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RGA Reinsurance Company

(New Zealand Branch)

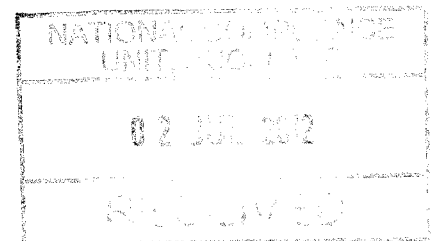
Annual Financial Report for the year ended 31 December 2011

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



RGA

RGA Reinsurance Company (New Zealand Branch)

Statement of Comprehensive Income for the Year Ended 31 December 2011

	Note	2011 \$	2010 \$
Revenue			
Premium revenue from reinsurance contracts	6	81,769,694	73,676,967
Outward reinsurance expense		(2,290,960)	(2,344,569)
Net insurance premium revenue		79,478,734	71,332,398
Investment income	7	4,905,235	7,795,292
Other income	8	25,846	102,809
Total Revenue		84,409,815	79,230,499
Claims and expenses			
Claims expense from reinsurance contracts	9	44,475,391	37,001,854
Reinsurance recoveries		(1,360,332)	(2,602,199)
Net claims expense		43,115,059	34,399,655
Policy acquisition costs	11	9,679,096	14,380,938
Other expenses	11	14,184,874	13,013,716
Movement in net insurance contract liabilities	19(a)	10,713,814	(18,568,772)
Total claims and expenses		77,692,843	43,225,537
Profit before related income tax expense		6,716,972	36,004,962
Income tax expense	21	39,410	39,827
Profit for the year		6,677,562	35,965,135
Other comprehensive income for the year		-	-
Total comprehensive income for the year	17	6,677,562	35,965,135

The statement of Comprehensive Income is to be read in conjunction with the notes to the Financial Statements set out on pages 5 to 25.

RGA Reinsurance Company (New Zealand Branch)

Statement of Financial Position as at 31 December 2011

	Note	2011 \$	2010 \$
Assets			
Cash and cash equivalents		6,601,737	11,094,191
Premium receivable	12	17,305,543	4,522,073
Other receivables	12	2,496,215	3,087,777
Investments	13	163,628,041	126,375,463
Net insurance contract assets	19	-	4,446,487
Total assets		190,031,536	149,525,991
Liabilities			
Outstanding claims payable	14	17,882,097	13,388,600
Other payables	14	697,720	1,490,967
Net insurance contract liabilities	19	6,267,327	-
Total liabilities		24,847,144	14,879,567
Net assets		165,184,392	134,646,424
Head office account		135,794,212	111,933,806
Retained profit		29,390,180	22,712,618
Total deemed equity		165,184,392	134,646,424

The statement of Financial Position is to be read in conjunction with the notes to the Financial Statements set out on pages 5 to 25.

RGA Reinsurance Company (New Zealand Branch)

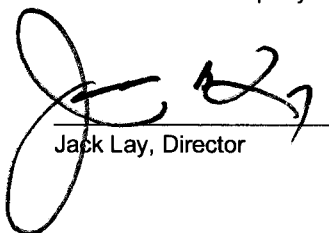
Statement of Changes in Equity for the year ended 31 December 2011

	Head Office Account	Retained Earnings	Total
Balance at 1 January 2010	116,181,360	(13,252,517)	102,928,843
Profit for the year	-	35,965,135	35,965,135
Transfer in from Head Office	2,936,585	-	2,936,585
Decrease in Head Office Current Account	(7,184,139)	-	(7,184,139)
Balance at 31 December 2010	111,933,806	22,712,618	134,646,424
Profit for the year	-	6,677,562	6,677,562
Transfer in from Head Office	30,476,143	-	30,476,143
Decrease in Head Office Current Account	(6,615,737)	-	(6,615,737)
Balance at 31 December 2011	135,794,212	29,390,180	165,184,392

The statement of Changes in Equity is to be read in conjunction with the notes to the Financial Statements set out on pages 5 to 25.

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


Todd Larson, Director


Jack Lay, Director

May 31, 2012
Date

May 31, 2012
Date

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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 ultimate parent entity of RGA Reinsurance Company is Reinsurance Group of America Incorporated, a company 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.

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 International Financial Reporting Standards ("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 2012.

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 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.

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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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. Premiums that do not have a regular due date are recognised as revenue on a cash received 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.

Interest income

Interest is recognised on an accruals basis.

Other income

Allowances received from reinsurers under retrocession contracts are recorded as other income and recognised in accordance with the pattern of reinsurance service received. Accordingly, a portion of other income may be deferred at the balance date.

(c) Outwards reinsurance premiums

Premiums ceded to reinsurers under retrocession contracts are recorded as an outward reinsurance expense and recognised 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 income 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

Policy 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.

RG A Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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, claims that are incurred but not yet reported (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) Receivables

The collectability of receivables is assessed on an ongoing basis and specific provision is made for any doubtful debts.

(i) Assets backing insurance contract liabilities

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

Financial assets held to back life insurance activities are designated at fair value through profit and loss. Initial recognition 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. Fair value is determined as follows:

- Cash and cash equivalents and bank overdrafts are carried at the face value of the amounts deposited or drawn. The carrying amount of cash and cash equivalents approximates to its fair value;
- Receivables are stated at their cost less impairment losses. This is the best estimate of fair value as they are settled within a short period;
- Listed fixed interest securities are stated at the bid price of the instrument listed on the relevant exchange. This is taken as their fair value;
- Unlisted fixed interest securities, if held, are recorded at values supplied by independent pricing vendors. This is taken as their fair value.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

2. Summary of significant accounting policies (continued)

(j) Deferred acquisition costs

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

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.

(k) Cash and cash equivalents

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

(l) Outstanding claims liability

The liability for outstanding claims is recorded as part of payables. 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 balance date. For claims with a disability income benefit, the liability for outstanding claims is measured as any outstanding amounts payable on or prior to balance date.

(m) Income tax

The Branch adopts the tax payable method of tax accounting. Income tax expense for the current period equals 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).

(n) Foreign currency

All foreign currency transactions during the year are brought to account using the exchange rate in effect at the date of the transaction. Foreign currency monetary items at reporting date are translated at the exchange rate existing at reporting date. Non-monetary assets and liabilities carried at fair values that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined.

Exchange differences are recognised in profit or loss in the period in which they arise.

(o) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In those circumstances, the GST is recognised as part of the cost of acquisition of an asset or as part of an item of expense.

Receivables and payables are stated inclusive of GST. The net amount of GST recoverable from, or payable to, the tax authority is included as part of current asset or liability in the Statement of Financial Position.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

3. Critical 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. All reinsurance contracts are with a pool of international retrocessionaires and recoverability of such assets is not considered to be impaired by any counterparty or credit risk.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial investigation is 31 December 2011. Mr. Peter Davies (B.Bus.Sc., FIA, FNZSA) conducted the actuarial investigation. The amount of insurance contract liabilities has been determined by Mr. Davies in accordance with the methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries. 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 6.0% to 48.0%, based on the age of the life insured, duration, gender, benefit type, amount at risk, cedant, treaty type and smoker status.

Rates of taxation

The Branch is taxed as a resident insurer for tax purposes. The Branch is liable to taxation on 28% (2010: 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 2011

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:

- 2.4% to 3.8% pa (2010: 5.20% pa) for individual and group disability business.
- 5.2% pa (2010: 5.70% 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 2010 to 31 December 2011

Assumption category	Effect on net profit margins increase/(decrease)	Effect on net insurance contract liabilities increase/(decrease)
Discount and inflation rates	1,263,627	(1,263,627)
Mortality and morbidity	(838,541)	838,541
Discontinuance rates	-	-
Expenses	-	-
Total	425,086	(425,086)

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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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 costs 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 2011

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	Equity at 31 December
		2011 \$	2011 \$
Balance per financial statements		6,677,562	165,184,392
Result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	-	-
Worsening of discontinuance rate	20%	-	-
Improvement in discontinuance rate	20%	-	-
Increase in discount rate	1%	(2,208,307)	(2,208,307)
Reduction in discount rate	1%	1,912,798	1,912,798
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rates	1%	(2,483,182)	(2,483,182)

Notes to the Financial Statements for the Year Ended 31 December 2011

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 regularly reviews and assesses its risk exposure and the effectiveness of its controls.

The Branch's objective is to satisfactorily manage the identified risks. 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.

Operational risk, incorporating Legal and Regulatory risk, is 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 of 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 is met. The solvency reserve is calculated based on the requirements of the Reserve Bank of New Zealand's Solvency Standard for Life Insurance Business (issued August 2011) which supersedes the New Zealand Society of Actuaries Professional standard No. 5.01 Solvency Reserving for Life Insurance Business which had formed the basis for the calculation of the solvency reserve for 2010. 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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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

(c) Methods to monitor and assess insurance risk exposures

Pricing oversight

All pricing is subject to an internal review and sign-off process to ensure that appropriate methodology and assumptions have been used. Pricing bases include appropriate return on capital targets.

Experience analysis

Experience studies are conducted regularly to determine the adequacy of pricing assumptions. The results are used to determine prospective changes in pricing and reserving.

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. The process undertaken and controls over the process are reviewed by the parent. Additionally, an annual review to ensure adequate controls are in place in the financial reporting process 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 reviewing 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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

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

(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.

(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 2011

6. Insurance premium revenue

Premium revenue from reinsurance contracts

2011	2010
\$	\$
81,769,694	73,676,967

7. Investment income

Interest income:

Bank deposits

Investments at fair value through profit or loss

(Loss)/gain on disposal of investments

Change in fair value of investment carried at fair value
through profit or loss

Total investment income

2011	2010
\$	\$
228,611	247,099
7,030,679	6,997,266
(1,562,745)	47,466
(791,310)	503,461
4,905,235	7,795,292

8. Other income

Reinsurance allowances

Interest revenue on funds withheld

Total other income

2011	2010
\$	\$
25,846	82,750
-	20,059
25,846	102,809

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

9. Gross claims expense

Claims expense from reinsurance contracts

2011	2010
\$	\$
44,475,391	37,001,854

10. Auditors remuneration

Audit fees paid and payable

2011	2010
\$	\$
110,337	115,618

The Branch's auditor is Deloitte Touche Tohmatsu.

11. Operating expenses

Policy acquisition costs
Commission
Other

Policy maintenance cost
Commission
Other

Total operating expenses

2011	2010
\$	\$
6,533,879	11,772,695
3,145,217	2,608,243
9,679,096	14,380,938
10,414,471	9,596,888
3,770,403	3,416,828
14,184,874	13,013,716
23,863,970	27,394,654

12. Receivables

Premium Receivable⁽¹⁾

2011	2010
\$	\$
17,305,543	4,522,073

Other receivables

Receivables from reinsurance
Lease rental bond
Investment income accrued and receivable

Total other receivables

969,943	1,804,196
1,079	1,079
1,525,193	1,282,502
2,496,215	3,087,777

1,282

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

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

13. Investments

Financial assets at fair value through profit or loss:

Interest bearing securities:

National Government

Private Sector (Unsecured)

Total Investment Assets

2011	2010
\$	\$
66,320,443	1,022,310
97,307,598	125,353,153
163,628,041	126,375,463

The Branch has deposited government stock with the face value of \$1,000,000 (2010: \$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

Other payables

Related entities

Income tax payable

Other Creditors

Total other payables

2011	2010
\$	\$
17,882,097	13,388,600

135,661	541,860
79,235	79,807
482,824	869,300
697,720	1,490,967

15. Head Office

RGA Reinsurance Company (New Zealand Branch) is a branch of RGA Reinsurance Company (RGA Re), a company incorporated in the United States of America. RGA Re is a wholly owned subsidiary of Reinsurance Group of America Inc. (RGA Inc.).

16. Related Parties

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

RGA Australian Holdings Pty Ltd (RGAH), another wholly owned subsidiary of RGA Inc, provides the Branch with administration and management services. The Branch incurred and paid \$6,433,979 expenditure for services in 2011 (\$5,670,895 in 2010). As at 31 December 2011, the amount payable to RGAH was \$135,660 (\$541,860 in 2010). The amount payable is not subject to interest charges or any repayment conditions.

During the year, the Branch did not provide or receive any loan from related parties.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

17. Statement of sources of operating profit

The Branch operating profit after income tax is represented by:

	2011	2010
	\$	\$
Planned margins of revenues over expenses released	3,385,368	4,571,112
Difference between actual and assumed experience	(3,898,432)	12,058,250
Effects of changes to underlying assumptions	425,086	1,014,473
Reversal / (capitalisation) of expected future losses	-	8,073,879
Investment earnings on assets in excess of insurance contract liabilities	6,765,540	10,247,421
Branch profit after tax	6,677,562	35,965,135

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements **for the Year Ended 31 December 2011**

18. Prudential reserving requirement of the life fund

NZ IFRS 4 and the Solvency Standard for Life Insurance Business from the Reserve Bank of New Zealand (2010: 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:

	2011	2010
	\$	\$
Prudential reserving requirement	171,383,974	105,495,164
Represented by:		
- Current Termination Value--CTV	77,387,295	60,844,042
- Other Liabilities	7,553,353	1,490,967
- Solvency Reserve	86,443,326	43,160,155
	171,383,974	105,495,164
Assets available for solvency reserve	109,421,939	80,300,630
Determined as:		
- Excess of Net Policy Liability over Current Termination Value	(55,762,453)	(54,345,797)
- Capital and Retained Profits required for solvency	142,205,779	97,505,953
- Excess Assets	22,978,613	37,140,474
	109,421,939	80,300,630
Solvency Reserve %	101.8	69.2
Coverage of Solvency Reserve	1.3	1.9

Explanatory Notes:

- The Prudential Reserving Requirement is the minimum level of assets required to be held in the Life Fund, as per the Solvency Standard for Life Insurance Business from the Reserve Bank of New Zealand (2010: Prudential Reserving Professional Standard No. 5.01 from 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.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

19. Net Policy Liabilities Assumed Under Reinsurance

Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

	Note	2011 \$	2010 \$
Gross insurance contract (assets)/liabilities at 1 January		(1,324,674)	18,155,598
Increase/(decrease) in insurance contract liabilities reflected in the Statement of Comprehensive Income	(i)	12,988,899	(19,480,272)
Gross insurance contract liabilities at 31 December		11,664,225	(1,324,674)
Liabilities ceded under reinsurance			
Opening balance at 1 January		3,121,813	4,033,313
Increase/(decrease) in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	2,275,085	(911,500)
Closing balance at 31 December		5,396,898	3,121,813
Net insurance contract liabilities/(assets) at 31 December		6,267,327	(4,446,487)
(i) less (ii) = increase/(decrease) in net insurance contract liabilities as disclosed in the Statement of Comprehensive Income		10,713,814	(18,568,772)
Expected to be realised within 12 months		26,331,096	25,388,146
Expected to be realised in more than 12 months		(20,063,769)	(29,834,633)
		6,267,327	(4,446,487)

(b) Components of net life insurance contract (assets)/liabilities

Future policy benefits	58,834,131	49,955,946
Future bonuses ⁽¹⁾	-	-
Future expenses ⁽¹⁾	-	-
Planned margins over future expenses ⁽¹⁾	-	-
Future charges for acquisition costs	(52,566,804)	(54,402,433)
Balance of future revenues ⁽¹⁾	-	-
Net life insurance contract liabilities/(assets)	6,267,327	(4,446,487)

(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 2011

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 2011, the Branch held no derivative financial instrument contracts (2010: 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 and by monitoring and managing its emerging needs for liquidity.

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

On 15 September 2010, the New Zealand Government enacted law resulting in complete change in the basis of taxation for Life Insurance business. The Branch is liable to taxation on the underwriting profit less expenses plus investment income. The new legislation applies to insurance policies issued from 1 July 2010 with option to grand-parent the existing rules for 5 years for policies issued prior to 1 July 2010. The Branch has elected to grand-parent the existing rules for policies issued prior to 1 July 2010. This election is applicable until the financial year ending 31 December 2014.

RGA Reinsurance Company (New Zealand Branch)

Notes to the Financial Statements for the Year Ended 31 December 2011

21. Income Tax (continued)

The non-life business of the Branch is taxed 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:

	2011 \$'000	2010 \$'000
Operating profit before tax	6,716,972	36,004,962
Prima facie tax on operating profit/(loss) At 28% (2010: 30%)	1,880,752	10,801,489
<i>Tax effect of</i>		
Non assessable income/expenses	(1,880,752)	(10,801,489)
Withholding tax	39,410	39,827
Total income tax expense attributable to operating profit	39,410	39,827

22. Events subsequent to reporting date

On 24th February 2012, a related entity, RGA Reinsurance Company of Australia Limited was issued with a license by the Reserve Bank of New Zealand (RBNZ) to carry on life insurance business in New Zealand. A transfer of in-force New Zealand business from the Branch, to this related entity is planned prior to 31 December 2012. This transfer is subject to approval by the RBNZ.

No other matters or circumstances have arisen since the end of the financial year which significantly affect or may significantly affect the operations of the Branch, the results of its operations or state of affairs of the Branch, in subsequent financial years.



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

Report on the Financial Statements

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 2011, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information of RGA Reinsurance Company – New Zealand branch during the financial year as set out on pages 2 to 25.

Directors' Responsibility for the Financial Statements

The directors of RGA Reinsurance Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with generally accepted accounting practice in New Zealand and for such internal control as the directors determine is necessary to enable the preparation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.

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. Those 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 of the financial statements that give a true and fair view of the matters to which they relate, 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. In addition to this, partners and employees of our firm deal with the company and group on normal terms within the ordinary course of trading activities of the business of the company and group. 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.

Deloitte.

Opinion

In our opinion, 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 2011 and of its performance for the year ended on that date; and
- b. comply with generally accepted accounting practice in New Zealand; and
- c. comply with International Financial Reporting Standards.

Emphasis of Matter

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. Our opinion is not qualified in respect of this matter.

Basis of Accounting

Without modifying our opinion, we draw attention to Note 2 to the financial statements, which describes the basis of accounting. The financial statements have been prepared for the purpose of fulfilling the directors' financial reporting responsibilities under New Zealand law. As a result, the financial statements may not be suitable for another purpose.


Report on Other Legal and Regulatory Requirements

We also report in accordance with section 16 of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the year ended 31 December 2011:

- we have obtained all the information and explanations we have required; and
- in our opinion, proper accounting records have been kept by RGA Reinsurance Company – New Zealand branch, as far as appears from our examination of those records.



DELOITTE TOUCHE TOHMATSU



Peter Caldwell
Partner
Chartered Accountants
Melbourne, 31 May 2012





RGA Reinsurance Company

Statutory-Basis Financial Statements as of and for the
Years Ended December 31, 2011 and 2010,
Supplemental Information as of and
for the Year Ended December 31, 2011, and
Independent Auditors' Report



RG 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, 2011 and 2010, and the related statutory-basis statements of operations and changes in capital and surplus, and cash flows 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, 2011 and 2010, 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, 2011 and 2010, 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 2011 audit was conducted for the purpose of forming an opinion on the 2011 statutory-basis financial statements as a whole. The supplemental schedule of investment risks interrogatories, the supplemental summary investment schedule, and the supplemental schedule of selected financial data as of and for the year ended December 31, 2011 are presented for purposes of additional analysis and are not a required part of the 2011 statutory-basis financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the statutory-basis financial statements. Such schedules have been subjected to the auditing procedures applied in our audit of the basic 2011 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to underlying accounting and other records used to prepare the statutory-basis financial statements or to the statutory-basis financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the 2011 statutory-basis financial statements as a whole.

Deloitte & Touche LLP

May 30, 2012

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2011 AND 2010 (In thousands, except share data)

	2011	2010
ADMITTED ASSETS		
INVESTED ASSETS:		
Bonds	\$ 7,362,122	\$ 6,559,075
Preferred stocks — unaffiliated	55,727	94,472
Common stocks — affiliated	658	1,062
Common stocks — unaffiliated	24,229	24,245
Mortgage loans on real estate	989,216	879,992
Policy loans	1,237,708	1,202,779
Derivatives	282,756	19,291
Cash, cash equivalents, and short-term investments	395,544	210,998
Other invested assets	<u>291,764</u>	<u>241,147</u>
Total invested assets	10,639,724	9,233,061
ACCRUED INVESTMENT INCOME	83,865	78,250
PREMIUM DEFERRED AND UNCOLLECTED	916,430	945,472
AMOUNTS DUE FROM REINSURERS	237,464	258,207
FUNDS WITHHELD ON REINSURANCE ASSUMED	4,917,253	4,712,597
DEFERRED FEDERAL INCOME TAX ASSET	26,359	29,086
RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES	6,799	7,347
OTHER ASSETS	<u>85,072</u>	<u>63,926</u>
TOTAL	<u>\$ 16,912,966</u>	<u>\$ 15,327,946</u>

RGa REINSURANCE COMPANY

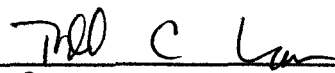
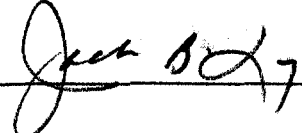
STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS

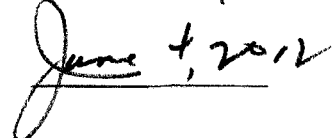
AS OF DECEMBER 31, 2011 AND 2010 (Continued)

(In thousands, except share data)

	2011	2010
LIABILITIES, AND CAPITAL AND SURPLUS		
LIABILITIES:		
Policy reserves:		
Life insurance	\$ 8,440,778	\$ 7,547,859
Accident and health insurance	552,925	456,998
Liability for deposit-type contracts	197,721	199,326
Policy and contract claims:		
Life insurance	1,158,194	1,017,939
Accident and health insurance	129,522	88,632
Commissions, expenses, and taxes accrued and payable	198,973	159,784
Amounts due to reinsurers	211,626	212,202
Funds withheld on reinsurance retroceded	3,204,590	3,375,837
Income tax due and accrued	141,570	133,135
Asset valuation reserve	68,717	24,655
Interest maintenance reserve	98,317	29,569
Derivatives	288,505	18,617
Payables to parent, subsidiaries and affiliates	10,457	6,773
Other liabilities	667,628	514,380
Unauthorized reinsurance liability	27,509	13,353
 Total liabilities	 <u>15,397,032</u>	 <u>13,799,059</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	200,597	200,597
Additional paid-in-surplus	831,000	831,000
Unassigned surplus	481,837	494,790
 Total capital and surplus	 <u>1,515,934</u>	 <u>1,528,887</u>
 TOTAL	 <u>\$16,912,966</u>	 <u>\$15,327,946</u>

See notes to statutory-basis financial statements.

June 4, 2012


RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

(In thousands)

	2011	2010
REVENUE:		
Premiums and annuity considerations	\$3,176,485	\$2,225,929
Net investment income	535,316	532,589
Commissions and expense allowances on reinsurance retroceded	509,737	753,660
Adjustments on reinsurance retroceded	(507,497)	(187,741)
Other income	<u>159,575</u>	<u>81,082</u>
 Total revenue	 <u>3,873,616</u>	 <u>3,405,519</u>
BENEFITS AND EXPENSES:		
Policyholder benefits	2,556,468	2,227,391
Change in reserves for life and accident and health contracts	(113,815)	(232,873)
Commissions and expense allowances on reinsurance assumed	937,083	1,043,524
General and administrative expenses and taxes	<u>249,637</u>	<u>212,625</u>
 Total benefits and expenses	 <u>3,629,373</u>	 <u>3,250,667</u>
 GAIN FROM OPERATIONS BEFORE DIVIDENDS AND INCOME TAX EXPENSE	 244,243	 154,852
 DIVIDENDS TO POLICYHOLDERS	 <u>6,843</u>	 <u>6,550</u>
 NET GAIN FROM OPERATIONS BEFORE INCOME TAX EXPENSE	 237,400	 148,302
 INCOME TAX EXPENSE	 <u>80,677</u>	 <u>56,805</u>
 NET GAIN FROM OPERATIONS	 156,723	 91,497
 CAPITAL LOSSES — Net of income tax expense, and transfers to the interest maintenance reserve	 <u>(27,006)</u>	 <u>(23,487)</u>
 NET INCOME	 <u>129,717</u>	 <u>68,010</u>

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Continued) (In thousands)

	2011	2010
OTHER CAPITAL AND SURPLUS CHANGES:		
Change in net unrealized capital losses — net of income taxes	\$ 14,453	\$ (20,906)
Change in net deferred income tax	(17,956)	64,636
Change in nonadmitted assets and related items	(2,861)	(41,695)
Change in surplus as a result of reinsurance	(37,990)	25,976
Change in asset valuation reserve	(44,062)	(10,401)
Surplus contribution	-	13,000
Change in surplus notes	-	100,298
Dividends to stockholders	(40,000)	(80,000)
Other items — net	(14,254)	(6,580)
Total other capital and surplus changes	(142,670)	44,328
NET CHANGE IN CAPITAL AND SURPLUS	(12,953)	112,338
CAPITAL AND SURPLUS — Beginning of year	1,528,887	1,416,549
CAPITAL AND SURPLUS — End of year	\$1,515,934	\$1,528,887

See notes to statutory-basis financial statements.

THO C Lan
June 1, 2012

June 4, 2012
June 4, 2012

RG A REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (In thousands)

	2011	2010
CASH FLOW FROM OPERATIONS:		
Cash received:		
Premiums and deposit-type funds net of reinsurance	\$2,787,167	\$3,057,961
Net investment income	508,813	504,930
Reinsurance retroceded and other income	612,970	733,470
Total cash received from operations	<u>3,908,950</u>	<u>4,296,361</u>
Cash paid:		
Policyholder benefits and dividends to policyholders	1,679,987	1,982,327
Commissions, expenses, and taxes	850,332	1,215,414
Income taxes	71,928	145,127
Total operating charges paid	<u>2,602,247</u>	<u>3,342,868</u>
Net cash provided by operations	<u>1,306,703</u>	<u>953,493</u>
CASH FLOW FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	1,770,782	1,898,021
Common and preferred stocks	39,660	63,569
Mortgage loans on real estate	89,487	32,839
Other invested assets	177,558	26,483
Miscellaneous proceeds	2,997	4,625
Total investment proceeds	<u>2,080,484</u>	<u>2,025,537</u>
Cost of investments acquired:		
Bonds	2,439,060	2,433,311
Common and preferred stocks	28,540	22,284
Mortgage loans on real estate	208,987	132,801
Other invested assets	221,064	174,214
Net increase in policy loans	34,929	66,215
Total cost of investments acquired	<u>2,932,580</u>	<u>2,828,825</u>
Net cash used in investments	<u>(852,096)</u>	<u>(803,288)</u>

RGa REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010 (Continued) (In thousands)

	2011	2010
CASH FLOW FROM FINANCING AND MISCELLANEOUS SOURCES:		
Surplus notes, capital and surplus paid-in	\$ -	\$ 113,000
Borrowed funds	-	(226,550)
Net withdrawals on deposit-type contracts	(8,989)	(200,000)
Dividends to stockholders	(80,000)	-
Other applications — net	<u>(181,071)</u>	<u>53,245</u>
Net cash used in financing and miscellaneous sources	<u>(270,060)</u>	<u>(260,305)</u>
INCREASE/(DECREASE) IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	184,546	(110,100)
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — Beginning of year	<u>210,998</u>	<u>321,098</u>
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — End of year	<u>\$ 395,544</u>	<u>\$ 210,998</u>

See notes to statutory-basis financial statements.

RGa REINSURANCE COMPANY

NOTES TO STATUTORY-BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010

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.").

The Company engages 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 or trade the securities. The AVR, determined by formula, represents a reserve against possible losses on investments and is recorded as a liability through a change to surplus. An AVR is not required for GAAP.
- (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. Investments in affiliated common stock are recorded based on the statutory-basis equity method for insurance entities in accordance with NAIC SAP and the GAAP equity method for non-insurance entities.

- (c) Acquisition costs, such as commissions and other costs related to acquiring new business, are expensed as incurred, while under GAAP, they are deferred and amortized to income as premiums are earned or in relation to estimated gross profits. Commissions and allowances on reinsurance retroceded are recognized as income when due, while under GAAP, they are deferred and amortized to income over the terms of the respective reinsurance agreements.
- (d) Statutory-basis policy reserves are based on statutory-basis mortality and interest assumptions without the consideration of withdrawals and lapses. Statutory-basis policy reserves generally differ from policy reserves under GAAP, which are based on the Company's estimates of mortality, interest, and withdrawals and lapses, including a provision for adverse deviation locked in at inception. The effect, if any, on reserves due to a change in reserve because of a 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. Under GAAP, "nonadmitted assets" are recorded on the balance sheet, net of any valuation allowance.
- (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) Amounts from reinsurers overdue greater than 90 days are non-admitted assets under NAIC SAP. Under GAAP, the overdue amount is recorded net of allowance for non-collection.
- (i) 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.
- (j) Investments in domestic life insurance and other 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.
- (k) 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. SSAP No. 10R, *Income Taxes — a Temporary Replacement of SSAP No. 10* (“SSAP 10R”), has additional admissibility requirements that would allow additional deferred income tax assets to be admitted, however as of December 31, 2011, the Company had not adopted the additional deferred tax admissibility criteria under paragraph 10e of SSAP 10R.

- (l) 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.
- (m) Surplus notes are included as surplus rather than reflected as debt under GAAP.
- (n) Statutory-basis financial statements do not provide for a statement of comprehensive income.
- (o) 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, 2011 and 2010, 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, when approved, is reported as a reduction of net investment income in the statement of operations. Since the payment of surplus note interest was approved by the MDI as of December 31, 2011 and 2010, there is no difference in surplus related to the treatment of surplus note interest. 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, 2011 and 2010.

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 accruals for estimated premiums uncollected for cedent statements not yet received by the Company, policy reserves, policy and contract claims, valuation of investment impairments and income taxes. In all instances, actual results could differ from management’s estimates.

Revenues and Expenses — Life premiums are recognized 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. Expenses, including acquisition costs related to acquiring new business, are charged to operations as incurred.

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 fair 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. Bonds 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.

Preferred stocks with a NAIC designation of 1 through 3 are stated at amortized cost. Preferred stocks with a NAIC designation of 4 through 6 are stated at the lower of fair value or amortized cost.

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

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, as such, no valuation allowance has been recorded.

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, credit default swaps, and equity options. 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 and are designated as hedges of changes in the fair value or the variability in expected cash flows of assets, are valued consistent with the valuation method used for the hedged item. Derivatives used as part of a Replication Synthetic Asset Transaction (RSAT) are carried consistent with the valuation method of the item being replicated and the cash instrument. Derivatives used in hedging transactions that do not meet the criteria of an effective hedge are reported at fair value.

The Company's investment in Reinsurance Partners, Inc. common stock, the Company's sole affiliated common stock investment, is recorded on the statutory-basis equity method and is included in common stocks — affiliated 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 non-admitted from surplus. Realized gains and losses on sales of investments are included in 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 first-in, first-out ("FIFO") method and includes the effects of any related amortization of premium or accretion of discount. Unrealized gains and losses on stocks are reflected as a direct charge to surplus.

Capital gains and losses realized on the sale of bonds and certain other 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 investment income over the expected remaining maturities of the investments sold.

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 determined by formula and 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. Realized and unrealized capital gains and losses, other than those resulting from interest rate changes, are added or charged to the AVR.

Impairment losses on bonds are recognized in the statutory-basis financial statements depend 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.

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.

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.

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.

A mortgage loan is considered to be impaired when, based on 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 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 or adjusting a valuation allowance with a corresponding charge to unrealized gain or loss. The unrealized gain or loss on impairment is included in the calculation of the AVR. If the impairment is

other than temporary, a direct write down shall be recognized as a realized loss, and a new cost basis is established.

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 — unaffiliated — 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. Publicly traded bonds are valued based upon quoted market prices or estimates from independent pricing services. Private placement bonds 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 Company utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for private placement bonds; however, management is ultimately responsible for all fair values presented in the Company's statutory-basis financial statements. 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 an observable 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 using the net asset values of the Company's ownership interest as provided in the financial statements of the investees.

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.

Other Assets — Other assets are primarily composed of the cash surrender value of corporate owned life insurance and 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 policy reserves is based on statutory mortality and interest requirements without consideration of withdrawals. The liability for policy reserves 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.

Policy reserves 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 \$0.6 billion of insurance in force and \$1.0 million of reserves, and \$1.1 billion of insurance in force and \$0.6 million of reserves, at December 31, 2011 and 2010, 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 policy reserves because of 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 Flows — 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.

Recent Statutory-Basis Accounting Pronouncements — In August 2011, the NAIC issued SSAP No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10* ("SSAP 101"). SSAP 101 is effective for reporting periods ending on or after January 1, 2012. For purposes of accounting for federal and foreign income taxes, SSAP 101 requires reporting entities to adopt FASB Statement No. 109, *Accounting for Income Taxes* (FAS 109) with modifications for state income taxes, the realization

criteria for deferred tax assets, and the recording of the impact of changes in deferred tax balances. One objective of accounting for income taxes is to recognize the estimated amount of taxes payable or refundable for the current year as a tax liability or asset. A second objective is to recognize deferred tax liabilities and assets for the future tax consequences of events that have been recognized in a reporting entity's statutory financial statements or tax returns. However, the second objective is realistically constrained because (a) the tax payment or refund that results from a particular tax return is a joint result of all the items included in that return, (b) taxes that will be paid or refunded in future years are the joint result of events of the current or prior years and events of future years, and (c) information available about the future is limited. As a result, financial statements will recognize current and deferred income tax assets and liabilities in accordance with the provisions of this statement based upon estimates and approximations. Only adjusted gross deferred tax assets that are more likely than not (a likelihood of more than 50 percent) to be realized shall be considered in determining admitted adjusted gross deferred tax assets. The adoption of this statement will increase the Company's statutory-basis surplus by \$53.3 million.

In December 2011, the NAIC issued SSAP No. 94R, *Accounting for Transferable and Non-Transferable Tax Credit* ("SSAP 94R"). SSAP 94R is effective for reporting periods ending on or after December 31, 2011. SSAP 94R expands the admissibility criteria to include non-transferable state tax credits that meet specific criteria. The adoption of this statement did not have a significant impact on the Company's statutory-basis financial statements.

In October 2010, the NAIC issued SSAP No. 35R, *Guaranty Funds and Other Assessments — Revised* ("SSAP 35R"). SSAP 35R is effective for reporting periods ending on or after January 1, 2011. SSAP 35R modifies the conditions required before recognizing liabilities for insurance-related assessments. The adoption of this statement did not have a significant impact on the Company's statutory-basis financial statements.

In December 2009, the NAIC issued 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 did not have a significant impact on the Company's statutory-basis financial statements. See Note 6 – "Statutory-Basis Fair Value of Financial Instruments" for the new required disclosures.

3. INVESTMENTS

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

	2011	2010
Bonds (including IMR amortization)	\$ 425,562	\$ 413,823
Preferred stocks — unaffiliated	4,626	8,890
Mortgage loans on real estate	55,238	50,793
Policy loans	65,569	69,026
Cash, cash equivalents, and short-term investments	2,072	1,672
Other	23,732	22,608
	<u>576,799</u>	<u>566,812</u>
Gross investment income (including IMR amortization)	576,799	566,812
Investment expense	26,410	21,622
Interest expense	15,073	12,601
	<u>41,483</u>	<u>34,223</u>
Net investment income	<u>\$ 535,316</u>	<u>\$ 532,589</u>

Bonds and Preferred Stocks — The carrying values and estimated fair values of the Company's bond and preferred stock investments at December 31, 2011 and 2010, by category, are as follows (in thousands):

	2011			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$4,493,308	\$ 415,819	\$ 48,502	\$4,860,625
U.S. government and agencies	207,732	42,415	-	250,147
State and local governments and agencies	130,968	22,019	1,345	151,642
Canadian and Canadian provincial governments	8,680	769	-	9,449
Mortgage-backed/asset-backed securities	1,819,884	131,912	46,887	1,904,909
Hybrid securities — issuer obligations	113,300	1,924	14,420	100,804
Hybrid securities — other loan-backed and structured securities	79,059	1,181	9,400	70,840
Other foreign government	<u>509,191</u>	<u>15,646</u>	<u>1,760</u>	<u>523,077</u>
Total bonds	<u>\$7,362,122</u>	<u>\$ 631,686</u>	<u>\$122,314</u>	<u>\$7,871,493</u>
Preferred stocks — unaffiliated	<u>\$ 55,727</u>	<u>\$ 2,956</u>	<u>\$ 3,376</u>	<u>\$ 55,307</u>

	2010			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	\$4,122,107	\$ 328,369	\$ 37,103	\$4,413,373
U.S. government and agencies	152,753	7,746	527	159,972
State and local governments and agencies	129,988	1,968	4,350	127,606
Canadian and Canadian provincial governments	6,979	540	-	7,519
Mortgage-backed/asset-backed securities	1,780,308	103,302	48,596	1,835,014
Hybrids	189,177	4,766	14,835	179,108
Other foreign government	<u>177,763</u>	<u>1,124</u>	<u>6,754</u>	<u>172,133</u>
Total bonds	<u>\$6,559,075</u>	<u>\$ 447,815</u>	<u>\$112,165</u>	<u>\$6,894,725</u>
Preferred stocks — unaffiliated	<u>\$ 94,472</u>	<u>\$ 2,350</u>	<u>\$ 2,827</u>	<u>\$ 93,995</u>

The Company held corporate securities with a carrying value of \$80.0 million, a gross unrealized loss of \$1.2 million and an estimated fair value of \$78.8 million issued by an affiliated company at December 31, 2011. The Company held mortgage-backed/asset-backed securities with a carrying value of \$131.4 million, a gross unrealized gain of \$0.6 million, a gross unrealized loss of \$2.7 million and an estimated fair value of \$129.3 million issued by an affiliated company at December 31, 2011. The

Company held corporate securities with a carrying value of \$40.0 million, a gross unrealized gain of \$34.6 million and an estimated fair value of \$74.6 million at December 31, 2010. The affiliated amounts are included in the above tables.

The Company has conformed the table above in 2011 to be consistent with the reporting classifications prescribed by the NAIC Annual Statement Instructions for 2011 as well as supplemental guidance related to the classification of loan-backed and other structured securities provided by the NAIC during 2011. These changes have no impact to the statement of admitted assets, liabilities, and capital and surplus. Prior year disclosures were not restated as the changes in the current year were the result of new guidance provided by the NAIC that was not available in the prior year. The 2011 reclassifications resulted in a \$125.5 million increase in mortgage-backed/asset-backed securities, a \$188.2 million decrease in corporate securities, a \$9.2 million decrease in state and local governments and agencies, a \$67.8 million increase in other foreign governments, a \$47.2 million decrease in hybrid securities – issuer obligations, a \$77.8 million increase in hybrid securities – loan-backed and other structured securities, and a \$26.5 million decrease in preferred stocks. Note that \$67.1 million of the decreases and \$67.1 million of the increases in hybrid securities – issuer obligations and hybrid securities – loan-backed and other structured securities, respectively, relate to the reclassification of the “hybrid securities” line item disclosed in the prior year between these two separate hybrid classifications in the current year.

The carrying values and estimated fair values of the Company’s bonds at December 31, 2011, 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	\$ 80,248	\$ 81,608
Due after one year through five years	1,129,191	1,179,443
Due after five years through ten years	2,689,462	2,864,081
Due after ten years	1,564,279	1,770,612
Mortgaged-backed/asset-backed securities	<u>1,898,942</u>	<u>1,975,749</u>
Total	<u>\$ 7,362,122</u>	<u>\$ 7,871,493</u>

Proceeds from the sales and maturities of bonds were \$1.8 billion and \$1.9 billion in 2011 and 2010, respectively. Gross gains of approximately \$93.7 million and \$67.5 million and gross losses of approximately \$12.7 million and \$11.8 million were realized on these sales and maturities in 2011 and 2010, respectively.

Proceeds from sales of common and preferred stocks were \$39.7 million and \$63.6 million in 2011 and 2010, respectively. Gross gains of approximately \$0.1 million and \$3.6 million and gross losses of approximately \$0.3 million and \$2.1 million were realized on these sales in 2011 and 2010, respectively.

Realized capital gains and losses are reported net of income taxes and exclude \$75.8 million and \$60.0 million of pre-tax capital gains transferred into the IMR in 2011 and 2010, respectively.

The following table presents the total gross unrealized losses for 451 and 416 bonds and preferred stocks as of December 31, 2011 and 2010, respectively, where the estimated fair value had declined and remained below carrying value by the indicated amount (in thousands):

	<u>At December 31, 2011</u>		<u>At December 31, 2010</u>	
	Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses	Percent of Total
Less than 20%	\$ 65,216	52 %	\$ 63,080	55 %
20% or more for less than six months	34,160	27	10,509	9
20% or more for six months or greater	<u>26,314</u>	<u>21</u>	<u>41,403</u>	<u>36</u>
Total	<u>\$ 125,690</u>	<u>100 %</u>	<u>\$ 114,992</u>	<u>100 %</u>

As of December 31, 2011, there were \$3.9 million of gross unrealized losses on bonds held that were issued by affiliated companies. The gross unrealized losses are included in the less than 20% category in the above table. As of December 31, 2010, there were no unrealized losses on bonds held that were issued by affiliated companies. As of December 31, 2011 and 2010, there were no gross unrealized losses on common stocks held that were issued by affiliated companies.

While all of these securities are monitored for potential impairment, the Company's experience indicates that unrealized losses less than 20% do not present a great risk of impairment, and often, fair values recover over time. These bonds, particularly mortgage-backed/asset-backed securities, have generally been adversely affected by overall economic conditions and credit market deterioration, including the impact of lower real estate valuations.

The following tables present the estimated fair values and gross unrealized losses for the 451 and 416 bonds and preferred stocks that have estimated fair values below carrying value as of December 31, 2011 and 2010, 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, 2011 and 2010 (in thousands).

	As of December 31, 2011					
	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	\$ 536,105	\$ 21,706	\$ 87,221	\$ 10,787	\$ 623,326	\$ 32,493
Hybrid securities — issuer obligations	29,951	2,294	28,627	10,685	58,578	12,979
Hybrid securities — other loan-backed and structured securities	9,159	575	19,792	7,207	28,951	7,782
U.S. government and agencies	-	-	-	-	-	-
State and local governments and agencies	6,693	624	4,129	721	10,822	1,345
Mortgage-backed/asset-backed securities	131,034	8,313	92,031	16,825	223,065	25,138
Other foreign government securities	63,730	227	13,990	1,533	77,720	1,760
Total bonds	776,672	33,739	245,790	47,758	1,022,462	81,497
Preferred stocks — unaffiliated	14,728	3,049	1,909	302	16,637	3,351
Total investment grade securities	791,400	36,788	247,699	48,060	1,039,099	84,848
Non-investment grade securities:						
Bonds:						
Corporate securities	300,027	10,963	26,336	5,046	326,363	16,009
Hybrid securities — issuer obligations	6,697	1,200	5,517	241	12,214	1,441
Hybrid securities — other loan-backed and structured securities	8,176	840	4,713	778	12,889	1,618
State and local governments and agencies	-	-	-	-	-	-
Mortgage-backed/asset-backed securities	157,659	3,485	33,000	18,264	190,659	21,749
Total bonds	472,559	16,488	69,566	24,329	542,125	40,817
Preferred stocks — unaffiliated	-	-	2,046	25	2,046	25
Total non-investment grade securities	472,559	16,488	71,612	24,354	544,171	40,842
Total	\$1,263,959	\$ 53,276	\$319,311	\$ 72,414	\$1,583,270	\$125,690

	As of December 31, 2010					
	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	\$587,682	\$18,828	\$110,914	\$10,348	\$ 698,596	\$ 29,176
Hybrid securities	1,900	78	84,678	12,645	86,578	12,723
U.S. government and agencies	8,948	527	-	-	8,948	527
State and local governments and agencies	55,653	2,062	11,512	2,288	67,165	4,350
Mortgage-backed/asset-backed securities	133,333	3,676	109,599	13,208	242,932	16,884
Other foreign government securities	86,495	796	49,455	5,958	135,950	6,754
Total bonds	874,011	25,967	366,158	44,447	1,240,169	70,414
Preferred stocks — unaffiliated	16,382	748	14,036	1,528	30,418	2,276
Total investment grade securities	890,393	26,715	380,194	45,975	1,270,587	72,690
Non-investment grade securities:						
Bonds:						
Corporate securities	53,522	1,621	53,218	6,305	106,740	7,926
Hybrid securities	-	-	19,784	2,112	19,784	2,112
Mortgage-backed/asset-backed securities	-	-	78,321	31,713	78,321	31,713
Total bonds	53,522	1,621	151,323	40,130	204,845	41,751
Preferred stocks — unaffiliated	4,781	162	5,561	389	10,342	551
Total non-investment grade securities	58,303	1,783	156,884	40,519	215,187	42,302
Total	\$948,696	\$28,498	\$537,078	\$86,494	\$1,485,774	\$114,992

Included in the above table within the less than 12 months and below investment grade categories, the Company held corporate securities and mortgage-backed/asset-backed securities issued by affiliated companies with an estimated fair value of \$78.8 million and \$129.3 million, respectively, with gross unrealized losses of \$1.2 million and \$2.7 million, respectively, at December 31, 2011. As of December 31, 2010, there were no gross unrealized losses on bonds held that were issued by affiliated companies.

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, 2011. As discussed in Note 2 – “Summary of Significant Accounting Policies,” the Company evaluates each invested asset class for potential impairments. The unrealized losses above are primarily due to a general widening of credit spreads and market liquidity.

The Company realized losses of \$25.8 million and \$17.4 million resulting from other-than-temporary impairments of bonds during 2011 and 2010, respectively. The Company realized \$0.6 million of losses from other-than-temporary impairments of preferred stock in 2011 and no losses from other-than-temporary impairments of preferred stock in 2010.

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 (CDOs) and collateralized bond obligations (CBOs), where the underlying collateral fits the description above. The Company further noted that many home equity loan pools originated during 2005 through 2008 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 continued poor collateral performance and lack of recovery in the residential mortgage market nationwide. The Company recorded other-than-temporary impairments related to subprime investments of \$2.6 million and \$3.3 million during 2011 and 2010, respectively. When evaluating the risks from subprime-related securities, the Company bases its evaluation on cash-flow modeling, which includes assumptions for rates of default, loss severity and prepayment experience. As such, the Company expects no revisions at this time to cash-flow loss expectations, which the Company believes to be immaterial. Further, the Company does not expect to become a forced seller of securities based on, among other factors, 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 a part of an ongoing risk strategy, the Company continued to reduce exposure to the riskier 2006 and 2007 vintages through selective selling and limited purchase activity. 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, rating actions, and pool level delinquency trends. We have also avoided structures that are difficult to monitor and assess on an ongoing basis due to their complexity and lack of detail.

As of December 31, 2011 and 2010, respectively, the Company held investments in securities with subprime mortgage exposure with carrying value totaling \$25.2 million and \$25.3 million and estimated fair values of \$23.4 million and \$22.7 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 "BBB+" at December 31, 2011 and "A" at December 31, 2010. 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. The Company does not expect to realize any material losses despite the continuing elevated default rates and market concern over future performance of this asset class.

The following tables summarize the securities by rating and underwriting year at December 31, 2011 and 2010 (in thousands):

December 31, 2011						
	AAA		AA		A	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and Prior	\$ 3,124	\$ 2,680	\$ -	\$ -	\$ 2,928	\$ 2,787
2004	-	-	-	-	-	-
2005	1,377	1,379	-	-	2,503	2,384
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total	<u>\$ 4,501</u>	<u>\$ 4,059</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,431</u>	<u>\$ 5,171</u>

Below Investment Grade						
	BBB		Below Investment Grade		Total	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and Prior	\$ -	\$ -	\$ 4,547	\$ 3,893	\$ 10,598	\$ 9,360
2004	-	-	3,125	2,694	3,125	2,694
2005	1,438	1,041	4,122	3,579	9,441	8,383
2006	-	-	2,045	2,980	2,045	2,980
2007	-	-	-	-	-	-
Total	<u>\$ 1,438</u>	<u>\$ 1,041</u>	<u>\$ 13,839</u>	<u>\$ 13,146</u>	<u>\$ 25,209</u>	<u>\$ 23,417</u>

December 31, 2010						
	AAA		AA		A	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2004 and Prior	\$ 3,124	\$ 2,996	\$ 3,043	\$ 2,846	\$ 3,981	\$ 3,849
2005	1,375	1,271	2,196	2,199	2,505	2,260
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
2008	-	-	-	-	-	-
Total	<u>\$ 4,499</u>	<u>\$ 4,267</u>	<u>\$ 5,239</u>	<u>\$ 5,045</u>	<u>\$ 6,486</u>	<u>\$ 6,109</u>

Below Investment Grade						
	BBB		Below Investment Grade		Total	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2004 and Prior	\$ 877	\$ 877	\$ 1,955	\$ 1,274	\$ 12,980	\$ 11,842
2005	1,435	1,029	2,295	1,281	9,806	8,040
2006	-	-	2,152	2,507	2,152	2,507
2007	-	-	313	331	313	331
2008	-	-	-	-	-	-
Total	<u>\$ 2,312</u>	<u>\$ 1,906</u>	<u>\$ 6,715</u>	<u>\$ 5,393</u>	<u>\$ 25,251</u>	<u>\$ 22,720</u>

Restricted Assets — Cash and bonds on deposit with regulatory authorities were \$8.8 million and \$8.7 million as of December 31, 2011 and 2010, respectively. Cash, bonds and mortgage loans of \$2.3 billion and \$2.1 billion were held in trust to satisfy collateral requirements for reinsurance business

as of December 31, 2011 and 2010, respectively. Bonds in the amount of \$390.6 million and bonds and mortgage loans in the amount of \$245.2 million were pledged to the Federal Home Loan Bank as collateral against future borrowings as of December 31, 2011 and 2010, respectively. Bonds of \$2.7 million were posted as collateral to counterparties in connection with the Company's derivative instruments as of December 31, 2011.

Concentrations — As of December 31, 2011, excluding investments issued or guaranteed by the U. S. Government, the Company held securities with a carrying value of \$242.3 million issued by the Japan Government and \$156.0 million issued by ING GROEP NV that exceeded 10% of the Company's capital and surplus. As of December 31, 2010, the Company did not have an investment in a single issuer, excluding investments issued or guaranteed by the U.S. government, with a carrying value that exceeded 10% of the Company's capital and surplus.

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, 2011 and 2010. 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.

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 provide 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 \$18.9 million of which \$8.9 million represented stock activity related to borrowings at December 31, 2011 and 2010.

The Company had pledged collateral in the amount of \$390.6 million and \$245.2 million at December 31, 2011 and 2010, respectively.

The Company had \$167.1 million and \$26.9 million available at December 31, 2011 and 2010, respectively available as total borrowing/funding capacity.

The amount of the Company's liability for the funding agreements with the FHLB under guaranteed investment contracts was \$197.7 million and \$199.3 million at December 31, 2011 and 2010, respectively, which is reflected as a deposit fund liability. The advance on this agreement is collateralized primarily by commercial mortgage-backed securities during and commercial mortgage loans.

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 2011 were 3.50% and 6.34%, respectively.

As of December 31, 2011 and 2010, the Company's mortgage loans were distributed as follows (in thousands):

States	2011		2010	
	Recorded Investment	Percent of Total	Recorded Investment	Percent of Total
Alabama	\$16,376	1.6 %	\$ 16,861	1.9%
Arizona	42,869	4.3	43,350	4.9
California	225,946	22.6	205,641	23.2
Colorado	51,536	5.2	38,988	4.4
Florida	84,705	8.5	85,891	9.7
Georgia	60,327	6.1	44,770	5.0
Illinois	59,811	6.0	37,076	4.2
Indiana	4,636	0.5	5,271	0.6
Iowa	2,904	0.3	2,972	0.3
Kansas	19,417	2.0	20,294	2.3
Maine	7,890	0.8	8,210	0.9
Maryland	14,472	1.5	14,827	1.7
Massachusetts	20,567	2.1	20,929	2.4
Michigan	12,093	1.2	12,305	1.4
Missouri	45,763	4.6	47,013	5.3
Nebraska	1,678	0.2	-	-
Nevada	9,022	0.9	9,351	1.1
New Hampshire	2,244	0.2	2,262	0.3
New Jersey	27,199	2.7	28,075	3.2
New York	39,472	4.0	34,978	4.0
North Carolina	15,918	1.6	16,573	1.9
Ohio	7,210	0.7	3,338	0.4
Oklahoma	3,632	0.4	4,300	0.5
Oregon	19,105	1.9	19,512	2.2
Pennsylvania	19,680	2.0	20,791	2.4
Rhode Island	4,618	0.5	4,778	0.5
South Carolina	13,071	1.3	5,673	0.6
Tennessee	24,286	2.4	24,860	2.8
Texas	54,934	5.5	47,050	5.3
Utah	10,136	1.0	4,653	0.5
Virginia	42,857	4.3	46,957	5.3
Washington	24,794	2.5	7,021	0.8
Wisconsin	6,041	0.6	-	-
Total	<u>\$995,210</u>	<u>100.0 %</u>	<u>\$884,570</u>	<u>100.0 %</u>

Property Type	2011		2010	
	Recorded Investment	Percent of Total	Recorded Investment	Percent of Total
Apartment	\$ 124,786	12.5 %	\$ 93,042	10.5 %
Retail	327,742	32.9	250,485	28.3
Office Building	264,345	26.6	261,402	29.6
Industrial	200,717	20.2	227,868	25.8
Other Commercial	77,620	7.8	51,773	5.9
Total	<u>\$995,210</u>	<u>100.0 %</u>	<u>\$884,570</u>	<u>100.0 %</u>

The recorded investment of the Company's mortgage loans by maturity at December 31, 2011 and 2010, are as follows (in thousands):

	2011	2010
Due in one year through five years	\$ 492,857	\$ 412,358
Due after five years	296,799	397,440
Due after ten years	<u>205,554</u>	<u>74,772</u>
Total	<u>\$ 995,210</u>	<u>\$ 884,570</u>

The estimated fair value of the Company's mortgage loan portfolio at December 31, 2011 and 2010, was approximately \$1,074.8 million and \$926.8 million, respectively. There were nine and seven restructured loans in the amount of \$25.4 million and \$19.2 million at December 31, 2011 and 2010, respectively. The Company had four loans with a book value (net of valuation allowance) in the amount of \$14.4 million with interest overdue greater than 180 days at December 31, 2011, and two loans with a recorded investment in the amount of \$9.8 million with interest overdue greater than 180 days at December 31, 2010.

The Company has established an internal credit risk grading process for the commercial mortgage loan portfolio, which is used to estimate the probability of default and the likelihood of loss upon default. The debt service coverage ratio and the loan to value ratio are the most heavily weighted factors in determining the loan rating. Other factors involved in determining the final rating are loan amortization, tenant rollover, location and market stability, and borrower's financial condition and experience. All loans are assigned a rating at origination and ratings are updated at least annually. Lower rated loans appear on the Company's watch list and are re-evaluated more frequently. Information regarding the Company's credit quality indicators for mortgage loans as of December 31, 2011 are as follows (in thousands):

	2011	2010
Internal credit risk grade:		
High investment grade	\$ 252,003	\$ 205,127
Investment grade	520,887	579,999
Average	105,153	38,152
Watchlist	90,991	44,208
In or near default	<u>26,176</u>	<u>17,084</u>
	<u>\$ 995,210</u>	<u>\$ 884,570</u>

The age analysis of the Company's past due mortgage loan receivables as of December 31, 2011 and 2010 is as follows (in thousands):

	2011	2010
31-60 days past due	\$ 21,800	\$ -
61-90 days past due	-	-
Greater than 90 days	<u>20,316</u>	<u>13,894</u>
Total past due	42,116	13,894
Current	<u>953,094</u>	<u>870,676</u>
Total mortgage loans receivable	<u>\$ 995,210</u>	<u>\$ 884,570</u>

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. If the impairment is other-than-temporary, a direct write down shall be recognized as a realized loss, and a new cost basis is established. Charge-offs are defined as a loan that was permanently written-down. Information regarding the Company's loan valuation allowances for mortgage loans as of December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Balance at January 1,	\$ 4,578	\$ 5,784
Charge-offs	(4,431)	(1,661)
Provisions	<u>5,847</u>	<u>455</u>
Balance at December 31,	<u>\$ 5,994</u>	<u>\$ 4,578</u>

As of December 31, 2011 and 2010, the Company held sixteen and ten 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's average investment in impaired loans was \$3.7 million and \$3.6 million as of December 31, 2011 and 2010, respectively. Interest income on impaired loans was \$1.3 million and \$0.8 million for the years ended December 31, 2011 and 2010, respectively.

Information regarding the portion of the Company's mortgage loans that were impaired as of December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Impaired loans with valuation allowances	\$ 24,314	\$ 14,041
Impaired loans without valuation allowances	<u>34,396</u>	<u>19,944</u>
Subtotal	58,710	33,985
Less valuation allowances on impaired loans	<u>(5,994)</u>	<u>(4,578)</u>
Impaired loans	<u>\$ 52,716</u>	<u>\$ 29,407</u>

The Company foreclosed on one commercial mortgage loans during 2011 and acquired real estate in the amount of \$4.6 million. The Company did not foreclose on any commercial mortgage loans during 2010.

Derivative Instruments

Fair Value Hedges — The Company designates and accounts for certain interest rate swaps that convert fixed rate investments to floating rate investments as fair value hedges when they meet the requirements of SSAP No. 86, *Accounting for Derivative Instruments and Hedging, Income Generation and Replication (Synthetic Asset) Transactions* ("SSAP 86").

Derivative instruments qualifying for hedge accounting are valued consistently with the hedged item, at amortized cost. Changes in the carrying value or cash flows of derivatives, which qualify for hedge accounting, are recognized in the same period and in the same category of income or surplus as the amortization or fair values changes of the hedged item.

All components of each derivative's gain or loss were included in the assessment of hedge effectiveness. As of December 31, 2011, the Company removed the fair value hedge designation for these interest rate swaps. These interest rate swaps are now reported as derivatives not designated as hedging instruments.

For the year ended December 31, 2011, losses of \$2.5 million were recorded in Change in net unrealized capital gains (losses) from fair value derivatives in which the fair value hedge designation has been removed. For the year ended December 31, 2010, none of the Company's fair value hedges were removed.

Cash Flow Hedges — The Company designates and accounts for certain interest rate swaps in which the cash flows are denominated in different currencies, commonly referred to as cross-currency swaps, as cash flow hedges when they meet the requirements of SSAP 86. The Company uses interest rate swaps in which cash flows are denominated in different currencies in order to hedge the variability of cash flows due to fluctuations in foreign exchange rates.

Derivative instruments qualifying for hedge accounting are valued consistently with the hedged item, at amortized cost. Changes in the carrying value or cash flows of derivatives, which qualify for hedge accounting, are recognized in the same period and in the same category of income or surplus as the amortization or fair values changes of the hedged item.

In assessing effectiveness, no component of the derivative's gain or loss was excluded.

There were no hedged forecasted transactions, other than the receipt or payment of variable interest payments on existing financial instruments, for the year ended December 31, 2011. The Company had no derivative instruments that were designated and qualified as cash flow hedges for the year ended December 31, 2010.

There was no gain or loss recognized in unrealized gains or losses resulting from cash flow hedge derivatives that no longer qualify for hedge accounting.

For the year ended December 31, 2011, none of the Company's cash flow hedges were discontinued because it was no longer probable that the original forecasted transactions would occur by the end of the originally specified time period or within two months of that date.

Replication (Synthetic Asset) Transactions — The Company uses Replication Synthetic Asset Transactions (“RSAT”) in order to reproduce the investment characteristics of otherwise permissible investments, in accordance with SSAP 86.

The derivative instruments used in the replication (synthetic asset) transaction are carried at amortized cost, consistent with the cash instruments being replicated.

In Replication Synthetic Asset Transactions, the Company uses credit default swaps to increase exposure to issuers by selling protection against specified credit events. The Company sells protection to synthetically replicate investment risks and returns when the actual bond is not an available option in the primary investment market. The buyer of the credit default swap receives credit protection, whereas the seller of the swap guarantees the credit worthiness of the underlying security. This transfers the risk of default from the buyer of the swap to the seller. If the cash bond defaults, the Company’s maximum exposure to credit loss equals the notional value for credit default swaps. In the event of default, the company is typically required to pay the protection holder the full notional value less a recovery rate determined at auction. The Company does not write credit default swaps as a participant in the credit insurance market but does sell swaps to generate returns consistent with bond returns.

Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging — 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. 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).

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. For positions in which the hedged risk has been retro-ceded to an affiliated company, the Company enters into offsetting swap positions with the affiliated company.

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 (hedge) its risk against specific credit exposure. The swaps are purchased to reduce exposure against specific corporate issuers as a better alternative to sell bonds from these issuers in a less liquid market. If the cash bond defaults, the credit default swap should pay the difference to the Company between par and the value of this bond. Price changes in the value of the cash bond from changes in creditworthiness should be offset by price changes in the value of the swap.

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products. To hedge against adverse changes in equity indices volatility, the Company buys put options. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price. For positions in which the hedged risk has been retroceded to an affiliated company, the Company enters into offsetting option positions with the affiliated companies.

Credit Risk — 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 the fair value at 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 manages its credit risk related to over-the-counter derivatives by entering into transactions with creditworthy counterparties, maintaining collateral arrangements and through the use of master agreements that provide for a single net payment to be made by one counterparty to another at each due date and upon termination.

With the exception of RGA Americas Reinsurance Company Ltd. ("RGA Americas"), a related party, the Company enters into various collateral arrangements, which require both the pledging and accepting of collateral in connection with its derivative instruments. The amount of collateral that is required is determined by the agreement executed between the Company and the counterparty and may be subject to a threshold that could vary depending on the posting party's ratings. Additionally, a decline in the Company's or the counterparty's credit ratings to specified levels could result in potential settlement of the derivative position under the Company's agreements with its' counterparties. The Company currently posts and receives cash and bonds to satisfy collateral requirements.

As of December 31, 2011 and 2010, the Company pledged securities of \$2.7 million and \$3.4 million, respectively, posted as collateral to swap counterparties, which is included in other assets. The Company held securities posted as collateral of \$1.0 million as of December 31, 2011. The Company held \$241.5 million in cash collateral in connection with derivative instruments as of December 31, 2011. The Company held \$10.3 million in cash collateral in connection with derivative instruments as of December 31, 2010.

The table below summarizes the notional and admitted value of the Company's derivatives as of December 31, 2011 and 2010 (in thousands).

	December 31, 2011			December 31, 2010		
	Notional	Admitted Value		Notional	Admitted Value	
		Asset	Liability		Asset	Liability
Derivatives not designated as hedging instruments:						
Interest rate swaps	\$ 4,838,983	\$ 191,334	\$ 194,321	\$ 3,969,000	\$ 12,757	\$ 13,444
CPI swaps	101,069	766	-	120,340	1,491	-
Credit default swaps	178,500	513	3,288	7,500	-	131
Equity options	<u>1,020,146</u>	<u>90,106</u>	<u>90,106</u>	<u>66,081</u>	<u>5,043</u>	<u>5,043</u>
Total non-hedging derivatives	<u>6,138,698</u>	<u>282,719</u>	<u>287,715</u>	<u>4,162,921</u>	<u>19,291</u>	<u>18,618</u>
Derivatives designated as hedging instruments:						
Interest rate swaps	<u>\$ 56,250</u>	<u>\$ 37</u>	<u>\$ 790</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total hedging derivatives	<u>56,250</u>	<u>37</u>	<u>790</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total derivatives	<u>\$ 6,194,948</u>	<u>\$ 282,756</u>	<u>\$ 288,505</u>	<u>\$ 4,162,921</u>	<u>\$ 19,291</u>	<u>\$ 18,618</u>

Loan-Backed Securities — The fair value of loan-backed securities at December 31, 2011 and 2010 was \$1,975.7 million and \$1,835.0 million respectively. The valuation of loan-backed securities is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance and vintage of loans.

The following table represents securities within the scope of SSAP No. 43R, *Loan-Backed and Structured Securities* ("SSAP 43R"), disclosed in the aggregate, for which an other-than-temporary impairment has been recognized as of December 31, 2011 and 2010, respectively (in thousands). These securities have been classified on the basis for the other-than-temporary impairment recognized.

Basis	Aggregate Other-Than-Temporary Impairment	
	2011	2010
Intent to sell	\$ 560	\$ -
Inability or lack of intent to retain the investment 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>17,473</u>	<u>12,925</u>
Total	<u>\$ 18,033</u>	<u>\$ 12,925</u>

The following tables represent securities held by the Company as of December 31, 2011 and 2010, respectively, for which an other-than-temporary impairment has been recognized, where the present value of cash flows expected to be collected is less than the amortized cost basis of the securities (dollars in thousands):

2011		Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized in Earnings in 2011	Amortized Cost After Current Period OTTI	Fair Value of Security After Current Period OTTI
CUISIP						
61754KAP0		03/31/11	\$ 2,388	\$ (259)	\$ 2,129	\$ 2,067
964041AJ6		06/30/11	7,500	(2,843)	4,657	3,000
20173QAM3		06/30/11	3,019	(971)	2,048	2,173
61754KAP0		06/30/11	2,129	(728)	1,401	1,933
059511AL9		06/30/11	1,851	(505)	1,346	801
04542BM\$1		06/30/11	1,722	(155)	1,567	788
06050HVT2		06/30/11	32	(31)	1	2
05948KX87		09/30/11	1,707	(131)	1,576	974
65535VNS3		09/30/11	2,366	(807)	1,559	691
70069FMV6		09/30/11	92	(11)	81	21
04542BM\$1		09/30/11	1,567	(617)	949	663
07401DAQ4		09/30/11	4,557	(2,091)	2,467	1,422
46632MAJ9		09/30/11	30	(30)	-	-
61754KAP0		09/30/11	1,401	(1,259)	142	142
059511AJ4		09/30/11	7,520	(1,916)	5,604	5,526
07388QAH2		09/30/11	9,078	(1,138)	7,940	6,331
07401DAQ4		12/31/11	2,467	(1,533)	933	771
52109RBS9		12/31/11	1,845	(1,084)	762	947
04542BM\$1		12/31/11	949	(454)	495	554
12669GQ95		12/31/11	4,686	(37)	4,649	4,351
07388QAU3		12/31/11	2,142	(285)	1,857	1,588
20173QAM3		12/31/11	2,048	(192)	1,857	595
94985WAJ0		12/31/11	5,482	(245)	5,237	5,390
46630PBB0		12/31/11	3,938	(9)	3,929	3,874
61754KAP0		12/31/11	142	(142)	-	669
Total impairments				<u>\$(17,473)</u>		

2010		Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized in Earnings in 2010	Amortized Cost After Current Period OTTI	Fair Value of Security After Current Period OTTI
CUISIP						
46632MAJ9		03/31/10	\$ 2,253	\$ (1,567)	\$ 686	\$ 411
55313KAJ0		03/31/10	4,853	(911)	3,942	759
61748HVL2		03/31/10	4,145	(488)	3,658	3,645
675748CF2		03/31/10	29	(29)	-	-
22540VHF2		06/30/10	773	(68)	705	232
70069FMV6		06/30/10	186	(64)	122	45
32027NXG1		06/30/10	111	(64)	47	100
46632MAJ9		06/30/10	722	(721)	1	1
55313KAJ0		06/30/10	3,942	(779)	3,163	776
22942JAS2		06/30/10	90	(75)	14	35
55313KAJ0		09/30/10	3,189	(2,558)	631	842
52523KAG9		09/30/10	4,500	(1,200)	3,300	2,410
61754PAD6		09/30/10	888	(575)	313	352
61755YAN4		12/31/10	3,689	(1,389)	2,301	2,076
61755YAN4		12/31/10	1,201	(366)	834	753
70069FMV6		12/31/10	122	(25)	97	40
04542BM\$1		12/31/10	1,861	(139)	1,722	692
52523KAG9		12/31/10	3,300	(1,148)	2,152	2,508
46630PBB0		12/31/10	4,697	(759)	3,938	4,041
Total impairments				<u>\$(12,925)</u>		

The aggregate amount of unrealized losses and estimated fair values for all impaired securities for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2011 and 2010, respectively, are as follows (in thousands):

Basis	2011	
	Aggregate Unrealized Losses	Aggregate Estimated Fair Value
Securities that have been in a continuous unrealized loss position for less than 12 months	\$ 13,213	\$ 306,028
Securities that have been in a continuous unrealized loss position for 12 months or longer	<u>43,074</u>	<u>149,536</u>
Total	<u>\$ 56,287</u>	<u>\$ 455,564</u>

Basis	2010	
	Aggregate Unrealized Losses	Aggregate Estimated Fair Value
Securities that have been in a continuous unrealized loss position for less than 12 months	\$ 3,676	\$ 133,333
Securities that have been in a continuous unrealized loss position for 12 months or longer	<u>44,921</u>	<u>187,920</u>
Total	<u>\$ 48,597</u>	<u>\$ 321,253</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 estimated fair value has been less than the amortized cost basis; adverse conditions specifically related to the security, its industry, or its 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 of additional declines in estimated 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 the amortized cost basis.

4. SECURITIES LENDING

The Company did not participate in a securities lending program during 2011 and 2010.

5. REVERSE REPURCHASE AGREEMENTS

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities. At December 31, 2011 and 2010, the Company did not have any reverse repurchase agreements outstanding. However, during 2011 and 2010, the Company did participate in reverse repurchase agreements and incurred immaterial amounts of interest expense under these agreements.

6. STATUTORY-BASIS FAIR VALUE OF FINANCIAL INSTRUMENTS

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. The following table presents the admitted values and the estimated statutory-basis fair values of the Company's financial instruments at December 31, 2011 and 2010 (in thousands):

	2011		2010	
	Admitted Value	Estimated Fair Value	Admitted Value	Estimated Fair Value
Admitted assets:				
Bonds	\$ 7,362,122	\$ 7,871,493	\$ 6,559,075	\$ 6,894,725
Preferred stocks	55,727	55,307	94,472	93,995
Common stocks — affiliates	658	658	1,062	1,062
Common stocks — nonaffiliates	24,229	24,229	24,245	24,245
Mortgage loans on real estate	989,216	1,074,823	879,992	926,829
Real estate	12,894	10,375	8,560	8,850
Policy loans	1,237,708	1,237,708	1,202,779	1,202,779
Short-term investments	282,554	282,538	128,413	128,413
Other invested assets	278,870	281,735	232,587	214,462
Derivative assets	282,756	282,695	19,291	19,291
Cash and cash equivalents	112,990	112,990	82,585	82,585
Accrued investment income	83,865	83,865	78,250	78,250
Liabilities:				
Liability for deposit-type contracts	197,721	197,721	199,326	199,326
Derivative instruments	288,505	291,755	18,618	20,336

The Company held bonds issued by affiliated companies with an admitted value of \$211.4 million and an estimated fair value of \$208.1 at December 31, 2011. The Company held bonds issued by affiliated companies with an admitted value of \$40.0 million and an estimated fair value of \$74.6 million at December 31, 2010. The affiliated amounts are included in the above table.

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

For assets reported at fair value, the Company utilizes, when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. When quoted prices in active markets are not available, fair value is based on the market approach, income approach, or cost approach. The Company primarily uses a combination of the market approach, including matrix pricing, and the income approach. The assumptions and inputs used by management in applying these techniques include, but are not limited to interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, maturity, estimated duration and assumptions regarding liquidity and future cash flows. 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 can 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. This category can include corporate securities, mortgage-backed securities and derivative instruments, among others.

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. The market standard methodologies for determining the estimated fair value of these securities 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 can include corporate securities (primarily private placements), asset-backed securities (including those with exposure to subprime mortgages), and certain mortgage-backed securities.

The Company's investments in common stocks are reported at fair value. Certain other financial instruments are only periodically measured at fair value, such as when carried at the lower of cost or market for certain bonds and preferred stock based on NAIC designations. Fair values for those instruments have been determined by using available market information and the valuation methodologies described below.

Assets and liabilities carried at estimated fair value as of December 31, 2011 and December 31, 2010 are summarized below (in thousands):

December 31, 2011	Level 1	Level 2	Level 3	Total
ASSETS AT ESTIMATED FAIR VALUE:				
Bonds:				
Corporate securities	\$ -	\$ 9,079	\$ -	\$ 9,079
Mortgage-backed/asset-backed securities	-	-	22,761	22,761
Hybrid securities — issuer obligations	-	3,360	-	3,360
Total bonds	-	12,439	22,761	35,200
Stock:				
Common stock	5,308	-	-	5,308
Preferred stock	2,185	-	-	2,185
Total stock	7,493	-	-	7,493
Derivative assets:				
Interest rate swaps	-	191,467	-	191,467
CPI swaps	-	766	-	766
Credit default swaps	-	356	-	356
Put options	-	90,106	-	90,106
Total derivatives	-	282,695	-	282,696
TOTAL ASSETS AT ESTIMATED FAIR VALUE	\$ 7,493	\$ 295,134	\$ 22,761	\$ 325,389
LIABILITIES AT ESTIMATED FAIR VALUES:				
Derivative liabilities:				
Interest rate swaps	\$ -	\$(195,281)	\$ -	\$(195,281)
Credit default swaps	-	(6,368)	-	(6,368)
Put options	-	(90,106)	-	(90,106)
TOTAL LIABILITIES AT ESTIMATED FAIR VALUE	\$ -	\$(291,755)	\$ -	\$(291,755)
 December 31, 2010				
	Level 1	Level 2	Level 3	Total
ASSETS AT ESTIMATED FAIR VALUE:				
Bonds:				
Corporate securities	\$ -	\$ 796	\$ -	\$ 796
Mortgage-backed/asset-backed securities	-	-	31,916	31,916
State and local government agencies	-	4,228	-	4,228
Total bonds	-	5,024	31,916	36,940
Stock:				
Common stock	5,126	19,120	1,062	25,308
Preferred stock	165	1,781	-	1,946
Total stock	5,291	20,901	1,062	27,254
Derivative assets:				
Interest rate swaps	-	12,757	-	12,757
CPI swaps	-	1,491	-	1,491
Put options	-	5,043	-	5,043
Total derivatives	-	19,291	-	19,291
TOTAL ASSETS AT ESTIMATED FAIR VALUE	\$ 5,291	\$ 45,216	\$ 32,978	\$ 83,485
LIABILITIES AT ESTIMATED FAIR VALUES:				
Derivative liabilities:				
Interest rate swaps	\$ -	\$(13,444)	\$ -	\$(13,444)
Credit default swaps	-	(131)	-	(131)
Put options	-	(5,043)	-	(5,043)
TOTAL LIABILITIES AT ESTIMATED FAIR VALUE	\$ -	\$(18,618)	\$ -	\$(18,618)

The table below provides a summary of the changes in fair value of Level 3 assets, as well as the portion of gains or losses included in income for the year attributable to unrealized gains or losses related to those assets still held at December 31, 2011 and 2010 (in thousands):

For the year ended December 31, 2011

	Balance January 1, 2011	Transfers into Level 3	Transfers out of Level 3	Total gains (losses) included in net income	Total gains (losses) included in surplus	Pur- chases	Sales	Settle- ment	Balance December 31, 2011
Corporate securities	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ -	\$ -	\$ (3)	\$ -
Mortgage-backed/asset-backed securities	31,916	4,023	(13,878)	(9,567)	10,924	-	(454)	(203)	22,761
State and local government agencies	-	-	-	-	-	-	-	-	-
Common stock	<u>1,062</u>	<u>-</u>	<u>(1,062)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$32,978</u>	<u>\$4,023</u>	<u>\$(14,940)</u>	<u>\$(9,564)</u>	<u>\$10,924</u>	<u>\$ -</u>	<u>\$(454)</u>	<u>\$(206)</u>	<u>\$22,761</u>

For the year ended December 31, 2010

	Balance January 1, 2010	Transfers into Level 3	Transfers out of Level 3	Total gains (losses) included in net income	Total gains (losses) included in surplus	Purchases, issuances, sales and settlements	Balance December 31, 2010
Corporate securities	\$16,620	\$ -	\$(9,056)	\$(346)	\$ 375	\$ (7,593)	\$ -
Mortgage-backed/asset-backed securities	8,783	23,086	(232)	691	(307)	(105)	31,916
State and local government agencies	-	-	-	-	-	-	-
Common stock	895	-	-	-	167	-	1,062
Preferred stock	<u>4,879</u>	<u>-</u>	<u>(412)</u>	<u>550</u>	<u>100</u>	<u>(5,117)</u>	<u>-</u>
Total	<u>\$31,177</u>	<u>\$23,086</u>	<u>\$(9,700)</u>	<u>\$ 895</u>	<u>\$ 335</u>	<u>\$(12,815)</u>	<u>\$32,978</u>

The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market data for these securities or, in accordance with Company policy, when the ratings of certain asset classes fall below investment grade, based on a review of ratings by Acceptable Rating Organizations. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable. There were no transfers between Level 1 and Level 2 during 2011 and 2010.

For assets reported at fair value, the Company utilizes, when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. When quoted prices in active markets are not available, fair value is based on the market approach, income approach or cost approach. The Company primarily uses a combination of the market approach, including matrix pricing, and the income approach. The assumptions and inputs used by management in applying these techniques include, but are not limited to interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, maturity, estimated duration and assumptions regarding liquidity and future cash flows.

The significant inputs to the market standard valuation techniques for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Such observable inputs include benchmarking prices for similar assets in active liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market.

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value 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, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

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., Rockwood Reinsurance Company, 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, 2011 and 2010, the Company had capital loss carryforwards of \$52.0 million and \$64.9 million and no operating loss carryforwards. The Company has no deposits admitted under Section 6603 of the Internal Revenue Service Code.

The components of the net deferred tax asset at December 31, 2011 and 2010, are as follows (in thousands):

	2011			2010		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Total deferred tax assets (admitted and non-admitted)	\$ 181,391	\$ 18,209	\$ 199,600	\$ 192,521	\$ 22,716	\$ 215,237
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax asset:	181,391	18,209	199,600	192,521	22,716	215,237
Total deferred tax liabilities	29,808	4,526	34,334	27,489	1,415	28,904
Net deferred tax asset (liability)	151,583	13,683	165,266	165,032	21,301	186,333
Deferred tax asset non-admitted	125,224	13,683	138,907	135,946	21,301	157,247
Net admitted deferred tax assets	\$ 26,359	\$ -	\$ 26,359	\$ 29,086	\$ -	\$ 29,086

	Change		
	Ordinary	Capital	Total
Total deferred tax assets (admitted and non-admitted)	\$ (11,130)	\$ (4,507)	\$ (15,637)
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax asset:	(11,130)	(4,507)	(15,637)
Total deferred tax liabilities	2,319	3,111	5,430
Net deferred tax asset (liability)	(13,449)	(7,618)	(21,067)
Deferred tax asset non-admitted	(10,722)	(7,618)	(18,340)
Net admitted deferred tax assets	\$ (2,727)	\$ -	\$ (2,727)

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 10R as of December 31 are as follows (in thousands):

	2011			2010		
	Ordinary	Capital	Total	Ordinary	Capital	Total
10 a. Federal Income Taxes recoverable through loss carryback	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10 b.i. Adjusted gross deferred tax assets expected to be realized in one year	26,359	-	26,359	29,086	-	29,086
10 b.ii. 10% adjusted statutory and capital surplus limit	<u>158,465</u>	<u>158,465</u>	<u>158,465</u>	<u>152,889</u>	<u>152,889</u>	<u>152,889</u>
Admitted pursuant to 10 b. (lesser of i. or ii.)	26,359	-	26,359	29,086	-	29,086
10 c. Admitted pursuant to 10 c. Additional admitted pursuant to 10 e.i, ii a, and ii b	29,808	4,526	34,334	27,489	1,415	28,904
	<u>N/A</u>	<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	56,167	4,526	60,693	56,575	1,415	57,990
Total deferred tax liabilities	<u>29,808</u>	<u>4,526</u>	<u>34,334</u>	<u>27,489</u>	<u>1,415</u>	<u>28,904</u>
Net admitted deferred tax assets	<u>\$ 26,359</u>	<u>\$ -</u>	<u>\$ 26,359</u>	<u>\$ 29,086</u>	<u>\$ -</u>	<u>\$ 29,086</u>
Non-admitted deferred tax assets	<u>\$125,224</u>	<u>\$ 13,683</u>	<u>\$138,907</u>	<u>\$135,946</u>	<u>\$ 21,301</u>	<u>\$157,247</u>
	Change					
	Ordinary	Capital	Total			
10 a. Federal Income Taxes recoverable through loss carryback	\$ -	\$ -	\$ -			
10 b.i. Adjusted gross deferred tax assets expected to be realized in one year	(2,727)	-	(2,727)			
10 b.ii. 10% adjusted statutory and capital surplus limit	<u>5,576</u>	<u>5,576</u>	<u>5,576</u>			
Admitted pursuant to 10 b. (lesser of i. or ii.)	(2,727)	-	(2,727)			
10 c. Admitted pursuant to 10 c. Additional admitted pursuant to 10 e.i, ii a, and ii b	2,319	3,111	5,430			
	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>			
Total admitted adjusted gross deferred tax asset	(408)	3,111	2,701			
Total deferred tax liabilities	<u>2,319</u>	<u>3,111</u>	<u>5,430</u>			
Net admitted deferred tax assets	<u>\$ (2,727)</u>	<u>\$ -</u>	<u>\$ (2,727)</u>			
Non-admitted deferred tax assets	<u>\$ (10,722)</u>	<u>\$ (7,618)</u>	<u>\$ (18,340)</u>			

The Company has not elected to admit deferred tax assets pursuant to paragraph 10 e. as of December 31, 2011 and 2010.

Impact of Tax Planning Strategies	2011			2010			Change		
	Ordinary	Capital	Total	Ordinary	Capital	Total	Ordinary	Capital	Total
Adjusted Gross DTAs (% of Total Adjusted Gross DTAs)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Net Admitted Adjusted Gross DTAs (% of Total Net Admitted Adjusted Gain)	-	-	-	-	-	-	-	-	-

The following table provides the Company's assets, capital and surplus, and risk based capital information with the deferred tax asset calculated under SSAP 10R paragraphs 10(a) to (c) and the additional deferred tax asset determined under SSAP 10R paragraph 10.e., if any, as of December 31, 2011 (in thousands):

	SSAP 10R 10.a.-c.	SSAP 10R 10. e.	Difference
Admitted deferred tax assets	\$ 26,359	\$ 26,359	\$ -
Admitted assets	16,912,966	16,912,966	-
Statutory surplus	1,513,434	1,513,434	-
Total adjusted capital	1,584,651	1,584,651	-
Authorized control level used in 10.d.	222,854	222,854	-

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, 2011 and 2010, and their related changes are approximately as follows (in thousands):

	2011	2010	Change
Deferred income tax assets:			
<i>Ordinary:</i>			
Reserves	\$ 66,518	\$ 65,320	\$ 1,198
Bond writedowns and premium amortization	14,750	47,941	(33,191)
Non deductible accruals	53,391	27,827	25,564
Proxy deferred acquisition costs capitalized for tax	46,732	44,715	2,017
Non deductible foreign taxes	-	6,718	(6,718)
<i>Capital</i> — capital loss carryforward	<u>18,209</u>	<u>22,716</u>	<u>(4,507)</u>
Deferred income tax assets	<u>199,600</u>	<u>215,237</u>	<u>(15,637)</u>
Deferred income tax liabilities:			
<i>Ordinary:</i>			
Tax mark to mark adjustments on hedged assets	10,402	10,338	64
Tax-basis versus statutory-basis investment differences	13,377	8,622	4,755
Other — net	6,029	8,529	(2,500)
<i>Capital</i> — tax effect of unrealized gains	<u>4,526</u>	<u>1,415</u>	<u>3,111</u>
Deferred income tax liabilities	<u>34,334</u>	<u>28,904</u>	<u>5,430</u>
Net deferred income tax asset	165,266	186,333	(21,067)
Less total deferred income tax asset non-admitted in accordance with SSAP 10	<u>138,907</u>	<u>157,247</u>	<u>(18,340)</u>
Net admitted deferred income tax asset	<u>\$ 26,359</u>	<u>\$ 29,086</u>	<u>\$ (2,727)</u>
Change in deferred income tax asset non-admitted	<u>\$ (18,340)</u>	<u>\$ 66,922</u>	

The change in the net deferred income tax asset during 2011 and 2010 is as follows (in thousands):

	2011	2010
Net change in deferred income tax asset	\$ (21,067)	\$ 71,222
Tax effect of unrealized gains (losses)	<u>3,111</u>	<u>(6,586)</u>
Change in net deferred income tax asset	<u>\$ (17,956)</u>	<u>\$ 64,636</u>

The components of the current income tax expense (benefit) for the years ended December 31, 2011 and 2010 are as follows (in thousands):

	2011	2010
Federal	\$ 79,976	\$ 56,719
Foreign	<u>701</u>	<u>86</u>
Income tax expense	80,677	56,805
Federal capital gains	<u>-</u>	<u>-</u>
Total	<u>\$ 80,677</u>	<u>\$ 56,805</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):

	2011		2010	
	Amount	Percent of Pre-tax Income	Amount	Percent of Pre-tax Income
Provision computed at statutory rate	\$ 83,090	35.0 %	\$ 51,906	35.0 %
Provision to return adjustments	13,207	5.6	(37,615)	(25.4)
Interest maintenance reserve	(2,456)	(1.0)	(2,949)	(2.0)
Policy reserves	4,405	1.9	15,727	10.6
In-force reinsurance	(13,297)	(5.6)	9,091	6.1
Foreign tax credit carryforward	(6,718)	(2.8)	6,718	4.5
Change in deferred income taxes	17,956	7.6	(64,636)	(43.6)
Other — net	<u>2,446</u>	<u>1.0</u>	<u>13,927</u>	<u>9.4</u>
Total statutory income taxes	<u>\$ 98,633</u>	<u>41.7 %</u>	<u>\$ (7,831)</u>	<u>(5.4)%</u>

	2011	2010
Federal and foreign income taxes incurred	\$ 80,677	\$ 56,805
Change in net deferred income tax	<u>17,956</u>	<u>(64,636)</u>
Total statutory income taxes	<u>\$ 98,633</u>	<u>\$ (7,831)</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, 2011 and 2010.

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.

As of December 31, 2011 and 2010, the Company's total amount of unrecognized tax benefits was \$22.8 million and \$18.8 million, respectively.

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 \$74.2 million and \$55.3 million as of December 31, 2011 and 2010, 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 \$5.1million and \$3.9 million in 2011 and 2010, 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 \$1.0 million and \$0.9 million for 2011 and 2010, respectively, related to these postretirement plans. The projected obligation was approximately \$9.7 million and \$6.9 million as of December 31, 2011 and 2010, respectively (in thousands).

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Change in projected benefit obligation:				
Projected benefit obligation —				
Beginning of year	\$ 55,311	\$ 54,658	\$ 6,937	\$ 5,589
Service cost	4,430	3,786	619	511
Interest cost	3,006	2,683	366	368
Participant contributions	-	-	176	143
Actuarial gain (loss)	13,178	(4,753)	1,816	451
Benefits paid	<u>(1,752)</u>	<u>(1,063)</u>	<u>(217)</u>	<u>(125)</u>
Projected benefit obligation —				
End of year	<u>\$ 74,173</u>	<u>\$ 55,311</u>	<u>\$ 9,697</u>	<u>\$ 6,937</u>
Change in plan assets:				
Fair value of plan assets —				
Beginning of year	\$ 35,888	\$ 30,923	\$ -	\$ -
Actual return on plan assets	540	4,383	-	-
Employer contributions	6,624	1,645	41	70
Participant contributions	-	-	176	127
Benefits paid	<u>(1,752)</u>	<u>(1,063)</u>	<u>(217)</u>	<u>(197)</u>
Fair value of plan assets —				
End of year	<u>\$ 41,300</u>	<u>\$ 35,888</u>	<u>\$ -</u>	<u>\$ -</u>
Under funded	\$ (32,873)	\$ (19,423)	\$ (9,697)	\$ (6,937)
Unrecognized net actuarial losses (gains)	25,966	11,287	-	257
Unrecognized prior service cost	<u>40</u>	<u>69</u>	<u>-</u>	<u>-</u>
Accrued benefit cost	<u>\$ (6,867)</u>	<u>\$ (8,067)</u>	<u>\$ (9,697)</u>	<u>\$ (6,680)</u>
Benefit obligation for non-vested employees	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,156</u>	<u>\$ 11,458</u>

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

	2011		2010	
	Qualified Plan	Non-Qualified Plan	Qualified Plan	Non-Qualified Plan
Aggregate projected benefit obligation	\$ (51,980)	\$ (22,193)	\$ (40,687)	\$ (14,624)
Aggregate fair value of plan assets	<u>41,300</u>	<u>-</u>	<u>35,888</u>	<u>-</u>
Under funded	<u>\$ (10,680)</u>	<u>\$ (22,193)</u>	<u>\$ (4,799)</u>	<u>\$ (14,624)</u>
Accumulated benefit obligation	<u>\$ 50,080</u>	<u>\$ 20,523</u>	<u>\$ 38,483</u>	<u>\$ 13,799</u>

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

For the years ended December 31, 2011 and 2010, the weighted average assumptions used to determine the accumulated benefit obligation and net benefit cost or income were as follows:

	2011	2010
Discount rate	5.40 %	5.75 %
Expected rate of return on plan assets	7.75	8.50
Rate of compensation increase	4.25	4.25

The expected rate of return on plan assets for the years ended December 31, 2011 and 2010 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, 2011 and 2010 were as follows:

	2011	2010
Pre-Medicare eligible claims	9% down to 5% in 2015	8% down to 5% in 2013
Medicare eligible claims	9% down to 5% in 2015	8% down to 5% in 2013

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):

	Increase	Decrease
Effect on total of service and interest cost components	\$ 168	\$ (136)
Effect on accumulated postretirement benefit obligation	1,388	(1,143)

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

	Pension Benefits		Other Benefits	
	2011	2010	2011	2010
Service cost	\$ 4,430	\$ 3,787	\$ 619	\$ 511
Interest cost	3,006	2,683	366	368
Expected return on plan assets	(2,937)	(2,578)	-	-
Amortization of prior actuarial losses (gains)	897	751	-	-
Amortization of prior service cost	29	29	-	-
Net periodic benefit cost	<u>\$ 5,425</u>	<u>\$ 4,672</u>	<u>\$ 985</u>	<u>\$ 879</u>

The Company expects to contribute \$3.9 million in pension benefits and \$0.2 million in other benefits during 2012.

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

	Pension Benefits	Other Benefits
2012	\$ 3,883	\$ 247
2013	4,185	302
2014	4,388	361
2015	4,637	420
2016	6,438	480
2017–2020	30,335	3,495

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

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

	2011	2010
Asset category:		
Equity securities	57 %	62 %
Debt securities	<u>43</u>	<u>38</u>
Total	<u>100 %</u>	<u>100 %</u>

The 2012 target range of allocation by asset type of the Pension Plan's total plan fair value on a weighted average basis is as follows:

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 has numerous 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, 2011.

The Company received a \$13.0 million cash surplus contribution from RCM in 2010.

On December 30, 2011, the Company declared an ordinary stockholder dividend, paid March 22, 2012, in the amount of \$40.0 million and on December 30, 2010, the Company declared an ordinary stockholder dividend, paid March 15, 2011, in the amount of \$80.0 million.

The Company reported \$10.5 million and \$6.8 million as amounts payable to affiliates as of December 31, 2011 and 2010, respectively, and reported \$6.8 million and \$7.3 million as amounts

receivable from related parties as of December 31, 2011 and 2010, respectively. It is the policy of the Company and all related parties to settle all outstanding balances within ninety days.

The Company did not have material management or service contracts and cost-sharing arrangements with a related party as of December 31, 2011 and 2010.

RGA, Inc. established an intercompany revolving credit facility where certain subsidiaries can lend to or borrow from each other and from RGA, Inc. in order to manage capital and liquidity more efficiently. The intercompany revolving credit facility, which is a series of demand loans among RGA, Inc. and its subsidiaries, is permitted under applicable insurance laws and has been approved by the Missouri Department of Insurance. This facility reduces overall borrowing costs by allowing RGA, Inc. and its operating companies to access internal cash resources instead of incurring third-party transaction costs. The statutory borrowing and lending limit for RGA, Inc.'s Missouri-domiciled insurance subsidiaries is currently the lesser of 3% of the insurance company's admitted assets and 25% of its surplus, in both cases, as of its most recent year-end. There were no amounts outstanding under the intercompany revolving credit facility as of December 31, 2011.

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, 2011 and 2010.

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, 2011 and 2010.

The Company did not recognize any impairment write-down for its investment in a related party for the years ended December 31, 2011 and 2010.

The Company did not have any investments in any related foreign insurance companies as of December 31, 2011 and 2010.

The Company did not hold any investments in a downstream noninsurance holding company as of December 31, 2011 and 2010.

RGA, Inc. (the Company's ultimate Parent) and its affiliates provide services and pay certain expenses on behalf of the Company. Procedures used in determining such costs are reasonable. Certain other services and administrative costs are provided by the Group at no cost to the Company. These expenses are not allocated to the Company due to insignificance.

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, 2011, are as follows (in thousands):

2012	\$8,552
2013	5,507
2014	4,196
2015	90
2016	27
Thereafter	-

Rent expenses amounted to approximately \$10.1 million and \$8.2 million for the years ended December 31, 2011 and 2010, 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, 2011 and 2010, no allowances were deemed necessary. The Company regularly evaluates the financial condition of its reinsurers/retrocessionaires. At December 31, 2011 and 2010, 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):

	2011	2010
Direct premiums and amounts assessed against policyholders	\$ 2,590	\$ 2,669
Reinsurance assumed	6,157,966	6,213,949
Reinsurance ceded	<u>2,984,071</u>	<u>3,990,689</u>
Net premiums and amounts earned	<u>\$3,176,485</u>	<u>\$2,225,929</u>

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

	2011	2010
Direct	\$ 9,501	\$ 3,023
Reinsurance assumed	5,725,588	5,457,108
Reinsurance ceded	<u>3,171,777</u>	<u>3,226,190</u>
Net policyholder benefits and dividends to policyholders	<u>\$2,563,312</u>	<u>\$2,233,941</u>

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

	Life Insurance in Force				Assumed/ Net Percent
	Direct	Assumed	Ceded	Net	
December 31, 2011	\$ 76	\$1,601,334	\$ 1,060,011	\$ 541,399	295.78%
December 31, 2010	74	1,593,881	1,012,752	581,203	274.24%

In the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus, policy and claim reserves are net of reinsurance ceded of \$8.6 billion at both December 31, 2011 and 2010.

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 at least 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.

The Company maintains an ongoing effort to alleviate strain on ordinary life business assumed by the Company that is subject to the Valuation of Life Insurance Policies Model Regulation, commonly referred to as Regulation XXX. The Company has numerous significant retrocession agreements, with both affiliated and non-affiliated companies and consisting of both new and inforce business, designed to offset the impact of this strain. Current treaties undergo periodic modification and the Company continues to both enter new agreements and recapture existing treaties. At December 31, 2011 and 2010, these treaties produced \$871.2 billion and \$823.6 billion of ceded ordinary life insurance inforce and \$4.5 billion and \$4.3 billion of pre-tax surplus, respectively. For the years ended December 31, 2011 and 2010, these treaties generated \$67.1 million and \$292.9 million of pre-tax surplus, respectively.

The Company has both assumed and ceded reinsurance agreements with related parties, including the XXX financing agreements discussed above. The Company reflected the following on these related party reinsurance agreements (dollars in millions):

	2011	2010
Net policy and claim reserves	\$ (4,633.4)	\$ (4,531.0)
Net premium income	(2,021.1)	(3,111.3)
Net pre-tax gain	(184.8)	358.0

Effective January 1, 2010, the Company assumed, on a coinsurance basis, an ongoing block of reinsurance business from Reliastar Life Insurance Company ("Reliastar") consisting primarily of group life and group accident and health business. On the effective date of this agreement, the Company expensed \$126.6 million of allowances. The Company also entered into a coinsurance/funds withheld agreement, effective January 1, 2010, with an affiliated reinsurance company, RGA Worldwide Reinsurance Company, Ltd. wherein it retrocedes 100% of the net retained business assumed under the aforementioned agreements. Under the terms of this retrocession agreement, the Company receives a pass-thru allowance in excess of the allowance and general expenses incurred by the Company in the assumed treaties. For the years ended December 31, 2011 and 2010, these treaties produced in a pre-tax net gain of \$19.8 million and a pre-tax net loss of \$123.4 million, respectively.

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 \$1.0 billion as of both December 31, 2011 and 2010.

12. RESTRICTIONS OF SURPLUS

Without prior approval of its domiciliary commissioner, dividends to shareholders are limited by the laws of the Company's state of incorporation, Missouri, to \$151.6 million in 2012, an amount that is based upon restrictions relating to the greater of prior year net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains of losses or 10% of prior year statutory-basis capital and surplus, but limited to no more than current unassigned surplus.

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, 2011 and 2010, with a carrying value totaling \$346.3 million and \$326.0 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 \$2.6 million and \$2.5 million, as of December 31, 2011 and 2010, 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 \$2.7 million, as of December 31, 2011 and 2010, 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 \$0.8 million and \$0.8 million, as of December 31, 2011 and 2010, respectively. The Company has also agreed to internally allocate assets with a carrying value totaling \$69.9 million and \$91.6 million as of December 31, 2011 and 2010, respectively, to support the New Zealand branch's reinsurance operations.

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, 2011, 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 \$1.0 billion at both December 31, 2011 and 2010.

The Company has a commitment to fund investments in limited partnerships in the amount of \$156.6 million and \$147.2 million at December 31, 2011 and 2010, respectively. The Company anticipates that the majority of this amount will be invested over the next five years; however, contractually this commitment could become due at the request of the counterparties. Investments in limited partnerships are mainly carried at cost but several limited partnerships are carried at statement value and are included in other invested assets in the statutory-basis statement of admitted assets, liabilities, and capital and surplus.

At December 31, 2011, the Company had contingent commitments to fund commercial mortgage loans of \$33.6 million and delayed draws on bank loans and other investments of \$0.7 million.

The Company has obtained letters of credit, issued by banks, in favor of various unaffiliated insurance companies and pools of unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements. There were approximately \$1.1 million and \$1.2 million of outstanding bank letters of credit in favor of unaffiliated entities as of December 31, 2011 and 2010, respectively. In addition, at December 31, 2011, the Company had a \$500,000 bank letter of credit to the benefit of the California Department of Insurance securing the Company's California Workers Compensation Carve-out reinsurance business.

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, 2011 and 2010, unassigned surplus was increased (decreased) by the following cumulative changes (in thousands):

	2011	2010
Unrealized gains and losses, net of deferred income taxes	\$ 8,406	\$ (3,000)
Nonadmitted assets	(186,028)	(183,166)
Asset valuation reserve	(68,717)	(24,655)
Provision for reinsurance	(27,509)	(13,355)

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 2011 and 2010. As of December 31, 2011 and 2010, 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 2011 and 2010. As of December 31, 2011 and 2010, interest in the amount of \$0.2 million was payable on this note.

On March 10, 2010, the Company issued \$100.0 million in surplus notes to RGA, Inc. The notes have a maturity date of December 15, 2040, and bear an interest rate of 7.15%, with interest payable annually on December 15. Total interest paid related to this surplus note was \$7.2 million and \$5.6 million in 2011 and 2010, respectively. As of December 31, 2011 and 2010, interest in the amount of \$0.3 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 an insurance solvency proceedings, 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. ELECTRONIC DATA PROCESSING EQUIPMENT

Depreciation and amortization of major classes of EDP assets for the year ended December 31, 2011 and 2010 are as follows (in thousands):

	Accumulated Depreciation December 31, 2010	Depreciation Expense 2011	Disposals 2011	Accumulated Depreciation December 31, 2011
2011				
Servers and components	\$ 8,603	\$ 2,079	\$ (27)	\$ 10,655
Personal computers	<u>1,596</u>	<u>474</u>	<u>(197)</u>	<u>1,873</u>
	<u>\$ 10,199</u>	<u>\$ 2,553</u>	<u>\$ (224)</u>	<u>\$ 12,528</u>
	Accumulated Amortization December 31, 2010	Amortization Expense 2011	Impairments 2011	Accumulated Amortization December 31, 2011
Nonadmitted software	<u>\$ 29,881</u>	<u>\$ 1,502</u>	<u>\$ -</u>	<u>\$ 31,383</u>
	Accumulated Depreciation December 31, 2009	Depreciation Expense 2010	Disposals 2010	Accumulated Depreciation December 31, 2010
2010				
Servers and components	\$ 6,929	\$ 2,083	\$ (409)	\$ 8,603
Personal computers	<u>1,545</u>	<u>442</u>	<u>(391)</u>	<u>1,596</u>
	<u>\$ 8,474</u>	<u>\$ 2,525</u>	<u>\$ (800)</u>	<u>\$ 10,199</u>
	Accumulated Amortization December 31, 2009	Amortization Expense 2010	Impairments 2010	Accumulated Amortization December 31, 2010
Nonadmitted software	<u>\$ 28,343</u>	<u>\$ 1,538</u>	<u>\$ -</u>	<u>\$ 29,881</u>

17. SUBSEQUENT EVENTS

The Company has determined that there were no subsequent events that would require disclosures or adjustment to the statutory-basis financial statements through May 30, 2012, the date the statutory-basis financial statements were available to be issued.

* * * * *

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

**SUPPLEMENTAL INVESTMENT RISKS INTERROGATORIES**

For the year ended December 31, 2011

(To be filed by April 1)

Of RGA REINSURANCE COMPANY

Address (City, State, 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. \$16,912,965,709

2. Ten largest exposures to a single issuer/borrower/investment.

1	2	3	4
			Percentage of Total
Issuer	Description of Exposure	Amount	Admitted Assets
2.01 JAPAN (GOVERNMENT OF).....	BONDS, PSTOCK.....	\$...242,302,695	1.433 %
2.02 ING GROEP NV.....	BONDS.....	\$...155,888,063	0.922 %
2.03 TIMBR-A.....	BONDS, SHTERM.....	\$...131,410,462	0.777 %
2.04 FREDDIE MAC FHLMC Structured.....	BONDS, SHTERM.....	\$...96,569,583	0.571 %
REINSURANCE GROUP OF AMERICA			
2.05 INCORPORATED	BONDS.....	\$...80,000,000	0.473 %
2.06 NEW SOUTH WALES (STATE OF).....	BONDS, SHTERM.....	\$...66,335,814	0.392 %
2.07 UBS AG.....	BONDS.....	\$...65,868,950	0.389 %
2.08 NEW ZEALAND (GOVERNMENT OF).....	BONDS.....	\$...56,546,561	0.334 %
2.09 VERIZON COMMUNICATIONS INC.....	BONDS, PSTOCK, SHTERM.....	\$...55,434,914	0.328 %
2.10 WELLS FARGO & COMPANY.....	BONDS, SHTERM.....	\$...45,493,220	0.268 %

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

	1	2
Bonds		
3.01 NAIC-1.....	\$4,277,128,795	25.289 %
3.02 NAIC-2.....	\$2,506,855,090	14.822 %
3.03 NAIC-3.....	\$591,833,849	3.499 %
3.04 NAIC-4.....	\$218,392,134	1.291 %
3.05 NAIC-5.....	\$41,864,421	0.248 %
3.06 NAIC-6.....	\$13,372,745	0.079 %
Preferred Stocks		
3.07 P/RP-1.....	\$8,049,999	0.048 %
3.08 P/RP-2.....	\$43,354,865	0.256 %
3.09 P/RP-3.....	\$2,070,242	0.012 %
3.10 P/RP-4.....	\$1,419,375	0.008 %
3.11 P/RP-5.....	\$.....	0.000 %
3.12 P/RP-6.....	\$832,624	0.005 %

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]
If response to 4.01 above is yes, responses are not required for interrogatories 5-10.	
4.02 Total admitted assets held in foreign investments	\$1,538,181,9209.095 %
4.03 Foreign-currency-denominated investments	\$512,577,0653.031 %
4.04 Insurance liabilities denominated in that same foreign currency	\$256,099,9431.514 %

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

	1	2
5.01 Countries rated NAIC-1.....	\$1,410,964,757	8.343 %
5.02 Countries rated NAIC-2.....	\$78,031,919	0.461 %
5.03 Countries rated NAIC-3 or below.....	\$49,185,244	0.291 %

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

	1	2
Countries rated NAIC-1:		
6.01 Country 1: Australia.....	\$258,724,666	1.530 %
6.02 Country 2: Japan.....	\$251,382,451	1.486 %
Countries rated NAIC-2:		
6.03 Country 1: Mexico.....	\$28,416,018	0.168 %
6.04 Country 2: Brazil.....	\$13,202,025	0.078 %
Countries rated NAIC-3 or below:		
6.05 Country 1: Supranational.....	\$26,503,236	0.157 %
6.06 Country 2: Other.....	\$22,682,008	0.134 %

7. Aggregate unhedged foreign currency exposure:

1	2
\$512,577,065	3.031 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:		1	2
8.01 Countries rated NAIC-1.....		\$ 489,374,081	2.893 %
8.02 Countries rated NAIC-2.....		\$ 4,771,142	0.028 %
8.03 Countries rated NAIC-3 or below.....		\$ 18,431,842	0.109 %
9. Largest unhedged foreign currency exposures by country, categorized by the country's NAIC sovereign rating:			
Countries rated NAIC-1:		1	2
9.01 Country 1: Japan.....		\$ 242,302,695	1.433 %
9.02 Country 2: Australia.....		\$ 130,569,526	0.772 %
Countries rated NAIC-2:			
9.03 Country 1: Indonesia.....		\$ 3,285,748	0.019 %
9.04 Country 2: Mexico.....		\$ 1,485,394	0.009 %
Countries rated NAIC-3 or below:			
9.05 Country 1: Supranational.....		\$ 18,431,842	0.109 %
9.06 Country 2:		\$	0.000 %
10. Ten largest non-sovereign (i.e. non-governmental) foreign issues:			
	1	2	
	Issuer	NAIC Rating	
10.01 CREDIT SUISSE GROUP AG.....	1, 2	\$ 27,624,860	0.163 %
10.02 TELEFONICA SA.....	2	\$ 23,813,201	0.141 %
10.03 WESTPAC BANKING CORP.....	1	\$ 21,354,057	0.126 %
10.04 TELSTRA CORPORATION LIMITED.....	1	\$ 20,945,717	0.124 %
10.05 LLOYDS BANKING GROUP PLC.....	1, 2, 3	\$ 20,830,981	0.123 %
ROYAL BANK OF SCOTLAND GROUP			
10.06 PLC	1, 3	\$ 20,126,755	0.119 %
10.07 BARCLAYS PLC.....	1, 2, P2	\$ 19,078,472	0.113 %
10.08 DEUTSCHE TELEKOM AG.....	2	\$ 18,429,439	0.109 %
10.09 ENEL S.P.A.....	1	\$ 16,934,792	0.100 %
10.10 TELECOM ITALIA SPA.....	2	\$ 16,570,330	0.098 %
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 [X] No []
If response to 11.01 is yes, detail is not required for the remainder of Interrogatory 11.			
11.02 Total admitted assets held in Canadian investments		\$	0.000 %
11.03 Canadian currency-denominated investments		\$	0.000 %
11.04 Canadian-denominated insurance liabilities		\$	0.000 %
11.05 Unhedged Canadian currency exposure		\$	0.000 %
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 [X] No []
If response to 12.01 is yes, responses are not required for the remainder of Interrogatory 12.			
	1	2	3
12.02 Aggregate statement value of investments with contractual sales restrictions:		\$	0.000 %
Largest three investments with contractual sales restrictions:			
12.03		\$	0.000 %
12.04		\$	0.000 %
12.05		\$	0.000 %
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 [X] No []
If response to 13.01 above is yes, responses are not required for the remainder of Interrogatory 13.			
	1	2	3
	Name of Issuer		
13.02		\$	0.000 %
13.03		\$	0.000 %
13.04		\$	0.000 %
13.05		\$	0.000 %
13.06		\$	0.000 %
13.07		\$	0.000 %
13.08		\$	0.000 %
13.09		\$	0.000 %
13.10		\$	0.000 %
13.11		\$	0.000 %
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 [X] No []
If response to 14.01 above is yes, responses are not required for the remainder of Interrogatory 14.			
	1	2	3
14.02 Aggregate statement value of investments held in nonaffiliated, privately placed equities:		\$	0.000 %
Largest three investments held in nonaffiliated, privately placed equities:			
14.03		\$	0.000 %
14.04		\$	0.000 %
14.05		\$	0.000 %

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 above is yes, responses are not required for the remainder of Interrogatory 15.

	1	2	3
15.02 Aggregate statement value of investments held in general partnership interests:	\$.....	0.000 %	
Largest three investments in general partnership interests:			
15.03	\$.....	0.000 %	
15.04	\$.....	0.000 %	
15.05	\$.....	0.000 %	

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 Edwardsville Crossing LLC.....	\$.....19,669,576	0.116 %	
16.03 Canyon View Limited.....	\$.....15,808,229	0.093 %	
16.04 TCN I, LLC.....	\$.....15,092,650	0.089 %	
16.05 Pine Springs Apartments LLC.....	\$.....14,963,544	0.088 %	
16.06 Lamplighter Camarillo MHC LLC.....	\$.....14,499,903	0.086 %	
16.07 Rhine Development, Inc.....	\$.....14,493,173	0.086 %	
16.08 Enrico Partners LP.....	\$.....14,269,395	0.084 %	
16.09 Battleship II LLC.....	\$.....13,674,757	0.081 %	
16.10 ACC OP (CITYPARC), LP.....	\$.....10,723,210	0.063 %	
16.11 Orange Square LLC.....	\$.....10,482,759	0.062 %	

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

	Loans	
16.12 Construction loans.....	\$.....	0.000 %
16.13 Mortgage loans over 90 days past due.....	\$.....15,222,222	0.090 %
16.14 Mortgage loans in the process of foreclosure.....	\$.....2,900,000	0.017 %
16.15 Mortgage loans foreclosed.....	\$.....	0.000 %
16.16 Restructured mortgage loans.....	\$.....25,413,891	0.150 %

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%.....	\$.....	0.000 %	\$.....64,320,105	0.380 %	\$.....	0.000 %
17.02 91% to 95%.....	\$.....	0.000 %	\$.....5,026,895	0.030 %	\$.....	0.000 %
17.03 81% to 90%.....	\$.....	0.000 %	\$.....42,526,997	0.251 %	\$.....	0.000 %
17.04 71% to 80%.....	\$.....	0.000 %	\$.....102,495,657	0.606 %	\$.....	0.000 %
17.05 below 70%.....	\$.....	0.000 %	\$.....780,840,368	4.617 %	\$.....	0.000 %

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.

Largest five investments in any one parcel or group of contiguous parcels of real estate.

Description	2	3
18.02	\$.....	0.000 %
18.03	\$.....	0.000 %
18.04	\$.....	0.000 %
18.05	\$.....	0.000 %
18.06	\$.....	0.000 %

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 admitted assets?

Yes ☒ No ☐

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

	1	2	3
19.02 Aggregate statement value of investments held in mezzanine real estate loans:	\$.....	0.000 %	
Largest three investments held in mezzanine real estate loans:			
19.03	\$.....	0.000 %	
19.04	\$.....	0.000 %	
19.05	\$.....	0.000 %	

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr	2nd Qtr	3rd Qtr
20.01 Securities lending agreements (do not include assets held as collateral for such transactions).....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.02 Repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.03 Reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.04 Dollar repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....
20.05 Dollar reverse repurchase agreements.....	\$.....	0.000 %	\$.....	\$.....	\$.....

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

	<u>Owned</u>		<u>Written</u>	
	1	2	3	4
21.01 Hedging.....	\$.....	0.000 %	\$.....	0.000 %
21.02 Income generation.....	\$.....	0.000 %	\$.....	0.000 %
21.03 Other.....	\$.....90,106,356	0.533 %	\$.....(90,106,356)	(0.533)%

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
22.01 Hedging.....	\$.....2,547,320	0.015 %	\$.....1,356,174	\$.....1,302,479	\$.....1,241,229
22.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
22.03 Replications.....	\$.....171,000,000	1.011 %	\$.....	\$.....195,000,000	\$.....195,000,000
22.04 Other.....	\$.....51,839,415	0.307 %	\$.....45,496,769	\$.....47,572,756	\$.....57,189,312

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

	<u>At Year-End</u>		<u>At End of Each Quarter</u>		
	1	2	1st Qtr 3	2nd Qtr 4	3rd Qtr 5
23.01 Hedging.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.02 Income generation.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.03 Replications.....	\$.....	0.000 %	\$.....	\$.....	\$.....
23.04 Other.....	\$.....	0.000 %	\$.....	\$.....	\$.....

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1 Amount	2 Percentage	3 Amount	4 Securities Lending Reinvested Collateral Amount	5 Total (Col. 3 + 4) Amount	6 Percentage
1. Bonds:						
1.1 U.S. treasury securities.....	157,447,975	1.5	157,447,973		157,447,973	1.5
1.2 U.S. government agency obligations (excluding mortgage-backed securities):						
1.21 Issued by U.S. government agencies.....		0.0			0	0.0
1.22 Issued by U.S. government sponsored agencies.....	50,284,322	0.5	50,284,322		50,284,322	0.5
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities).....	517,871,552	4.9	517,871,552		517,871,552	4.9
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations.....		0.0			0	0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....	71,843,590	0.7	71,843,590		71,843,590	0.7
1.43 Revenue and assessment obligations.....	68,352,048	0.6	68,352,048		68,352,048	0.6
1.44 Industrial development and similar obligations.....		0.0			0	0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):						
1.51 Pass-through securities:						
1.511 Issued or guaranteed by GNMA.....	15,694,285	0.1	15,694,285		15,694,285	0.1
1.512 Issued or guaranteed by FNMA and FHLMC.....	62,996,911	0.6	62,996,911		62,996,911	0.6
1.513 All other.....		0.0			0	0.0
1.52 CMOs and REMICs:						
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....	199,211,671	1.9	199,211,673		199,211,673	1.9
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.....	1,105,176,558	10.4	1,105,176,558		1,105,176,558	10.4
1.523 All other.....		0.0			0	0.0
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities).....	3,759,750,430	35.3	3,759,750,430		3,759,750,430	35.3
2.2 Unaffiliated non-U.S. securities (including Canada).....	1,142,082,170	10.7	1,142,082,170		1,142,082,170	10.7
2.3 Affiliated securities.....	211,410,462	2.0	211,410,462		211,410,462	2.0
3. Equity interests:						
3.1 Investments in mutual funds.....		0.0			0	0.0
3.2 Preferred stocks:						
3.21 Affiliated.....		0.0			0	0.0
3.22 Unaffiliated.....	55,727,104	0.5	55,727,104		55,727,104	0.5
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated.....		0.0			0	0.0
3.32 Unaffiliated.....	5,308,380	0.0	5,308,380		5,308,380	0.0
3.4 Other equity securities:						
3.41 Affiliated.....	658,177	0.0	658,177		658,177	0.0
3.42 Unaffiliated.....	18,920,000	0.2	18,920,000		18,920,000	0.2
3.5 Other equity interests including tangible personal property under lease:						
3.51 Affiliated.....		0.0			0	0.0
3.52 Unaffiliated.....		0.0			0	0.0
4. Mortgage loans:						
4.1 Construction and land development.....		0.0			0	0.0
4.2 Agricultural.....		0.0			0	0.0
4.3 Single family residential properties.....		0.0			0	0.0
4.4 Multifamily residential properties.....		0.0			0	0.0
4.5 Commercial loans.....	989,215,615	9.3	989,215,615		989,215,615	9.3
4.6 Mezzanine real estate loans.....		0.0			0	0.0
5. Real estate investments:						
5.1 Property occupied by company.....		0.0			0	0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....	12,893,973	0.1	12,893,973		12,893,973	0.1
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0			0	0.0
6. Contract loans.....	1,237,708,086	11.6	1,237,708,086		1,237,708,086	11.6
7. Derivatives.....	282,756,304	2.7	282,756,304		282,756,304	2.7
8. Receivables for securities.....	12,452,477	0.1	12,452,477		12,452,477	0.1
9. Securities lending (Line 10, Asset Page reinvested collateral).....		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments.....	395,543,919	3.7	395,543,919		395,543,919	3.7
11. Other invested assets.....	266,418,346	2.5	266,418,346		266,418,346	2.5
12. Total invested assets.....	10,639,724,355	100.0	10,639,724,355	0	10,639,724,355	100.0

RGa REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

Investment income earned:	
Government bonds	\$ 7,607,545
Other bonds (unaffiliated)	404,602,674
Bonds of affiliates	6,334,427
Preferred stocks (unaffiliated)	4,626,024
Preferred stocks of affiliates	-
Common stocks (unaffiliated)	858,262
Common stocks of affiliates	572,304
Mortgage loans	55,237,599
Real estate	1,725,518
Premium notes, policy loans, and liens	-
Collateral loans	65,568,976
Cash and cash equivalents	2,072,207
Short-term investments	-
Other invested assets	21,095,061
Derivative instruments	(519,029)
Aggregate write-ins for investment income	-
Gross investment income	<u>\$ 569,781,568</u>
Real estate owned — book value less encumbrances	<u>\$ 12,893,973</u>
Mortgage loans — book value:	
Farm mortgages	\$ -
Residential mortgages	-
Commercial mortgages	<u>995,210,002</u>
Total mortgage loans	<u>\$ 995,210,002</u>
Mortgage loans by standing — book value:	
Good standing	\$ 951,673,889
Good standing with restructured terms	25,413,891
Interest overdue more than ninety days — not in foreclosure	15,222,222
Foreclosure in process	2,900,000
Other long-term assets — statement value	-
Collateral loans	-
Bonds and stocks of parents, subsidiaries, and affiliates — book value:	
Bonds	-
Preferred stocks	-
Common stocks	658,177

(Continued)

RGa REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

Bonds, short-term investments, and cash equivalents by class and maturity:

Bonds, short-term investments, and cash equivalents

by maturity — statement value:

Due within one year or less	\$ 615,154,295
Over 1 year through 5 years	2,104,192,823
Over 5 years through 10 years	3,000,674,491
Over 10 years through 20 years	667,770,054
Over 20 years	<u>1,261,655,371</u>

Total by maturity	<u>\$ 7,649,447,034</u>
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Bonds, short-term investments, and cash equivalents by class — statement value:

Class 1	\$ 4,277,128,795
Class 2	2,506,855,090
Class 3	591,833,849
Class 4	218,392,134
Class 5	41,864,421
Class 6	<u>13,372,745</u>

Total by class	<u>\$ 7,649,447,034</u>
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Total bonds, short-term investments, and cash equivalents publicly traded	\$ 5,706,050,416
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Total bonds, short-term investments, and cash equivalents privately traded	1,943,396,618
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Preferred stocks — statement value	55,727,104
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Common stocks — market value	24,886,557
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Short-term investments — book value	282,553,749
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Financial options owned — statement value	-
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Financial options written and in force — statement value	-
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Financial options open — statement value	-
--	---

Financial futures contracts open — current price	-
--	---

Cash on deposit	107,288,524
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Life insurance in force:

Industrial	-
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Ordinary	527,150,602,443
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Credit Life	2,557,042,815
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Group Life	11,691,309,552
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Amount of accidental death insurance in force under ordinary policies	-
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Life insurance policies with disability provisions in force:

Industrial	-
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Ordinary	35,120,334,383
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Credit Life	-
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Group Life	29,272,741
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(Continued)

RGa REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2011

Supplementary contracts in force:		
Ordinary — not involving life contingencies:		
Amount on deposit	\$	-
Income payable		-
Ordinary — involving life contingencies — income payable		-
Group — not involving life contingencies:		
Amount of deposit		-
Income payable		-
Group — involving life contingencies — income payable		-
Annuities:		
Ordinary:		
Immediate — amount of income payable		-
Deferred — fully paid account balance		14,941,582,925
Deferred — not fully paid — account balance		-
Group:		
Amount of income payable		-
Fully paid account balance		17,013,290
Not fully paid — account balance		-
Accident and health insurance — premiums in force:		
Ordinary		308,259,615
Group		-
Credit		-
Deposit funds and dividend accumulations:		
Deposit funds — account balance		197,720,840
Dividend accumulations — account balance		-
Claim payments 2011:		
Group accident and health — year ended December 31, 2011:		
2011		-
2010		-
2009		-
Other accident and health:		
2011		-
2010		-
2009		-
Other coverages that use developmental methods to evaluate claims reserves:		
2011		-
2010		-
2009		-

(Concluded)

