.....	1,2, P2	\$ 15,256,685	0.1 %
10.10	ROYAL BANK OF SCOTLAND GROUP PLC.....	1,2,3,P4	\$ 15,023,563	0.1 %

**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

11. Amounts and percentages of the reporting entity's total admitted assets held in Canadian investments and unhedged Canadian currency exposure:

11.01 Are assets held in Canadian investments less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐

If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11

12. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments with contractual sales restrictions.

12.01 Are assets held in investments with contractual sales restrictions less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐

If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.

13. Amounts and percentages of admitted assets held in the ten largest equity interests:

13.01 Are assets held in equity interest less than 2.5% of the reporting entity's total admitted assets Yes ☒ No ☐

If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.

**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

14. Amounts and percentages of the reporting entity's total admitted assets held in nonaffiliated, privately placed equities:
- 14.01 Are assets held in nonaffiliated, privately placed equities less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
- If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.
15. Amounts and percentages of the reporting entity's total admitted assets held in general partnership interests:
- 15.01 Are assets held in general partnership interests less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐
- If response to 15.01 is yes, responses are not required for the remainder of Interrogatory 15.
16. Amounts and percentages of the reporting entity's total admitted assets held in mortgage loans:
- 16.01 Are mortgage loans reported in Schedule B less than 2.5% of the reporting entity's total admitted assets? Yes ☐ No ☒
- If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1	2	3
	Type (Residential, Commercial, Agricultural)		
16.02	COMMERCIAL - WALGREENS	\$ 17,691,960	0.1 %
16.03	COMMERCIAL - RHINE DEVELOPMENT, INC.	\$ 14,890,414	0.1 %
16.04	COMMERCIAL - WINDROSE TUSCON PROPERTIES	\$ 10,716,756	0.1 %
16.05	COMMERCIAL - PARKSIDE GRESHAM LLC	\$ 10,088,263	0.1 %
16.06	COMMERCIAL - OPS PLAZA MEMBERS, LLC	\$ 10,029,487	0.1 %
16.07	COMMERCIAL - BUTTRUM DEER VALLEY COMMERC	\$ 9,599,829	0.1 %
16.08	COMMERCIAL - IVY PLACE PARTNERS, LLC	\$ 9,245,309	0.1 %
16.09	COMMERCIAL - THE RICHEY FAMILY PARTNERS	\$ 8,905,897	0.1 %
16.10	COMMERCIAL - BERSHIRE CLUB PARTNERS	\$ 8,839,516	0.1 %
16.11	COMMERCIAL - DOTHAN PLACE APARTMENTS, LL	\$ 8,766,077	0.1 %

**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

Amount and percentage of the reporting entity's total admitted assets held in the following categories of mortgage loans:

		Loans	
16.12 Construction Loans	\$		%
16.13 Mortgage loans over 90 days past due	\$ 4,482,927	0.0	%
16.14 Mortgage loans in the process of foreclosure	\$		%
16.15 Mortgage loans foreclosed	\$		%
16.16 Restructured mortgage loans	\$ 9,612,679	0.1	%

17. Aggregate mortgage loans having the following loan-to-value ratios as determined from the most current appraisal as of the annual statement date:

Loan-to-Value	Residential		Commercial		Agricultural	
	1	2	3	4	5	6
17.01 above 95%	\$	%	\$ 22,244,584	0.1 %	\$	%
17.02 91% to 95%	\$	%	\$ 1,881,839	0.0 %	\$	%
17.03 81% to 90%	\$	%	\$ 34,866,325	0.2 %	\$	%
17.04 71% to 80%	\$	%	\$ 88,595,678	0.6 %	\$	%
17.05 below 70%	\$	%	\$ 638,104,251	4.3 %	\$	%

18. Amounts and percentages of the reporting entity's total admitted assets held in each of the five largest investments in real estate:

18.01 Are assets held in real estate reported less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐

If response to 18.01 above is yes, responses are not required for the remainder of Interrogatory 18.

19. Report aggregate amounts and percentages of the reporting entity's total admitted assets held in investments held in mezzanine real estate loans:

19.01 Are assets held in investments held in mezzanine real estate loans less than 2.5% of the reporting entity's total admitted assets? Yes ☒ No ☐

If response to 19.01 above is yes, responses are not required for the remainder of Interrogatory 19.

**SUPPLEMENTAL EXHIBIT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES (cont.)

20. Amounts and percentages of the reporting entity's total admitted assets subject to the following types of agreements:

	At Year-end			1st Quarter	At End of Each Quarter	
	1	2		3	2nd Quarter	3rd Quarter
					4	5
20.01 Securities lending agreements (do not include assets held as collateral for such transactions)	\$	%	%	\$	\$	\$
20.02 Repurchase agreements	\$	%	%	\$	\$	\$
20.03 Reverse repurchase agreements	\$	%	%	\$	\$	\$
20.04 Dollar repurchase agreements	\$	%	%	\$	\$	\$
20.05 Dollar reverse repurchase agreements	\$	%	%	\$	\$	\$

21. Amounts and percentages of the reporting entity's total admitted assets for warrants not attached to other financial instruments, options, caps, and floors:

	Owned			Written	
	1	2		3	4
21.01 Hedging	\$	%	%	\$	%
21.02 Income generation	\$	%	%	\$	%
21.03 Other	\$	%	%	\$	%

22. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for collars, swaps, and forwards:

	At Year-end			1st Quarter	At End of Each Quarter	
	1	2		3	2nd Quarter	3rd Quarter
					4	5
22.01 Hedging	\$ 40,115,587	0.3	%	\$ 1,418,331	\$ 11,682,734	\$ 24,035,358
22.02 Income generation	\$	%	%	\$	\$	\$
22.03 Replications	\$	%	%	\$	\$	\$
22.04 Other	\$	%	%	\$	\$	\$

23. Amounts and percentages of the reporting entity's total admitted assets of potential exposure for futures contracts:

	At Year-end			1st Qtr	At End of Each Quarter	
	1	2		3	2nd Qtr	3rd Qtr
					4	5
23.01 Hedging	\$	%	%	\$	\$	\$
23.02 Income generation	\$	%	%	\$	\$	\$
23.03 Replications	\$	%	%	\$	\$	\$
23.04 Other	\$	%	%	\$	\$	\$

**ANNUAL STATEMENT FOR THE YEAR 2009 OF THE
RGA REINSURANCE COMPANY**

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities	286,319,798	3.355	286,319,798	3.355
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies				
1.22 Issued by U.S. government sponsored agencies	40,363,446	0.473	40,363,446	0.473
1.3 Non-U.S. government (including Canada, excluding mortgaged-backed securities)	156,342,280	1.832	156,342,280	1.832
1.4 Securities issued by states, territories, and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations				
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	8,080,438	0.095	8,080,438	0.095
1.43 Revenue and assessment obligations	88,327,620	1.035	88,327,620	1.035
1.44 Industrial development and similar obligations				
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA	662,515	0.008	662,515	0.008
1.512 Issued or guaranteed by FNMA and FHLMC	190,241,910	2.229	190,241,910	2.229
1.513 All other				
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA	187,143,753	2.193	187,143,753	2.193
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521				
1.523 All other	1,318,058,511	15.446	1,318,058,511	15.446
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	2,702,229,450	31.666	2,702,229,450	31.666
2.2 Unaffiliated non-U.S. securities (including Canada)	957,339,099	11.219	957,339,099	11.219
2.3 Affiliated securities	39,983,714	0.469	39,983,714	0.469
3. Equity interests:				
3.1 Investments in mutual funds				
3.2 Preferred stocks:				
3.21 Affiliated				
3.22 Unaffiliated	124,934,441	1.464	124,934,441	1.464
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated				
3.32 Unaffiliated	1,925,068	0.023	1,925,068	0.023
3.4 Other equity securities:				
3.41 Affiliated	895,338	0.010	895,338	0.010
3.42 Unaffiliated	30,892,521	0.362	30,892,521	0.362
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated				
3.52 Unaffiliated				
4. Mortgage loans:				
4.1 Construction and land development				
4.2 Agricultural				
4.3 Single family residential properties				
4.4 Multifamily residential properties				
4.5 Commercial loans	785,692,676	9.207	785,692,676	9.207
4.6 Mezzanine real estate loans				
5. Real estate investments:				
5.1 Property occupied by the company	8,812,489	0.103		
5.2 Property held for the production of income (including \$ of property acquired in satisfaction of debt)			8,812,489	0.103
5.3 Property held for sale (including \$ property acquired in satisfaction of debt)				
6. Contract loans	1,136,563,633	13.319	1,136,563,633	13.319
7. Receivables for securities	11,775,035	0.138	11,775,035	0.138
8. Cash, cash equivalents and short-term investments	321,097,981	3.763	321,097,981	3.763
9. Other invested assets	135,869,422	1.592	135,869,422	1.592
10. Total invested assets	8,533,551,138	100.000	8,533,551,138	100.000

RGa REINSURANCE COMPANY

SCHEDULE OF SELECTED FINANCIAL DATA

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

Investment income earned:	
Government bonds	\$ 2,100,217
Other bonds (unaffiliated)	341,072,885
Bonds of affiliates	3,581,625
Preferred stocks (unaffiliated)	11,468,523
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	287,631
Common stocks of affiliates	-
Mortgage loans	46,242,014
Real estate	198,693
Premium notes, policy loans, and liens	68,212,728
Collateral loans	-
Cash and cash equivalents	-
Short-term investments	2,547,270
Other invested assets	4,221,299
Derivative instruments	(749,782)
Aggregate write-ins for investment income	<u>4,245</u>
Gross investment income	<u>\$ 479,187,348</u>
Real estate owned — book value less encumbrances	<u>\$ 8,812,489</u>
Mortgage loans — book value:	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	<u>785,692,677</u>
Total mortgage loans	<u>\$ 785,692,677</u>
Mortgage loans by standing — book value:	
Good standing	\$ 771,597,071
Good standing with restructured terms	9,612,679
Interest overdue more than ninety days — not in foreclosure	4,482,927
Foreclosure in process	-
Other long-term assets — statement value	-
Collateral loans	-
Bonds and stocks of parents, subsidiaries, and affiliates — book value:	
Bonds	-
Preferred stocks	-
Common stocks	895,338

(Continued)

RGa REINSURANCE COMPANY

SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

Bonds and short-term investments by class and maturity:	
Bonds and short-term investments by maturity — statement value:	
Due within one year or less	\$ 449,442,580
Over 1 year through 5 years	1,465,700,193
Over 5 years through 10 years	2,549,517,891
Over 10 years through 20 years	589,505,985
Over 20 years	<u>1,053,894,958</u>
Total by maturity	<u>\$ 6,108,061,607</u>
Bonds and short-term investments by class — statement value:	
Class 1	\$ 3,439,341,544
Class 2	2,088,366,490
Class 3	379,408,528
Class 4	156,131,660
Class 5	23,629,452
Class 6	<u>21,183,933</u>
Total by class	<u>\$ 6,108,061,607</u>
Total bonds and short-term investments publicly traded	\$ 4,552,551,496
Total bonds and short-term investments privately traded	1,555,510,111
Preferred stocks — statement value	124,934,441
Common stocks — market value	33,712,926
Short-term investments — book value	114,633,686
Financial options owned — statement value	-
Financial options written and in force — statement value	-
Financial options open — statement value	-
Financial futures contracts open — current price	-
Cash on deposit	61,349,549
Life insurance in force:	
Industrial	-
Ordinary	538,608,354,638
Credit Life	1,559,634,208
Group Life	14,940,916,502
Amount of accidental death insurance in force under ordinary policies	215,376,554
Life insurance policies with disability provisions in force:	
Industrial	-
Ordinary	37,268,939,799
Credit Life	-
Group Life	-

(Continued)

RGa REINSURANCE COMPANY

SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2009

Supplementary contracts in force:

Ordinary — not involving life contingencies:

Amount on deposit	\$	-
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Income payable		-
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Ordinary — involving life contingencies — income payable		-
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Group — not involving life contingencies:

Amount of deposit		-
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Income payable		-
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Group — involving life contingencies — income payable		-
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Annuities:

Ordinary:

Immediate — amount of income payable		-
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Deferred — fully paid account balance	12,929,291,291	
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Deferred — not fully paid — account balance		-
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Group:

Amount of income payable		-
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Fully paid account balance	31,739,595	
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Not fully paid — account balance		-
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Accident and health insurance — premiums in force:

Ordinary	144,419,353	
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Group	1,660,610	
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Credit		-
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Deposit funds and dividend accumulations:

Deposit funds — account balance	410,728,539	
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Dividend accumulations — account balance		-
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Claim payments 2009:

Group accident and health — year ended December 31, 2009:

2009		-
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2008		-
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2007		-
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Other accident and health:

2009		-
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2008		-
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2007		-
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Other coverages that use developmental methods to evaluate claims reserves:

2009		-
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2008		-
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2007		-
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(Concluded)