RGA Reinsurance Company

Statutory-Basis Financial Statements as of and for the Years Ended December 31, 2012 and 2011, Supplemental Information as of and for the Year Ended December 31, 2012, and Independent Auditors' Report

RGA REINSURANCE COMPANY

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Deloitte.

Deloitte & Touche LLP
Suite 300
100 South 4th Street
St. Louis, MO 63102-1821
USA

Tel: +1 314 342 4900
Fax: +1 314 342 1100
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
RGA Reinsurance Company
Chesterfield, Missouri

We have audited the accompanying statutory-basis financial statements of RGA Reinsurance Company (the "Company"), which comprise the statutory-basis statements of admitted assets, liabilities, and capital and surplus as of December 31, 2012 and 2011, and the related statutory-basis statements of operations and changes in capital and surplus, and cash flows for the years then ended, and the related notes to the statutory-basis financial statements.

Management's Responsibility for the Statutory-Basis Financial Statements

Management is responsible for the preparation and fair presentation of these statutory-basis financial statements in accordance with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these statutory-basis 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 statutory-basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the statutory-basis financial statements. The procedures selected depend on the auditor's judgment including the assessment of the risks of material misstatement of the statutory-basis financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the statutory-basis financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the statutory-basis financial statements.

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

Opinion

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, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with the accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration described in Note 2 to the statutory-basis financial statements.

Emphasis of Matter

As described more fully in Note 2 to the statutory-basis financial statements, the Company adopted Statement of Statutory Accounting Principles (SSAP) No. 101, *Income Taxes, A Replacement of SSAP No. 10R and SSAP No. 10*, effective January 1, 2012, and recorded a retrospective charge to surplus of $54.8 million upon adoption. Our opinion is not modified with respect to this matter.

Basis of Accounting

We draw attention to Note 2 of the statutory-basis financial statements, which describes the basis of accounting. As described in Note 2 to the statutory-basis financial statements, the statutory-basis financial statements are prepared by RGA Reinsurance Company using accounting practices prescribed or permitted by the Missouri Department of Insurance, Financial Institutions and Professional Registration, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of the Missouri Department of Insurance, Financial Institutions and Professional Registration. Our opinion is not modified with respect to this matter.

Report on Supplemental Schedules

Our 2012 audit was conducted for the purpose of forming an opinion on the 2012 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, 2012 are presented for purposes of additional analysis and are not a required part of the 2012 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 2012 statutory-basis financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the 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 2012 statutory-basis financial statements as a whole.

Restriction on Use

Our report is intended solely for the information and use of the board of directors and the management of RGA Reinsurance Company and for filing with state insurance departments to whose jurisdiction the Company is subject and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

May 30, 2013

RGA REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS, LIABILITIES, AND CAPITAL AND SURPLUS AS OF DECEMBER 31, 2012 AND 2011
(In thousands, except share data)

ADMITTED ASSETS	2012	2011
INVESTED ASSETS:		
Bonds	$11,284,765	$ 7,362,122
Preferred stocks — unaffiliated	51,224	55,727
Common stocks — affiliated	849	658
Common stocks — unaffiliated	47,184	24,229
Mortgage loans on real estate	2,301,594	989,216
Policy loans	1,256,560	1,237,708
Derivatives	196,419	282,756
Cash, cash equivalents, and short-term investments	586,572	395,544
Other invested assets	408,175	291,764
Total invested assets	16,133,342	10,639,724
ACCRUED INVESTMENT INCOME	126,620	83,865
PREMIUM DEFERRED AND UNCOLLECTED	962,167	916,430
AMOUNTS DUE FROM REINSURERS	190,961	237,464
FUNDS WITHHELD ON REINSURANCE ASSUMED	5,242,769	4,917,253
DEFERRED FEDERAL INCOME TAX ASSET	48,667	26,359
RECEIVABLES FROM PARENT, SUBSIDIARIES AND AFFILIATES	25,458	6,799
OTHER ASSETS	105,102	85,072
TOTAL	$22,835,086	$16,912,966

(Continued)

RGA REINSURANCE COMPANY

**STATUTORY-BASIS STATEMENTS OF ADMITTED ASSETS,
LIABILITIES, AND CAPITAL AND SURPLUS
AS OF DECEMBER 31, 2012 AND 2011
(In thousands, except share data)**

	2012	2011
LIABILITIES, AND CAPITAL AND SURPLUS		
LIABILITIES:		
Policy reserves:		
Life insurance	$10,491,630	$ 8,440,778
Accident and health insurance	776,368	552,925
Liability for deposit-type contracts	200,003	197,721
Policy and contract claims:		
Life insurance	1,163,969	1,158,194
Accident and health insurance	135,764	129,522
Commissions, expenses, and taxes accrued and payable	206,351	198,973
Amounts due to reinsurers	425,751	211,626
Funds withheld on reinsurance retroceded	6,506,475	3,204,590
Income tax due and accrued	118,681	141,570
Asset valuation reserve	158,260	68,717
Interest maintenance reserve	263,549	98,317
Derivatives	200,606	288,505
Payables to parent, subsidiaries and affiliates	4,222	10,457
Other liabilities	515,798	667,628
Unauthorized reinsurance liability	23,070	27,509
Total liabilities	21,190,497	15,397,032
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	981,000	831,000
Unassigned surplus	460,492	481,837
Total capital and surplus	1,644,589	1,515,934
TOTAL	$22,835,086	$16,912,966

See notes to statutory-basis financial statements.

(Concluded)

June 1 2013

June 1, 2013

RGA REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
REVENUE:		
Premiums and annuity considerations	$5,213,812	$3,176,485
Net investment income	696,224	535,316
Commissions and expense allowances on reinsurance retroceded	712,895	509,737
Adjustments on reinsurance retroceded	(571,610)	(507,497)
Other income	9,096	159,575
Total revenue	6,060,417	3,873,616
BENEFITS AND EXPENSES:		
Policyholder benefits	2,793,764	2,556,468
Change in reserves for life and accident and health contracts	1,231,025	(113,815)
Commissions and expense allowances on reinsurance assumed	1,652,867	937,083
General and administrative expenses and taxes	281,163	249,637
Total benefits and expenses	5,958,819	3,629,373
GAIN FROM OPERATIONS BEFORE DIVIDENDS AND INCOME TAX EXPENSE	101,598	244,243
DIVIDENDS TO POLICYHOLDERS	7,124	6,843
NET GAIN FROM OPERATIONS BEFORE INCOME TAX EXPENSE	94,474	237,400
INCOME TAX EXPENSE	74,210	80,677
NET GAIN FROM OPERATIONS	20,264	156,723
CAPITAL LOSSES — Net of income tax expense, and transfers to the interest maintenance reserve	(16,767)	(27,006)
NET INCOME	3,497	129,717

(Continued)

RGA REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF OPERATIONS AND CHANGES IN CAPITAL AND SURPLUS FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
OTHER CAPITAL AND SURPLUS CHANGES:		
Change in net unrealized capital gains and losses — net of deferred income taxes	$ 16,239	$ 14,453
Change in net deferred income tax	12,996	(17,956)
Change in nonadmitted assets and related items	(44,176)	(2,861)
Change in surplus as a result of reinsurance	20,412	(37,990)
Change in asset valuation reserve	(89,543)	(44,062)
Surplus contribution	150,000	-
Change in accounting principles	54,831	-
Dividends to stockholders	-	(40,000)
Other items — net	4,400	(14,254)
Total other capital and surplus changes	125,159	(142,670)
NET CHANGE IN CAPITAL AND SURPLUS	128,655	(12,953)
CAPITAL AND SURPLUS — Beginning of year	1,515,934	1,528,887
CAPITAL AND SURPLUS — End of year	$1,644,589	$1,515,934

See notes to statutory-basis financial statements.

(Concluded)

RGA REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOW FROM OPERATIONS:		
Cash received:		
Premiums, annuity considerations, and deposit-type funds net of reinsurance	$ 8,146,345	$2,787,167
Net investment income	666,001	508,813
Reinsurance retroceded and other income	775,549	612,970
Total cash provided by operations	9,587,895	3,908,950
Cash paid:		
Policyholder benefits and dividends to policyholders	1,961,913	1,679,987
Commissions, expenses, and taxes	2,114,237	850,332
Income taxes	97,479	71,928
Total operating charges paid	4,173,629	2,602,247
Net cash provided by operations	5,414,266	1,306,703
CASH FLOW FROM INVESTMENTS:		
Proceeds from investments sold, matured, or repaid:		
Bonds	4,281,361	1,770,782
Common and preferred stocks	18,751	39,660
Mortgage loans on real estate	176,289	89,487
Other invested assets	77,258	177,558
Miscellaneous proceeds	5,379	2,997
Total investment proceeds	4,559,038	2,080,484
Cost of investments acquired:		
Bonds	8,204,088	2,439,060
Common and preferred stocks	34,942	28,540
Mortgage loans on real estate	1,513,301	208,987
Other invested assets	183,881	221,064
Net increase in policy loans	18,852	34,929
Total cost of investments acquired	9,955,064	2,932,580
Net cash used in investments	(5,396,026)	(852,096)

(Continued)

RGA REINSURANCE COMPANY

STATUTORY-BASIS STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011
(In thousands)

	2012	2011
CASH FLOW FROM FINANCING AND MISCELLANEOUS SOURCES:		
Surplus notes, capital and surplus paid-in	$ 150,000	$ -
Net withdrawals on deposit-type contracts	(4,330)	(8,989)
Dividends to stockholders	(40,000)	(80,000)
Other applications — net	67,117	(181,071)
Net cash provided by (used in) financing and miscellaneous sources	172,787	(270,060)
INCREASE IN CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS	191,028	184,546
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — Beginning of year	395,544	210,998
CASH, CASH EQUIVALENTS, AND SHORT-TERM INVESTMENTS — End of year	$ 586,572	$ 395,544
SUPPLEMENTARY INFORMATION — Non-cash exchange of investments for premium income (See Note 11)	$5,027,637	$ -

See notes to statutory-basis financial statements.

(Concluded)

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 primarily engages in U.S. life, health and annuity reinsurance and, to a lesser extent, in Canadian life reinsurance, and international life, health 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 (MDOI). The MDOI 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 MDOI. Accounting practices and procedures of the NAIC as prescribed or permitted by the MDOI comprise a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The effects on these statutory-basis 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 other than those from interest rate changes and is recorded as a liability through a charge 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 if they meet certain criteria 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 valuation basis, is recorded directly to unassigned surplus rather than included in the determination of net gain from operations.

(e) Embedded derivative instruments are not separated from the host contract and accounted for separately as derivative instruments, whereas under GAAP, embedded derivative instruments are bifurcated from the host contract and recorded separately.

(f) 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.

(g) The statutory-basis statements of admitted assets, liabilities, and capital and surplus are presented net of the effects of reinsurance.

(h) Additional liabilities are provided for reinsurance ceded to unauthorized reinsurers, which are not required for GAAP.

(i) Amounts from reinsurers overdue greater than 90 days are nonadmitted assets under NAIC SAP. Under GAAP, the overdue amount is recorded net of allowance for non-collection.

(j) Certain capital gains and losses resulting from the sale of debt securities may be subject to deferral as an interest maintenance reserve (IMR) and amortized through the stated maturity dates. An IMR is not required for GAAP.

(k) Investments in domestic life insurance 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.

(l) Deferred income taxes are calculated on temporary differences between statutory-basis and tax-basis reporting (rather than the difference between GAAP and tax-basis reporting). In addition, under NAIC SAP, there are limitations as to the amount of deferred income tax assets that may be reported as admitted assets. Deferred income tax assets are limited to (1) the amount of federal income taxes paid in prior years that can be recovered through loss carrybacks for existing temporary differences that reverse during a timeframe corresponding with IRS tax loss carryback provisions, not to exceed three years, plus (2) the lesser of (a) the remaining gross deferred income tax assets expected to be realized within the applicable period following of the balance sheet date (after subtracting the admission under (1)) or (b) an amount that is no greater than the applicable percentage of statutory capital and surplus as required to be shown on the statutory balance sheet recalculated to exclude any net deferred income tax assets, electronic data processing (EDP) equipment and operating software and any net positive goodwill, plus (3) the amount of remaining gross deferred income tax assets that can be offset against existing gross deferred income tax liabilities. The remaining deferred income tax assets are non-admitted. Deferred income taxes do not include amounts for state taxes.

(m) Increases in surplus, net of federal income tax, resulting from the reinsurance of in-force blocks of business are identified separately as a surplus item and recognition of the surplus increase as income are reflected on a net of tax basis as earnings emerge from the business reinsured.

(n) Surplus notes are included as surplus rather than reflected as debt under GAAP.

(o) Statutory-basis financial statements do not provide for a statement of comprehensive income.

(p) Goodwill under GAAP is calculated as the difference between the cost of acquiring the entity and the fair value of the assets received and liabilities assumed. Under NAIC SAP, goodwill is calculated as the difference between the cost of acquiring the entity and the reporting entity's share of the historical book value of the acquired entity. However, under NAIC SAP, the total amount of goodwill recorded as an admitted asset is limited to 10% of the Company's current capital and surplus adjusted to exclude goodwill, EDP equipment, operating system software, and net deferred income tax assets. Under GAAP, goodwill is not amortized. Under NAIC SAP, goodwill is amortized on a straight-line basis over a period of ten years.

As of December 31, 2012 and 2011, only one MDOI prescribed accounting practice differing from the NAIC SAP was applicable to the Company's statutory-basis financial statements. Specifically, the MDOI 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 statutory-basis statements of operations and changes in capital and surplus. Since the payment of surplus note interest was approved by the MDOI as of December 31, 2012 and 2011, there is no difference in surplus related to the treatment of surplus note interest The MDOI 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 MDOI during 2012 and 2011.

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.

Investments — Investment securities are valued as prescribed by the NAIC. Bonds not backed by other loans and 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 amortized cost or fair value. Bonds are amortized using the modified scientific method. The retrospective adjustment method is used to value all securities except where the yield has become negative or for 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 of accounting.

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 and limited liability companies, receivables for securities, and other long-term assets.

Derivative instruments include interest rate swaps, consumer price index swaps, credit default swaps, and equity options. Investments in limited partnerships and limited liability companies 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 and are reported in the asset valuation reserve on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

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 depending on the facts and circumstances related to the specific security and the type of bond. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuers financial position and access to capital; and (4) the Company's intent to sell a security or whether it is more likely than not it will be required to sell the security before the recovery of its amortized cost. If the Company intends to sell a bond or it is more likely than not that it would be required to sell a bond before the recovery of its amortized cost, it recognizes an other-than-temporary impairment (OTTI) in earnings equal to the difference between the security's fair value and amortized cost.

Further, for non-loan-backed securities, the Company determines if the decline in value is only interest related and if so, an OTTI is not recognized as long as the Company does not have the intent to sell the security. If it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the non-loan-backed security or if other factors such as the length of time and extent to which fair value has been less than cost, compliance with covenants, general market conditions or if the financial condition and short-term prospects of the issuer indicate that an OTTI should be recorded, the Company records an OTTI equal to the difference between the security's fair value and amortized cost in earnings.

For loan-backed securities, the Company compares the present value of expected future cash flows to amortized cost. If amortized cost exceeds the present value of the future cash flows, an OTTI is recognized in earnings equal to the difference between the present value of expected future cash flows and amortized cost.

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 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.

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. The fair values of the Company's publicly-traded bonds are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The fair values of private placement securities are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Although the Company utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for bonds, 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 securities are primarily 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 due to the short-term nature of these instruments.

Other Invested Assets — The fair value of limited partnerships and limited liability companies 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.

Accrued Investment Income — The carrying amounts for these instruments approximate their statutory-basis fair values due to the short-term nature of these instruments.

Other Assets — Other assets are primarily comprised of the cash surrender value of corporate owned life insurance and 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 represents amounts contractually withheld by ceding companies in accordance with reinsurance agreements. Interest accrues on these assets at rates defined by the treaty terms.

Funds Withheld on Reinsurance Retroceded — Funds withheld on reinsurance retroceded represents amounts contractually withheld by the Company in accordance with reinsurance agreements. Interest accrues for the benefit of the reinsurer on these assets in accordance with the treaty terms.

Policy Reserves — The liability for policy reserves is based on statutory-basis 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 for 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 $53.2 million of insurance in force and $1.0 million of reserves, and $612.8 million of insurance in force and $1.0 million of reserves, at December 31, 2012 and 2011, respectively, for which the gross premiums are less than the net premiums according to the standard valuation set by the MDOI. 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.

Liability For Deposit-Type Contracts — Reserves for deposit-type contracts, which do not subject the reporting entity to any risks arising from policyholder mortality or morbidity, are equal to deposits received and interest credited to the benefit of contract holders, less fees and other charges assessed and surrenders or withdrawals that represent a return to the contract holders.

Policy and Contract Claims — Policy and contract claims is comprised of outstanding claims payable including incurred but not reported losses (IBNR). IBNR is determined using case-basis estimates and lag studies of past experience. The time lag from the date of the claim or death to when the ceding company reports the claim to the Company can vary significantly by ceding company and product type. Incurred but not reported claims are estimates on an undiscounted basis, using actuarial estimates of historical claims expense, adjusted for current trends and conditions. These estimates are continually reviewed and the ultimate liability may vary significantly from the amount recognized, which are reflected in policyholder benefits in the statutory-basis statements of operations and changes in capital and surplus in the period in which they are determined.

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.

Receivable From/Payable To Parent and Affiliates — Receivable from/payable to parent and affiliates is primarily comprised of non-reinsurance related amounts receivable/payable. It is the policy of the Company and all related parties to settle outstanding balances within 90 days.

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.

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.

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.

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 Financial Accounting Standards Board (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-basis 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, statutory-basis statements of admitted assets, liabilities, and capital and surplus 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%) to be realized shall be considered in determining admitted adjusted gross deferred tax assets. The adoption of this statement resulted in an increase to the Company's statutory-basis surplus of $54.8 million.

In March 2012, the NAIC issued *SSAP No. 92—Accounting for Postretirement Benefits Other Than Pensions* (SSAP 92). This SSAP adopts, with modification, *FASB Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* and supersedes SSAP No. 14—Postretirement Benefits Other Than Pensions. SSAP 92 requires reporting entities to recognize the funded status of a defined benefit other post-employment benefit plan in its statutory-basis statements of admitted assets, liabilities, and capital and surplus. SSAP 92 is effective for reporting periods ending on or after January 1, 2013, with early adoption permitted. Additionally, it was noted that the revised guidance reflected in the adopted SSAPs has the potential to significantly impact surplus; however, transition guidance has been incorporated to mitigate the impact over a possible 10-year period. The Company opted not to utilize early adoption and the adoption of this statement will not have an impact on the Company's statutory-basis financial statements.

In March 2012, the NAIC issued *SSAP No. 102—Accounting for Pensions* (SSAP 102). This SSAP adopts, with modification, *FAS 158: Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106, and 132(R)* and supersede *SSAP No. 89—Accounting for Pensions, A Replacement of SSAP No. 8*. SSAP 102 requires reporting entities to recognize the funded status of a defined benefit pension plan in its balance sheet. SSAP 102 was adopted by the NAIC with a January 1, 2013, effective date, with early adoption permitted. Additionally, it was noted that the revised guidance reflected in the adopted SSAP has the potential to significantly impact surplus; however, transition guidance has been incorporated to mitigate the impact over a possible 10-year period. The Company opted not to utilize early adoption and the adoption of this statement will not have an impact on the Company's statutory-basis financial statements.

In March 2012, the NAIC issued *SSAP No. 103—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities* (SSAP 103). SSAP 103 is effective for reporting periods ending on or after January 1, 2013, with prospective application. SSAP 103 adopts, with modification, *FAS 166, Accounting for Transfers of Financial Assets* and supersedes *SSAP No. 91R—Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. The adoption of this statement will not have an impact on the Company's statutory-basis financial statements.

In August 2012, the NAIC issued *SSAP No. 104—Share-Based Payments* (SSAP 104). SSAP 104 is effective for reporting periods ending on or after January 1, 2013. SSAP 104 adopts with modification *FAS 123(R): Share-Based Payment* and supersedes *SSAP No. 13—Stock Options and Stock Purchase Plans*. SSAP 104 requires that the cost resulting from all share-based payment transactions be recognized in the statutory-basis financial statements and establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee stock ownership plans. The adoption of this statement will not have an impact on the Company's statutory-basis financial statements.

In December 2012, the NAIC issued *SSAP No. 61R—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP 61R) a revision of *SSAP No. 61—Life, Deposit-Type and Accident and Health Reinsurance* (SSAP 61). SSAP 61R is effective for reporting periods ending on or after December 31, 2012. SSAP 61R incorporates the concept of a certified reinsurer into SSAP 61. The adoption of this statement did not have an impact on the Company's statutory-basis financial statements.

Change in Accounting Principle — As a result of the Company's application of SSAP 101, the Company recognized a $54.8 million increase in surplus reported as a cumulative effect of changes in accounting principles to increase the opening balance of admitted deferred tax asset (surplus) as of January 1, 2012.

3. INVESTMENTS

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

	2012	2011
Bonds (including IMR amortization)	$542,055	$425,562
Preferred stocks — unaffiliated	3,817	4,626
Mortgage loans on real estate	99,232	55,238
Policy loans	61,463	65,569
Cash, cash equivalents, and short-term investments	3,457	2,072
Other	30,599	23,732
Gross investment income (including IMR amortization)	740,623	576,799
Investment expense	30,042	26,410
Interest expense	14,357	15,073
Net investment income	$696,224	$535,316

Bonds and Preferred Stocks — The carrying values and estimated fair values of the Company's bond and preferred stock investments at December 31, 2012 and 2011, by category, are as follows (in thousands):

	2012			
	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Corporate securities	$ 7,876,330	$708,166	$19,794	$ 8,564,702
U.S. government and agencies	114,384	18,584	4	132,964
State and local governments and agencies	199,498	32,095	695	230,898
Canadian and Canadian provincial governments	9,195	617	-	9,812
Mortgage-backed/asset-backed securities	2,170,995	181,520	15,854	2,336,661
Hybrid securities — issuer obligations	99,683	6,682	1,185	105,180
Hybrid securities — other loan-backed and structured securities	55,936	2,019	950	57,005
Other foreign government	758,744	46,355	1,370	803,729
Total bonds	$11,284,765	$996,038	$39,852	$12,240,951
Preferred stocks — unaffiliated	$ 51,224	$ 4,077	$ 169	$ 55,132

	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	509,191	15,646	1,760	523,077
Total bonds	$7,362,122	$631,686	$122,314	$7,871,493
Preferred stocks — unaffiliated	$ 55,727	$ 2,956	$ 3,376	$ 55,307

The Company held corporate securities with a carrying value of $80.0 million, a gross unrealized gain of $0.3 million and an estimated fair value of $80.3 million issued by an affiliated company at December 31, 2012. The Company held mortgage-backed/asset-backed securities with a carrying value of $133.5 million, a gross unrealized gain of $5.5 million, and an estimated fair value of $139.0 million issued by an affiliated company at December 31, 2012. 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 affiliated amounts are included in the above tables.

The carrying values and estimated fair values of the Company's bonds at December 31, 2012, 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	$ 162,070	$ 164,986
Due after one year through five years	2,156,664	2,278,829
Due after five years through ten years	4,708,482	5,073,875
Due after ten years	2,030,618	2,329,595
Mortgaged-backed/asset-backed securities	2,226,931	2,393,666
Total	$11,284,765	$12,240,951

Proceeds from the sales and maturities of bonds were $4.3 billion and $1.8 billion in 2012 and 2011, respectively. Gross gains of approximately $89.7 million and $93.7 million and gross losses of approximately $19.6 million and $12.7 million were realized on these sales and maturities in 2012 and 2011, respectively.

Proceeds from sales of common and preferred stocks were $18.8 million and $39.7 million in 2012 and 2011, respectively. Gross gains of approximately $1.7 million and $0.1 million and gross losses of approximately $0.2 million and $0.3 million were realized on these sales in 2012 and 2011, respectively.

Realized capital gains and losses are reported net of income taxes and exclude $66.7 million and $75.8 million of pre-tax capital gains transferred into the IMR in 2012 and 2011, respectively.

The following table presents the total gross unrealized losses for 320 and 451 bonds and preferred stocks as of December 31, 2012 and 2011, respectively, where the estimated fair value had declined and remained below carrying value by the indicated amount (in thousands):

	At December 31, 2012		At December 31, 2011	
	Gross Unrealized Losses	Percent of Total	Gross Unrealized Losses	Percent of Total
Less than 20%	$27,195	68 %	$ 65,216	52 %
20% or more for less than six months	1,234	3	34,160	27
20% or more for six months or greater	11,592	29	26,314	21
Total	$40,021	100 %	$125,690	100 %

As of December 31, 2012, there were no gross unrealized losses on bonds held that were issued by affiliated companies and $3.9 million as of December 31, 2011. The gross unrealized losses are included in the less than 20% category in the above table. As of December 31, 2012 and 2011, 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 320 and 451 bonds and preferred stocks that have estimated fair values below carrying value as of December 31, 2012 and 2011, 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, 2012 and 2011 (in thousands).

	As of December 31, 2012					
	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	$ 577,275	$12,993	$ 27,105	$ 2,948	$ 604,380	$ 15,941
Hybrid securities — issuer obligations	-	-	15,735	1,160	15,735	1,160
Hybrid securities — other loan-backed and structured securities	25	-	9,660	938	9,685	938
U.S. government and agencies	11,223	4	-	-	11,223	4
State and local governments and agencies	17,767	233	4,392	462	22,159	695
Mortgage-backed/asset-backed securities	82,216	807	68,151	10,047	150,367	10,854
Other foreign government securities	118,404	1,370	-	-	118,404	1,370
Total bonds	806,910	15,407	125,043	15,555	931,953	30,962
Preferred stocks — unaffiliated	5,576	51	-	-	5,576	51
Total investment grade securities	812,486	15,458	125,043	15,555	937,529	31,013
Non-investment grade securities:						
Bonds:						
Corporate securities	172,491	3,182	31,724	671	204,215	3,853
Hybrid securities — issuer obligations	2,942	25	-	-	2,942	25
Hybrid securities — other loan-backed and structured securities	1,776	12	-	-	1,776	12
Mortgage-backed/asset-backed securities	20,086	966	12,188	4,034	32,274	5,000
Total bonds	197,295	4,185	43,912	4,705	241,207	8,890
Preferred stocks — unaffiliated	-	-	5,679	118	5,679	118
Total non-investment grade securities	197,295	4,185	49,591	4,823	246,886	9,008
Total	$1,009,781	$19,643	$174,634	$20,378	$1,184,415	$ 40,021

	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

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. The Company did not have any unrealized losses on affiliated securities at December 31, 2012.

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, 2012. As discussed in Note 2 — "Summary of Significant Accounting Policies," the Company evaluates each invested asset class for potential impairments.

The Company realized losses of $21.1 million and $25.8 million resulting from other-than-temporary impairments of bonds during 2012 and 2011, respectively. The Company realized $0.5 million and $0.6 million of losses from other-than-temporary impairments of preferred stock in 2012 and 2011, respectively.

Subprime Mortgage Related Risk Exposure — As of December 31, 2012 and 2011, respectively, the Company held investments in securities with subprime mortgage exposure with carrying values totaling $22.5 million and $25.2 million and estimated fair values of $22.9 million and $23.4 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, 2012 and 2011. 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. 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 subprime securities by rating and underwriting year at December 31, 2012 and 2011 (in thousands):

	December 31, 2012					
	AAA		AA		A	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	$ 3,124	$ 2,951	$ -	$ -	$ 2,151	$ 2,200
2004	-	-	-	-	-	-
2005	-	-	-	-	-	-
2006	-	-	-	-	-	-
2007	-	-	-	-	-	-
Total	$ 3,124	$ 2,951	$ -	$ -	$ 2,151	$ 2,200
	BBB		Below Investment Grade		Total	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
2003 and prior	$ -	$ -	$ 4,271	$ 3,951	$ 9,546	$ 9,102
2004	-	-	-	-	-	-
2005	2,449	2,382	7,605	7,538	10,054	9,920
2006	-	-	2,253	3,214	2,253	3,214
2007	-	-	606	617	606	617
Total	$ 2,449	$ 2,382	$ 14,735	$ 15,320	$ 22,459	$ 22,853

	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	$4,501	$4,059	$ -	$ -	$ 5,431	$ 5,171

	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	$1,438	$1,041	$13,839	$13,146	$25,209	$23,417

Restricted Assets — Cash and bonds on deposit with regulatory authorities were $7.9 million and $8.8 million as of December 31, 2012 and 2011, respectively. Cash, bonds and mortgage loans of $7.4 billion and $2.3 billion were held in trust to satisfy collateral requirements for reinsurance business as of December 31, 2012 and 2011, respectively. Bonds and commercial mortgage loans in the amount of $531.8 million and $390.6 million were pledged to the Federal Home Loan Bank as collateral against future borrowings as of December 31, 2012 and 2011, respectively. As of December 31, 2012, there were no bonds posted as collateral to counterparties in connection with the Company's derivative instruments, and $2.7 million were posted as of December 31, 2011.

Concentrations — As of December 31, 2012, excluding investments issued and guaranteed by the U.S. Government, the Company held securities with a carrying value of $302.6 million issued by the Japanese Government that exceeded 10% of the Company's statutory-basis capital and surplus. As of December 31, 2011, excluding investments issued and guaranteed by the U. S. Government, the Company held securities with a carrying value of $242.3 million issued by the Japanese Government and $156.0 million issued by ING GROEP NV that exceeded 10% of the Company's statutory-basis 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, 2012 and 2011. The Company entered into two funding agreements with the FHLB under a guaranteed investment contract whereby the Company issued the funding agreements 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 agreements.

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 agreements and the related security agreements 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 agreements.

The Company held common stock totaling $32.3 million and $18.9 million of which $22.3 million and $8.9 million represented stock activity related to borrowings at December 31, 2012 and 2011, respectively.

The Company had pledged collateral in the amount of $810.8 million and $761.2 million at December 31, 2012 and 2011, respectively.

The Company had $310.8 million and $563.5 million available at December 31, 2012 and 2011, 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 $500.0 million and $197.7 million at December 31, 2012 and 2011, respectively, which is reflected as a deposit fund liability. The advance on these agreements is collateralized primarily by commercial mortgage-backed securities 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 2012 were 3.65% and 5.50%, respectively.

As of December 31, 2012 and 2011, the Company's mortgage loans were distributed as follows (in thousands):

	2012		2011	
States	**Recorded Investment**	**Percent of Total**	**Recorded Investment**	**Percent of Total**
Alabama	$ 35,881	1.6 %	$ 16,376	1.6 %
Arizona	86,178	3.7	42,869	4.3
California	562,051	24.3	225,946	22.6
Colorado	118,423	5.1	51,536	5.2
District of Columbia	38,313	1.7	-	-
Florida	114,761	5.0	84,705	8.5
Georgia	101,827	4.4	60,327	6.1
Illinois	93,180	4.0	59,811	6.0
Indiana	3,951	0.2	4,636	0.5
Iowa	2,832	0.1	2,904	0.3
Kansas	21,950	1.0	19,417	2.0
Maine	7,549	0.3	7,890	0.8
Maryland	41,342	1.8	14,472	1.5
Massachusetts	77,207	3.3	20,567	2.1
Michigan	47,879	2.1	12,093	1.2
Minnesota	52,101	2.3	-	-
Missouri	89,717	3.9	45,763	4.6
Nebraska	1,647	0.1	1,678	0.2
Nevada	16,545	0.7	9,022	0.9
New Hampshire	2,224	0.1	2,244	0.2
New Jersey	30,319	1.3	27,199	2.7
New York	123,705	5.4	39,472	4.0
North Carolina	54,467	2.4	15,918	1.6
Ohio	66,324	2.9	7,210	0.7
Oklahoma	2,775	0.1	3,632	0.4
Oregon	14,148	0.6	19,105	1.9
Pennsylvania	146,264	6.3	19,680	2.0
Rhode Island	4,448	0.2	4,618	0.5
South Carolina	48,809	2.1	13,071	1.3
Tennessee	26,845	1.2	24,286	2.4
Texas	158,951	6.9	54,934	5.5
Utah	9,975	0.4	10,136	1.0
Virginia	78,320	3.4	42,857	4.3
Washington	17,677	0.8	24,794	2.5
Wisconsin	9,989	0.4	6,041	0.6
Total	$2,308,574	100.0 %	$995,210	100.0 %

Property Type	2012 Recorded Investment	2012 Percent of Total	2011 Recorded Investment	2011 Percent of Total
Apartment	$ 229,535	9.9 %	$ 124,786	12.5 %
Retail	665,200	28.8	327,742	32.9
Office Building	825,988	35.8	264,345	26.6
Industrial	456,017	19.8	200,717	20.2
Other Commercial	131,834	5.7	77,620	7.8
Total	$2,308,574	100.0 %	$995,210	100.0 %

The recorded investment of the Company's mortgage loans by maturity at December 31, 2012 and 2011, are as follows (in thousands):

	2012	2011
Due in one year through five years	$ 1,187,324	$ 492,857
Due after five years	777,992	296,799
Due after ten years	343,258	205,554
Total	$2,308,574	$ 995,210

The estimated fair value of the Company's mortgage loan portfolio at December 31, 2012 and 2011, was approximately $2,419.9 million and $1,074.8 million, respectively. There were eight and nine restructured loans in the amount of $18.2 million and $25.4 million at December 31, 2012 and 2011, respectively. The Company had three loans with a book value (net of valuation allowance) in the amount of $9.8 million with interest overdue greater than 180 days at December 31, 2012, and 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.

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, 2012 and 2011, are as follows (in thousands):

	2012	2011
Internal credit risk grade:		
High investment grade	$ 1,232,440	$ 252,003
Investment grade	834,071	520,887
Average	132,640	105,153
Watchlist	76,425	90,991
In or near default	32,998	26,176
	$2,308,574	$ 995,210

The age analysis of the Company's past due mortgage loan receivables as of December 31, 2012 and 2011 is as follows (in thousands):

	2012	2011
31–60 days past due	$ 7,505	$ 21,800
61–90 days past due	-	-
Greater than 90 days	16,885	20,316
Total past due	24,390	42,116
Current	2,284,184	953,094
Total mortgage loans receivable	$2,308,574	$995,210

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, 2012 and 2011, are as follows (in thousands):

	2012	2011
Balance at January 1	$5,994	$ 4,578
Charge-offs	-	(4,431)
Provisions	986	5,847
Balance at December 31	$6,980	$ 5,994

As of December 31, 2012 and 2011, the Company held 17 and 16 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 $2.4 million and $3.7 million as of December 31, 2012 and 2011, respectively. Interest income on impaired loans was $1.7 million and $1.3 million for the years ended December 31, 2012 and 2011, respectively.

Information regarding the portion of the Company's mortgage loans that were impaired as of December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Impaired loans with valuation allowances	$27,460	$24,314
Impaired loans without valuation allowances	12,497	34,396
Subtotal	39,957	58,710
Less valuation allowances on impaired loans	(6,980)	(5,994)
Impaired loans	$32,977	$52,716

The Company foreclosed on one commercial mortgage loan in each of the years ended December 31, 2012 and 2011 and acquired real estate in the amount of $4.4 million and $4.6 million, respectively. Real estate acquired through foreclosure is recorded in other invested assets on the statutory-basis statements of admitted assets, liabilities, and capital and surplus.

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 were reported as derivatives not designated as hedging instruments for the year ended December 31, 2011 and were terminated in January 2012.

For the year ended December 31, 2012, there were no losses 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, 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.

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 these interest rate swaps to hedge the variability of cash flows due to fluctuations in foreign exchange rates.

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 years ended December 31, 2012 and 2011.

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 during 2012 or 2011.

For the years ended December 31, 2012 and 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 RSATs in order to reproduce the investment characteristics of otherwise permissible investments, in accordance with SSAP 86.

The derivative instruments used in a RSAT are carried at amortized cost, consistent with the cash instruments being replicated.

In a RSAT, 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 sells these 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 collateral arrangements with all counterparties, 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.

The Company held cash collateral of $138.3 million and $241.5 million as of December 31, 2012 and 2011, respectively. The Company posted cash collateral of $1.9 million as of December 31, 2012. As of December 31, 2011, the Company had no cash collateral posted to counterparties. The Company also held bonds posted as collateral from counterparties of $22.5 million and $1.0 million as of December 31, 2012 and 2011, respectively. The collateral is held in separate custodial accounts and is not recorded on the Company's statutory-basis statements of admitted assets, liabilities, and capital and surplus. The Company did not post any securities as collateral to counterparties as of December 31, 2012. The Company posted $2.7 million of bonds as collateral as of December 31, 2011.

The table below summarizes the notional and admitted value of the Company's derivatives as of December 31, 2012 and 2011 (in thousands).

	December 31, 2012			December 31, 2011		
		Admitted Value			Admitted Value	
	Notional	Asset	Liability	Notional	Asset	Liability
Derivatives not designated as hedging instruments:						
Interest rate swaps	$3,753,200	$131,497	$131,602	$4,838,983	$191,334	$194,321
CPI swaps	85,135	1,446	-	101,069	766	-
Credit default swaps	248,000	402	6,201	178,500	513	3,288
Equity options	696,776	62,514	62,514	1,020,146	90,106	90,106
Total non-hedging derivatives	4,783,111	195,859	200,317	6,138,698	282,719	287,715
Derivatives designated as hedging instruments — interest rate swaps	57,275	560	289	56,250	37	790
Total hedging derivatives	57,275	560	289	56,250	37	790
Total derivatives	$4,840,386	$196,419	$200,606	$6,194,948	$282,756	$288,505

Loan-Backed Securities — The estimated fair value of loan-backed securities at December 31, 2012 and 2011, was $2,393.7 million and $1,975.7 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, 2012 and 2011, respectively (in thousands). These securities have been classified on the basis for the other-than-temporary impairment recognized.

	Aggregate Other-Than-Temporary Impairment	
	2012	2011
Intent to sell	$ 4,863	$ 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	12,555	17,473
Total	$ 17,418	$ 18,033

The following table represents securities within the scope of *SSAP No. 43R*, disclosed in the aggregate, for which an other-than-temporary impairment has been recognized as of December 31, 2012 based upon an intent to sell or an inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis (in thousands):

	Amortized Cost Basis Before Other-Than-Temporary Impairment	OTTI Recognized in Loss		Fair Value
		Interest	Non-Interest	
OTTI recognized First Quarter:				
Intent to sell	$3,304	$ -	$2,087	$1,217
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total first quarter	$3,304	-	2,087	$1,217
OTTI recognized Second Quarter:				
Intent to sell	$ -	-	-	$ -
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total second quarter	$ -	-	-	$ -
OTTI recognized Third Quarter:				
Intent to sell	$1,852	-	614	$1,238
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total third quarter	$1,852	-	614	$1,238
OTTI recognized Fourth Quarter:				
Intent to sell	$8,499	-	2,162	$6,337
Inability or lack of intent to retain the investment in the security for a period of time sufficient to recover the amortized cost basis	-	-	-	-
Total fourth quarter	$8,499	-	2,162	$6,337
Annual aggregate total		$ -	$4,863	

The following tables represent securities within the scope of *SSAP No. 43R* as of December 31, 2012 and 2011, 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 (in thousands):

2012

CUSIP	Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized In Earnings In 2012	Amortized Cost After Current Period OTTI	Fair Value of Security Afte Current Period OTTI
05948KX87	03/31/12	$1,549	$ 104	$1,444	$1,327
70069FMV6	03/31/12	44	4	40	11
964041AJ6	03/31/12	4,657	607	4,050	3,000
07401DAP6	03/31/12	3,455	1,911	1,544	851
07401DAQ4	03/31/12	933	329	604	841
20173QAM3	03/31/12	1,857	1,459	398	514
55312YAL6	03/31/12	2,703	2,703	-	497
55312YAL6	03/31/12	3,514	3,514	-	645
05948KX87	06/30/12	1,414	161	1,253	1,211
5899296C7	06/30/12	655	60	595	359
22540VHF2	09/30/12	569	242	327	405
07388QAU3	09/30/12	1,857	1,063	793	649
20173QAM3	09/30/12	398	398	-	384
Total impairments			$12,555		

2011

CUSIP	Impairment Date	Amortized Cost Prior to OTTI	OTTI Recognized In Earnings In 2011	Amortized Cost After Current Period OTTI	Fair Value of Security Afte Current Period OTTI
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			$17,473		

The aggregate amount of unrealized losses and estimated fair values for all impaired securities within the scope of *SSAP No. 43R* for which an other-than-temporary impairment has not been recognized in earnings as a realized loss as of December 31, 2012 and 2011, respectively, are as follows (in thousands):

	2012	
	Aggregate Unrealized Losses	**Aggregate Estimated Fair Value**
Securities that have been in a continuous unrealized loss position for less than 12 months	$ 1,785	$ 113,181
Securities that have been in a continuous unrealized loss position for 12 months or longer	15,019	89,999
Total	$ 16,804	$ 203,180

	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	43,074	149,536
Total	$ 56,287	$ 455,564

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 an 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 2012 and 2011.

5. REVERSE REPURCHASE AGREEMENTS

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities. At December 31, 2012 and 2011, the Company did not have any reverse repurchase agreements outstanding. However, during 2012 and 2011, the Company did participate in reverse repurchase agreements. No interest expense was incurred in 2012 or 2011 under these agreements.

6. STATUTORY-BASIS FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair Value Measurement — General accounting principles for *Fair Value Measurements and Disclosures* define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. These principles also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value and describes three levels of inputs that may be used to measure fair value:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities. Active markets are defined as having the following characteristics for the measured asset/liability: (i) many transactions, (ii) current prices, (iii) price quotes not varying substantially among market makers, (iv) narrow bid/ask spreads and (v) most information publicly available.

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 techniques 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. 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. The Company's Level 2 assets and liabilities include investment securities with quoted prices that are traded less frequently than exchange-traded instruments. This category primarily includes derivatives. Level 2 valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through analytical reviews and assessment of current market activity.

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 techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities. This category includes below investment-grade mortgage-backed and asset-backed securities and non-exchange traded preferred and common stock.

When inputs used to measure fair value fall within different levels of the hierarchy, the level within which the fair value measurement is categorized is based on the lowest priority level input that is significant to the fair value measurement in its entirety. For example, a Level 3 fair value measurement may include inputs that are observable (Levels 1 and 2) and unobservable (Level 3). Therefore, gains and losses for such assets and liabilities categorized within Level 3 may include changes in fair value that are attributable to both observable inputs (Levels 1 and 2) and unobservable inputs (Level 3). Assets carried at estimated fair value as of December 31, 2012 and 2011, are summarized below (in thousands).

December 31, 2012	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets at estimated fair value:				
Bonds — mortgage-backed/asset-backed securities	$ -	$ -	$19,079	$ 19,079
Total bonds	-	-	19,079	19,079
Stock:				
Common stock	-	-	14,934	14,934
Preferred stock	-	-	183	183
Total stock	-	-	15,117	15,117
Derivative assets:				
Interest rate swaps	-	131,494	-	131,494
CPI swaps	-	1,446	-	1,446
Equity options	-	62,513	-	62,513
Total derivatives	-	195,453	-	195,453
Total assets at estimated fair value	$ -	$195,453	$34,196	$229,649
Liabilities at estimated fair values — derivative liabilities:				
Interest rate swaps	$ -	$131,600	$ -	$131,600
Equity options	-	62,513	-	62,513
Total liabilities at estimated fair value	$ -	$194,113	$ -	$194,113

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
Equity 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)
Equity options	-	(90,106)	-	(90,106)
Total liabilities at estimated fair value	$ -	$ (291,755)	$ -	$ (291,755)

For assets and liabilities reported at fair value, the Company utilizes when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. Generally, these are very liquid investments and the valuation does not require management judgment. When quoted prices in active markets are not available, fair value is based on market valuation techniques, market comparable pricing and the income approach. The use of different techniques, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings.

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.

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.

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, 2012 and 2011 (in thousands):

For the Year Ended December 31, 2012	Balance January 1, 2012	Transfers Into Level 3	Transfers Out of Level 3	Total Gains (Losses) Included in Net Income	Total Gains (Losses) Included in Surplus	Purchases	Sales	Settlement	Balance December 31, 2012
Corporate securities	$ -	$ -	$ -	$ 20	$ -	$ -	$ -	$ (20)	$ -
Mortgage-backed/asset-backed securities	22,761	21,816	(4,039)	(10,939)	(503)	298	(10,092)	(223)	19,079
Common stock	-	1,993	-	(183)	1,195	11,929	-	-	14,934
Preferred stock	-	-	-	-	-	183	-	-	183
Total	$22,761	$23,809	$(4,039)	$(11,102)	$ 692	$12,410	$(10,092)	$(243)	$34,196

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	Purchases	Sales	Settlement	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	1,062	-	(1,062)	-	-	-	-	-	-
Total	$32,978	$4,023	$(14,940)	$(9,564)	$10,924	$ -	$(454)	$(206)	$22,761

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 the twelve months ended December 31, 2012.

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, 2012 and 2011 (in thousands):

	2012				
	Admitted	Aggregate	Fair Value Measurement Using:		
Type of Financial Instrument	Assets	Fair Value	Level 1	Level 2	Level 3
Assets:					
Bonds	$11,284,765	$12,240,951	$465,226	$9,475,320	$2,300,405
Preferred stocks — unaffiliated	51,224	55,132	46,058	8,891	183
Common stocks — affiliated	849	849	-	-	849
Common stocks — unaffiliated	47,184	47,184	-	32,250	14,934
Mortgage loans on real estate	2,301,594	2,419,875	-	-	2,419,875
Policy loans	1,256,560	1,256,560	-	1,256,560	-
Derivative assets	196,419	196,812	-	196,812	-
Real estate	14,922	15,100	-	-	15,100
Other invested assets	14,936	14,936	-	-	14,936
Cash, cash equivalents, and short-term investments	586,572	586,596	547,087	17,478	22,031
Accrued investment income	126,620	126,620	-	126,620	-
Liabilities:					
Liability for deposit-type contracts	$ 200,003	$ 200,003	$ -	$ -	$ 200,003
Derivative instruments	200,606	200,642	-	200,642	-

	2011	
	Admitted	Aggregate
Type of Financial Instrument	Assets	Fair Value
Admitted assets:		
Bonds	$ 7,362,122	$ 7,871,493
Preferred stocks — unaffiliated	55,727	55,307
Common stocks — affiliated	658	658
Common stocks — unaffiliated	24,229	24,229
Mortgage loans on real estate	989,216	1,074,823
Policy loans	1,237,708	1,237,708
Derivative assets	282,756	282,695
Real estate	12,894	10,375
Other invested assets	278,870	281,735
Cash, cash equivalents, and short-term investments	395,544	395,528
Accrued investment income	83,865	83,865
Liabilities:		
Liability for deposit-type contracts	$ 197,721	$ 197,721
Derivative instruments	288,505	291,755

The Company held bonds issued by affiliated companies with an admitted value of approximately $213.5 million and an estimated fair value of approximately $219.2 million at December 31, 2012. The Company held bonds issued by affiliated companies with an admitted value of approximately $211.4 million and an estimated fair value of approximately $208.1 million at December 31, 2011. The affiliated amounts are included in the above tables.

7. FEDERAL INCOME TAXES

The components of the net deferred tax assets at December 31, 2012 and 2011 are as follows (in thousands):

	2012			2011		
	Ordinary	Capital	Total	Ordinary	Capital	Total
Gross deferred tax asset	$202,394	$ 7,600	$209,994	$181,391	$18,209	$199,600
Statutory valuation allowance adjustment	-	-	-	-	-	-
Adjusted gross deferred tax assets	202,394	7,600	209,994	181,391	18,209	199,600
Deferred tax assets nonadmitted	120,851	-	120,851	125,224	13,683	138,907
Subtotal net admitted deferred tax asset	81,543	7,600	89,143	56,167	4,526	60,693
Gross deferred tax liabilities	27,206	13,270	40,476	29,808	4,526	34,334
Net admitted deferred tax assets/(net deferred tax liabilities)	$ 54,337	$ (5,670)	$ 48,667	$ 26,359	$ -	$ 26,359

	Change		
	Ordinary	Capital	Total
Gross deferred tax asset	$ 21,003	$(10,609)	$ 10,394
Statutory valuation allowance adjustment	-	-	-
Adjusted gross deferred tax assets	21,003	(10,609)	10,394
Deferred tax assets nonadmitted	(4,373)	(13,683)	(18,056)
Subtotal net admitted deferred tax asset	25,376	3,074	28,450
Gross deferred tax liabilities	(2,602)	8,744	6,142
Net admitted deferred tax assets/(net deferred tax liabilities)	$ 27,978	$ (5,670)	$ 22,308

The amount of admitted adjusted gross deferred tax assets under each component of SSAP 101 as of December 31, 2012 and 2011 are as follows (in thousands):

SSAP 101, paragraphs 11a, 11b, and 11c:	2012 Ordinary	2012 Capital	2012 Total	2011 Ordinary	2011 Capital	2011 Total
Admitted pursuant to 11a	$ 48,667	$ -	$ 48,667	$ -	$ -	$ -
Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	-	-	-	26,359	-	26,359
11.b.i.	-	-	-	26,359	-	26,359
11 b.ii.	N/A	N/A	238,745	N/A	N/A	158,465
Admitted pursuant to 11.c.	27,206	13,270	40,476	29,808	4,526	34,334
Total admitted under 11.a. - 11.c.	75,873	13,270	89,143	56,167	4,526	60,693
Total deferred tax liabilities	27,206	13,270	40,476	29,808	4,526	34,334
Net admitted deferred tax assets/liabilities	$ 48,667	$ -	$ 48,667	$26,359	$ -	$ 26,359

	Change Ordinary	Change Capital	Change Total
Admitted pursuant to 11a	$ 48,667	$ -	$ 48,667
Admitted pursuant to 11.b. (lesser of 11.b.i. or 11.b.ii.)	(26,359)	-	(26,359)
11.b.i.	(26,359)	-	(26,359)
11 b.ii.	N/A	N/A	80,280
Admitted pursuant to 11.c.	(2,602)	8,744	6,142
Total admitted under 11.a. - 11.c.	19,706	8,744	28,450
Total deferred tax liabilities	(2,602)	8,744	6,142
Net admitted deferred tax assets/liabilities	$ 22,308	$ -	$ 22,308

	2012	2011
(a) Ratio Percentage Used to Determine Recovery Period and Threshold Limitation Amount (ExDTA ACL RBC ratio)	701 %	699 %
(b) Amount of Adjusted Capital and Surplus Used to Determine Recovery Period and Threshold Limitation above	$ 1,754,182	$ 1,584,651

Impact of Tax Planning Strategies	2012 Ordinary	2012 Capital	2012 Total	2011 Ordinary	2011 Capital	2011 Total	Change Ordinary	Change Capital	Change Total
Adjusted gross DTAs (% of total adjusted gross DTAs)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Net admitted adjusted gross DTAs (% of total net admitted adjusted gain)	-	-	-	-	-	-	-	-	-

Does the Company's tax-planning strategies include the use of reinsurance? NO

Current income taxes incurred consist of the following major components as of December 31, 2012 and 2011 (in thousands):

Current Income Tax	2012	2011	Change
Federal	$ 87,868	$ 67,469	$ 20,399
Foreign	-	-	-
Subtotal	87,868	67,469	20,399
Federal income tax on net capital gains	-	-	-
Utilization of capital loss carry-forwards	-	-	-
Other — including prior year over/(under) accrual	(13,658)	13,207	(26,865)
Federal and foreign income taxes incurred	$ 74,210	$ 80,676	$ (6,466)

A reconciliation of the beginning and ending amount of income tax contingencies for the years ended December 31, 2012 and 2011 is as follows (in thousands):

	2012	2011
Beginning balance — January 1	$ 22,842	$ 18,826
Additions for tax positions of prior years	54	78
Reductions for tax positions of prior years	-	-
Additions for tax positions of current year	3,938	3,938
Reductions for tax positions of current year	-	-
Ending balance — December 31	$ 26,834	$ 22,842

It is reasonably possible that the Company's liability for unrecognized tax benefits will increase by approximately $3.9 million with regard to the items affecting the effective rate over the next 12 months.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011	Change
Deferred income tax assets:			
Ordinary:			
Policyholder reserves	$ 49,758	$ 66,518	$ (16,760)
Investments	18,012	14,750	3,262
Non deductible accruals	26,817	17,334	9,483
Deferred acquisition costs capitalized for tax	68,927	46,732	22,195
Tax credit carry-forward	5,773	-	5,773
Section 197 intangibles	33,107	36,057	(2,950)
Gross ordinary deferred tax assets	202,394	181,391	21,003
Statutory valuation allowance adjustment	-	-	-
Nonadmitted deferred tax assets	120,851	125,224	(4,373)
Admitted ordinary deferred tax assets	81,543	56,167	25,376
Capital:			
Investments	-	-	-
Capital loss carry-forward	7,600	18,209	(10,609)
Other	-	-	-
Gross capital deferred tax assets	7,600	18,209	(10,609)
Nonadmitted deferred tax assets	-	13,683	(13,683)
Admitted capital deferred tax assets	7,600	4,526	3,074
Total admitted deferred tax assets	89,143	60,693	28,450
Deferred income tax liabilities:			
Ordinary:			
Investments	20,510	25,911	(5,401)
Other	6,696	3,897	2,799
Ordinary deferred tax liability	27,206	29,808	(2,602)
Capital:			
Investments	-	-	-
Other	-	-	-
Tax effect on unrealized capital gains	13,270	4,526	8,744
Capital deferred tax liabilities	13,270	4,526	8,744
Total deferred tax liabilities	40,476	34,334	6,142
Net deferred income tax asset	$ 48,667	$ 26,359	$ 22,308

The change in the net deferred income taxes is comprised of the following as of December 31, 2012 and 2011. Note: this analysis is exclusive of nonadmitted deferred tax assets as the change in nonadmitted assets is reported separately from the change in net deferred income taxes in the statutory-basis statements of operations and changes in capital and surplus (in thousands):

	2012	2011	Change
Total deferred tax assets	$209,994	$199,600	$ 10,394
Total deferred tax liabilities	(40,476)	(34,334)	(6,142)
Net deferred tax assets/liabilities	169,518	165,266	4,252
Statutory valuation allowance	-	-	-
Net deferred tax assets/liabilities after valuation allowance	169,518	165,266	4,252
Tax effect of unrealized gains/(losses)	13,270	4,526	8,744
Statutory valuation allowance on unrealized	-	-	-
Change in net deferred income tax benefit	$182,788	$169,792	$ 12,996
Change in net deferred income tax (before admissibility) due to the adoption of SSAP 101			$ 54,831
Change in net deferred income tax (before admissibility) excluding the effects of SSAP 101			$(41,835)

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):

	Amount	Tax Effect	Percent of Pre-tax Income
Income before taxes	$ 94,474	$ 33,066	35.0 %
Assumed interest maintenance reserve	133,342	46,670	49.4
Interest maintenance reserve	(34,804)	(12,181)	(12.9)
Policy reserves	(45,959)	(16,086)	(17.0)
In-force reinsurance	20,412	7,144	7.6
Other, including prior year true-up	44,565	15,597	16.5
Change in net deferred income taxes	(37,131)	(12,996)	(13.8)
Total statutory income taxes	$ 174,899	$ 61,214	64.8 %
Federal and foreign income taxes incurred		$ 74,210	78.6 %
Change in net deferred income taxes		(12,996)	(13.8)%
Total statutory income taxes		$ 61,214	64.8 %

The Company's carry-forwards as of December 31, 2012 and 2011 are as follows (in thousands):

	2012	2011
Net operating losses carry-forwards	$ -	$ -
Capital loss carry-forwards	21,714	52,027
Foreign tax credit carry-forwards	5,773	-
AMT credit carry-forwards	-	-

The capital loss and foreign tax credit carryforwards begin to expire in 2013 and 2019, respectfully.

The following is the income tax expense for 2012, 2011 and 2010, which is available for recoupment in the event of future net losses (in thousands):

Year	Amount
2012	$251,051
2011	159,464
2010	289,744

The Company has no deposits admitted under Section 6603 of the Internal Revenue Service Code.

The Company is included in a consolidated federal income tax return with the following entities:

Castlewood Reinsurance Company
Parkway Reinsurance Company
Reinsurance Company of Missouri, Incorporated
Reinsurance Group of America, Incorporated
Reinsurance Partners, Inc.
RGA Americas Reinsurance Company, Ltd.
RGA Reinsurance Company (Barbados) Ltd.
RGA Technology Partners, Inc.
RGA Worldwide Reinsurance Company Ltd.
Rockwood Reinsurance Company
Timberlake Reinsurance Company II
RGA Capital LLC

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 carry-forwards to offset taxable income under terms of the tax sharing agreement.

The Company files income tax returns with the U.S. federal government and various state jurisdictions. As a result of being included in the consolidated federal income tax return of RGA, Inc., the Company is under continuous examination by the Internal Revenue Service (IRS) and is subject to audit by taxing authorities in state jurisdictions where the Company has significant business operations. The income tax years under examination vary by jurisdiction.

The Internal Revenue Service (IRS) has examined the Company's tax returns for the years through and including 2005. With a few exceptions, the Company is no longer subject to U.S. federal, state and *foreign tax examinations by tax authorities for years prior to 2006. 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.

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 $92.3 million and $74.2 million as of December 31, 2012 and 2011, 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 $6.4 million and $5.1 million in 2012 and 2011, 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 $2.0 million and $1.0 million for 2012 and 2011, respectively, related to these postretirement plans. The projected obligation was approximately $12.1 million and $9.7 million as of December 31, 2012 and 2011, respectively (in thousands).

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Change in projected benefit obligation — projected benefit obligation:				
Beginning of year	$ 74,173	$ 55,311	$ 9,697	$ 6,937
Service cost	5,580	4,430	1,480	619
Interest cost	3,223	3,006	433	366
Participant contributions	-	-	122	176
Actuarial gain (loss)	10,961	13,178	634	1,816
Benefits paid	(1,674)	(1,752)	(251)	(217)
Projected benefit obligation — end of year	$ 92,263	$ 74,173	$ 12,115	$ 9,697
Change in plan assets — fair value of plan assets:				
Beginning of year	$ 41,300	$ 35,888	$ -	$ -
Actual return on plan assets	5,448	540	-	-
Employer contributions	4,442	6,624	129	41
Participant contributions	-	-	122	176
Benefits paid	(1,674)	(1,752)	(251)	(217)
Fair value of plan assets — end of year	$ 49,516	$ 41,300	$ -	$ -
Under funded	$ (42,747)	$ (32,873)	$ (12,116)	$ (9,697)
Unrecognized net actuarial losses (gains)	31,663	25,966	2,654	-
Unrecognized prior service cost	29	40	-	-
Accrued benefit cost	$ (11,055)	$ (6,867)	$ (9,462)	$ (9,697)
Benefit obligation for non-vested employees	$ -	$ -	$ 21,837	$ 19,156

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

	2012		2011	
	Qualified Plan	Non-Qualified Plan	Qualified Plan	Non-Qualified Plan
Aggregate projected benefit obligation	$ (62,397)	$ (29,866)	$ (51,980)	$ (22,193)
Aggregate fair value of plan assets	49,516	-	41,300	-
Under funded	$ (12,881)	$ (29,866)	$ (10,680)	$ (22,193)
Accumulated benefit obligation	$ 60,005	$ 26,344	$ 50,080	$ 20,523

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

For the years ended December 31, 2012 and 2011, the weighted average assumptions used to determine the accumulated benefit obligation and net benefit cost or income were as follows:

	2012	2011
Discount rate	4.15 %	5.40 %
Expected rate of return on plan assets	7.35	7.75
Rate of compensation increase	4.25	4.25

The expected rate of return on plan assets for the years ended December 31, 2012 and 2011 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, 2012 and 2011 were as follows:

	2012	2011
Pre-medicare eligible claims	9% down to 5% in 2016	9% down to 5% in 2015
Medicare eligible claims	9% down to 5% in 2016	9% down to 5% in 2015

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	$ 344	$ (276)
Effect on accumulated postretirement benefit obligation	1,784	(1,465)

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

	Pension Benefits		Other Benefits	
	2012	2011	2012	2011
Service cost	$ 5,580	$ 4,430	$ 1,480	$ 619
Interest cost	3,223	3,006	433	366
Expected return on plan assets	(3,066)	(2,937)	-	-
Amortization of prior actuarial losses (gains)	2,881	897	-	-
Amortization of prior service cost	11	29	-	-
Amortization of net losses (gains)	-	-	53	-
Net periodic benefit cost	$ 8,629	$ 5,425	$ 1,966	$ 985

The Company expects to contribute $4.4 million in pension benefits and $0.4 million in other benefits during 2013.

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

	Pension Benefits	Other Benefits
2013	$ 4,392	$ 350
2014	4,747	438
2015	4,935	505
2016	7,554	584
2017	6,363	666
2018–2021	35,658	4,812

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:

	2012	2011
Asset category:		
Equity securities	61 %	57 %
Debt securities	39	43
Total	100 %	100 %

The 2013 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 effect 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, 2012 and 2011.

On December 30, 2011, the Company declared an ordinary stockholder dividend, paid March 22, 2012, in the amount of $40.0 million

On October 12, 2012, the Company received a cash surplus contribution of $150.0 million from its Parent, RCM.

The Company reported $4.2 million and $10.5 million as amounts payable to affiliates as of December 31, 2012 and 2011, respectively, and reported $25.5 million and $6.8 million as amounts receivable from related parties as of December 31, 2012 and 2011, 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, 2012 and 2011.

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 MDOI. 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 net 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, 2012.

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, 2012 and 2011.

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, 2012 and 2011.

The Company did not recognize any impairment write-down for its investment in a related party for the years ended December 31, 2012 and 2011.

The Company did not have any investments in any related foreign insurance companies as of December 31, 2012 and 2011.

The Company did not hold any investments in a downstream noninsurance holding company as of December 31, 2012 and 2011.

RGA, Inc. (the Company's ultimate Parent) and its affiliates (collectively, the "Group") provide services and pay certain expenses on behalf of the Company. 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.

The Company is under common ownership and control of RGA, Inc. The existence of the common control could result in operating results or financial position of the Company significantly different from those that would have been obtained if the enterprise was autonomous.

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, automobiles and furniture and equipment under non-cancelable operating lease agreements which expire at various dates.

Future minimum annual rentals under non-cancelable operating leases at December 31, 2012, are as follows (in thousands):

2013	$ 6,877
2014	5,203
2015	364
2016	340
2017	327
Thereafter	1,292

Rent expenses amounted to approximately $10.2 million and $10.1 million for the years ended December 31, 2012 and 2011, 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, 2012 and 2011, no allowances were deemed necessary. The Company regularly evaluates the financial condition of its reinsurers/retrocessionaires. At December 31, 2012 and 2011, 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, annuity considerations, and deposit type funds and amounts earned is as follows (in thousands):

	2012	2011
Direct premiums and amounts assessed against policyholders	$ 5,732	$ 2,590
Reinsurance assumed	12,644,379	6,157,966
Reinsurance ceded	(7,436,299)	(2,984,071)
Net premiums and amounts earned	$ 5,213,812	$ 3,176,485

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

	2012	2011
Direct	$ 8,599	$ 9,501
Reinsurance assumed	6,436,672	5,725,588
Reinsurance ceded	(3,644,382)	(3,171,777)
Net policyholder benefits and dividends to policyholders	$ 2,800,889	$ 2,563,312

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

	Life Insurance in Force				
	Direct	Assumed	Ceded	Net	Assumed/ Net Percent
December 31, 2012	$ 77	$ 1,813,985	$ (1,255,018)	$ 559,044	324.48 %
December 31, 2011	76	1,601,334	(1,060,011)	541,399	295.78

In the accompanying statutory-basis statements of admitted assets, liabilities, and capital and surplus, policy and claim reserves are net of reinsurance ceded of $13.2 billion and $8.6 billion at December 31, 2012 and 2011, respectively.

Reinsurance agreements, whether facultative or automatic, may provide for recapture rights on the part of the ceding company. Recapture rights permit the ceding company to reassume all or a portion of the risk formerly ceded to the reinsurer after an agreed-upon period of time, generally 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, 2012 and 2011, these treaties produced $890.4 billion and $871.2 billion of ceded ordinary life insurance inforce and $4.7 billion and $4.5 billion of pre-tax surplus, respectively. For the years ended December 31, 2012 and 2011, these treaties generated $173.8 million and $67.1 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):

	2012	2011
Net policy and claim reserves	$ (8,537.0)	$ (4,633.4)
Net premium income	(5,182.2)	(2,021.1)
Net pre-tax gain (loss)	1,053.5	(184.8)

On June 29, 2012, the Company entered into a reinsurance agreement, effective April 1, 2012, wherein the Company assumed, on a coinsurance basis, a quota share of a block of ordinary fixed deferred annuity business written by John Hancock Life Insurance Company. Under the terms of this agreement, as of December 31, 2012, the Company reported a $4.7 billion increase in policy reserves, a $5.4 billion increase in premium income and a $256.4 million increase in pre-tax net income. In addition, as a result of this agreement, the Company's asset valuation reserve experienced a $44.2 million increase and the capital gains realized by John Hancock Life Insurance Company of the transfer of securities under the terms of this agreement produced a $133.3 million transfer into the Company's interest maintenance reserve and was reflected in the Company's net gain from operations before income tax expense.

On September 25, 2012, the Company entered into a reinsurance agreement, effective April 1, 2012, with an affiliated domestic company, wherein the Company retroceded, on a coinsurance/funds withheld basis, a 50% quota share of the ordinary fixed deferred annuity business assumed from John Hancock Life Insurance Company under the reinsurance agreement detailed above. Under the terms of this agreement, as of December 31, 2012, the Company reported a $2.4 billion reduction of policy reserves, a $2.4 billion increase in funds withheld liabilities, a $2.7 billion decrease in premium income and a $208.8 million decrease in pre-tax net income. This retrocession agreement had no impact on either the asset valuation reserve or the interest maintenance reserve.

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 $164.5 million in 2013, an amount based upon the greater of a) the prior year's statutory net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or losses or b) 10% of prior year statutory-basis capital and surplus, but not exceeding 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, 2012 and 2011, with a carrying value totaling $368.5 million and $346.3 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 $2.5 million and 200.0 million yen or $2.6 million, as of December 31, 2012 and 2011, 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 39.1 billion Korean won, or $36.8 million, and 3.0 billion Korean won, or $2.6 million, as of December 31, 2012 and 2011, 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 deposits held in public trust of no less than 1.0 million New Zealand dollars, or $0.8 million as of December 31, 2012 and 2011. The Company has also agreed to internally allocate assets with a carrying value totaling $95.8 million and $69.9 million as of December 31, 2012 and 2011, 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, 2012, 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 $1.1 billion and $1.0 billion at December 31, 2012 and 2011, respectively.

The Company has commitments to fund investments in limited partnerships in the amount of $171.1 million and $156.6 million at December 31, 2012 and 2011, respectively. The Company anticipates that the majority of this amount will be invested over the next seven years; however, contractually this commitment could become due at the request of the counterparties. Investments in limited partnerships are carried at statement value and are included in other invested assets in the statutory-basis statement of admitted assets, liabilities, and capital and surplus.

The Company had contingent commitments to funds commercial mortgage loans of $22.2 million and $33.6 million at December 31, 2012 and 2011, respectively. The Company had contingent commitments of $68.5 million and $0.7 million to fund bank loans and other investments at December 31, 2012 and 2011, respectively.

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 $1.3 million and $1.1 million of outstanding bank letters of credit in favor of unaffiliated entities as of December 31, 2012 and 2011, respectively. In addition, at December 31, 2012 and 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. A legal reserve is established when the Company is notified of an arbitration demand or litigation or is notified that an arbitration demand or litigation is imminent, it is probable that the Company will incur a loss as a result and the amount of the probable loss is reasonably capable of being estimated.

15. SURPLUS AND SURPLUS NOTES

As of December 31, 2012 and 2011, unassigned surplus was increased (decreased) by the following cumulative changes (in thousands):

	2012	2011
Unrealized gains and losses — net of deferred income taxes	$ 24,645	$ 8,406
Nonadmitted assets	(175,372)	(186,028)
Asset valuation reserve	(158,260)	(68,717)
Provision for reinsurance	(23,070)	(27,509)

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 2012 and 2011. As of December 31, 2012 and 2011, 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 2012 and 2011. As of December 31, 2012 and 2011, 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 in 2012 and 2011. As of December 31, 2012 and 2011, 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 MDOI. 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, 2012 and 2011 are as follows (in thousands):

2012	Accumulated Depreciation December 31, 2011	Depreciation Expense 2012	Disposals 2012	Accumulated Depreciation December 31, 2012
Servers and components	$ 10,655	$ 2,290	$ (65)	$ 12,880
Personal computers	1,873	550	(383)	2,040
	$ 12,528	$ 2,840	$ (448)	$ 14,920

	Accumulated Amortization December 31, 2011	Amortization Expense 2012	Impairments 2012	Accumulated Amortization December 31, 2012
Nonadmitted software	$ 31,383	$ 2,535	$ -	$ 33,918

2011	Accumulated Depreciation December 31, 2010	Depreciation Expense 2011	Disposals 2011	Accumulated Depreciation December 31, 2011
Servers and components	$ 8,603	$ 2,079	$ (27)	$ 10,655
Personal computers	1,596	474	(197)	1,873
	$ 10,199	$ 2,553	$ (224)	$ 12,528

	Accumulated Amortization December 31, 2010	Amortization Expense 2011	Impairments 2011	Accumulated Amortization December 31, 2011
Nonadmitted software	$ 29,881	$ 1,502	$ -	$ 31,383

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, 2013, 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, 2012

(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. $.22,835,086,454

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

	1 Issuer	2 Description of Exposure	3 Amount	4 Percentage of Total Admitted Assets
2.01	JAPAN (GOVERNMENT OF)	BONDS, SHTERM	$....302,557,981	1.325 %
2.02	TIMBR-A	BONDS	$....133,481,177	0.585 %
2.03	CENTURY PLAZA TOWERS	MORTGAGE LOAN	$....109,328,874	0.479 %
2.04	FHLMC STRUCTURED	BONDS, SHTERM	$....102,497,120	0.449 %
2.05	BANK OF AMERICA CORP	BONDS	$.....81,511,541	0.357 %
2.06	REINSURANCE GROUP OF AMERICA INCORPORATED	BONDS	$.....80,000,000	0.350 %
2.07	FNMA STRUCTURED	BONDS, SHTERM	$.....73,320,930	0.321 %
2.08	JPMORGAN CHASE & CO	BONDS, SHTERM	$.....70,198,965	0.307 %
2.09	UBS AG	BONDS, SHTERM	$.....69,672,895	0.305 %
2.10	NEW SOUTH WALES (STATE OF)	BONDS	$.....68,308,187	0.299 %

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

	Bonds	1	2
3.01	NAIC-1	$.5,764,425,941	25.244 %
3.02	NAIC-2	$.4,729,801,704	20.713 %
3.03	NAIC-3	$....712,720,432	3.121 %
3.04	NAIC-4	$....410,649,295	1.798 %
3.05	NAIC-5	$.....32,319,058	0.142 %
3.06	NAIC-6	$.....13,397,986	0.059 %
	Preferred Stocks	3	4
3.07	P/RP-1	$.....25,599,164	0.112 %
3.08	P/RP-2	$.....14,470,661	0.063 %
3.09	P/RP-3	$.....10,558,500	0.046 %
3.10	P/RP-4	$..........182,725	0.001 %
3.11	P/RP-5	$	0.000 %
3.12	P/RP-6	$..........412,808	0.002 %

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	$.2,436,296,216	10.669 %
4.03	Foreign-currency-denominated investments	$....590,434,855	2.586 %
4.04	Insurance liabilities denominated in that same foreign currency	$....866,830,891	3.796 %

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

		1	2
5.01	Countries rated NAIC-1	$.2,104,837,494	9.218 %
5.02	Countries rated NAIC-2	$....269,406,736	1.180 %
5.03	Countries rated NAIC-3 or below	$.....62,051,985	0.272 %

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	$....327,410,764	1.434 %
6.02	Country 2: Japan	$....315,809,817	1.383 %
	Countries rated NAIC-2:		
6.03	Country 1: Ireland	$.....66,666,946	0.292 %
6.04	Country 2: Brazil	$.....65,874,342	0.288 %
	Countries rated NAIC-3 or below:		
6.05	Country 1: Virgin Islands	$.....10,072,393	0.044 %
6.06	Country 2: Turkey	$.....10,040,428	0.044 %

		1	2
7.	Aggregate unhedged foreign currency exposure	$....590,434,855	2.586 %

8. Aggregate unhedged foreign currency exposure categorized by NAIC sovereign rating:

		1	2
8.01	Countries rated NAIC-1	$....577,542,180	..........2.529 %
8.02	Countries rated NAIC-2	$.......7,617,936	..........0.033 %
8.03	Countries rated NAIC-3 or below	$.......5,274,739	..........0.023 %

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

		1	2
	Countries rated NAIC-1:		
9.01	Country 1: Japan	$....302,557,981	..........1.325 %
9.02	Country 2: Australia	$....126,214,780	..........0.553 %
	Countries rated NAIC-2:		
9.03	Country 1: Mexico	$.......4,182,156	..........0.018 %
9.04	Country 2: Indonesia	$.......3,435,780	..........0.015 %
	Countries rated NAIC-3 or below:		
9.05	Country 1: Philippines	$.......5,274,739	..........0.023 %
9.06	Country 2:	$........	..........0.000 %

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

	1 Issuer	2 NAIC Rating	3	4
10.01	DEUTSCHE TELEKOM AG	2	$.....60,768,264	..........0.266 %
10.02	SOCIETE GENERALE	1, 2	$.....41,239,581	..........0.181 %
10.03	BARCLAYS PLC	2, P3	$.....38,755,603	..........0.170 %
10.04	UNICREDIT SPA	1, 2	$.....33,548,641	..........0.147 %
10.05	GDF SUEZ	1	$.....30,791,322	..........0.135 %
10.06	LLOYDS BANKING GROUP PLC	1,2,3	$.....29,340,619	..........0.128 %
10.07	ARCELORMITTAL	3	$.....27,920,817	..........0.122 %
10.08	RIO TINTO LIMITED	1	$.....27,106,222	..........0.119 %
10.09	NORDEA BANK AB	1	$.....26,942,128	..........0.118 %
10.10	SCHNEIDER ELECTRIC SA	1	$.....24,935,027	..........0.109 %

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 Name of Issuer	2	3
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 [X] 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 [X]
If response to 16.01 above is yes, responses are not required for the remainder of Interrogatory 16 and Interrogatory 17.

	1 Type (Residential, Commercial, Agricultural)	2	3
16.02	CENTURY PLAZA TOWERS	$ 109,328,874	0.479 %
16.03	TWO LOGAN SQUARE ASSOCIATES	$ 67,893,598	0.297 %
16.04	760-800 WESTCHESTER AVENUE	$ 64,662,948	0.283 %
16.05	THE RODEO COLLECTION	$ 45,250,584	0.198 %
16.06	BROOKLYN PARK	$ 43,523,198	0.191 %
16.07	LIBERTY PORTFOLIO-700 NESTLE WAY	$ 40,382,932	0.177 %
16.08	OAKWOOD PLAZA SHOPPING CENTER	$ 34,219,312	0.150 %
16.09	MARSOL APARTMENTS	$ 29,730,847	0.130 %
16.10	CAMPBELL PLAZA SHOPPING CENTER	$ 21,000,000	0.092 %
16.11	LOCKHEED MARTIN OFFICE BUILDING	$ 20,018,239	0.088 %

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	$ 16,885,496	0.074 %
16.14	Mortgage loans in the process of foreclosure	$	0.000 %
16.15	Mortgage loans foreclosed	$	0.000 %
16.16	Restructured mortgage loans	$ 18,186,244	0.080 %

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 1	2	Commercial 3	4	Agricultural 5	6
17.01 above 95%	$	0.000 %	$ 62,728,349	0.275 %	$	0.000 %
17.02 91% to 95%	$	0.000 %	$ 14,585,666	0.064 %	$	0.000 %
17.03 81% to 90%	$	0.000 %	$ 19,539,771	0.086 %	$	0.000 %
17.04 71% to 80%	$	0.000 %	$ 107,555,682	0.471 %	$	0.000 %
17.05 below 70%	$	0.000 %	$ 2,104,164,638	9.215 %	$	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 [X] 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 [X] 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:

	At Year-End 1	2	At End of Each Quarter 1st Qtr 3	2nd Qtr 4	3rd Qtr 5
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:

	Owned		Written	
	1	2	3	4
21.01 Hedging	$	0.000 %	$	0.000 %
21.02 Income generation	$	0.000 %	$	0.000 %
21.03 Other	$ 62,513,535	0.274 %	$	0.000 %

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

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	5
22.01 Hedging	$ 2,088,773	0.009 %	$ 2,270,866	$ 2,221,941	$ 2,166,223
22.02 Income generation	$	0.000 %	$	$	$
22.03 Replications	$ 248,000,000	1.086 %	$ 171,000,000	$ 171,000,000	$ 174,500,000
22.04 Other	$ 40,861,293	0.179 %	$ 46,209,220	$ 51,034,371	$ 44,642,200

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

	At Year-End		At End of Each Quarter		
			1st Qtr	2nd Qtr	3rd Qtr
	1	2	3	4	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

	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement			
	1	2	3	4	5	6
Investment Categories	Amount	Percentage	Amount	Securities Lending Reinvested Collateral Amount	Total (Col. 3 + 4) Amount	Percentage
1. Bonds:						
1.1 U.S. treasury securities	68,155,190	0.4	68,155,190		68,155,190	0.4
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	50,779,571	0.3	50,779,571		50,779,571	0.3
1.3 Non-U.S. government (including Canada, excluding mortgage-backed securities)	720,132,498	4.5	720,132,498		720,132,498	4.5
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:						
1.41 States, territories and possessions general obligations	25,326,824	0.2	25,326,824		25,326,824	0.2
1.42 Political subdivisions of states, territories and possessions and political subdivisions general obligations	73,391,028	0.5	73,391,028		73,391,028	0.5
1.43 Revenue and assessment obligations	124,076,675	0.8	124,076,675		124,076,675	0.8
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	9,953,343	0.1	9,953,343		9,953,343	0.1
1.512 Issued or guaranteed by FNMA and FHLMC	62,827,026	0.4	62,827,026		62,827,026	0.4
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	195,804,285	1.2	195,804,285		195,804,285	1.2
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-based securities issued or guaranteed by agencies shown in Line 1.521		0.0			0	0.0
1.523 All other	1,348,411,455	8.4	1,348,411,455		1,348,411,455	8.4
2. Other debt and other fixed income securities (excluding short-term):						
2.1 Unaffiliated domestic securities (includes credit tenant loans and hybrid securities)	6,421,898,386	39.8	6,421,898,386		6,421,898,386	39.8
2.2 Unaffiliated non-U.S. securities (including Canada)	1,970,527,423	12.2	1,970,527,423		1,970,527,423	12.2
2.3 Affiliated securities	213,481,177	1.3	213,481,177		213,481,177	1.3
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	51,223,857	0.3	51,223,857		51,223,857	0.3
3.3 Publicly traded equity securities (excluding preferred stocks):						
3.31 Affiliated		0.0			0	0.0
3.32 Unaffiliated		0.0			0	0.0
3.4 Other equity securities:						
3.41 Affiliated	849,489	0.0	849,489		849,489	0.0
3.42 Unaffiliated	47,183,678	0.3	47,183,678		47,183,678	0.3
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	2,301,593,993	14.3	2,301,593,993		2,301,593,993	14.3
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)	14,922,485	0.1	14,922,485		14,922,485	0.1
5.3 Property held for sale (including $.........0 property acquired in satisfaction of debt)		0.0			0	0.0
6. Contract loans	1,256,560,052	7.8	1,256,560,052		1,256,560,052	7.8
7. Derivatives	196,418,537	1.2	196,418,537		196,418,537	1.2
8. Receivables for securities	7,073,919	0.0	7,073,919		7,073,919	0.0
9. Securities lending (Line 10, Asset Page reinvested collateral)		0.0		XXX	XXX	XXX
10. Cash, cash equivalents and short-term investments	586,571,659	3.6	586,571,659		586,571,659	3.6
11. Other invested assets	386,179,576	2.4	386,179,576		386,179,576	2.4
12. Total invested assets	16,133,342,126	100.0	16,133,342,126	0	16,133,342,126	100.0

RGA REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

Investment income earned:		
Government bonds	$	11,927,755
Other bonds (unaffiliated)		486,982,754
Bonds of affiliates		8,340,415
Preferred stocks (unaffiliated)		3,817,065
Preferred stocks of affiliates		-
Common stocks (unaffiliated)		509,921
Common stocks of affiliates		-
Mortgage loans		99,231,861
Real estate		1,689,000
Premium notes, policy loans, and liens		61,463,481
Collateral loans		-
Cash and cash equivalents		3,456,696
Short-term investments		-
Other invested assets		27,017,707
Derivative instruments		1,382,360
Aggregate write-ins for investment income		-
Gross investment income	$	705,819,015
Real estate owned — book value less encumbrances	$	14,922,485
Mortgage loans — book value:		
Farm mortgages	$	-
Residential mortgages		-
Commercial mortgages		2,301,593,993
Total mortgage loans	$	2,301,593,993
Mortgage loans by standing — book value:		
Good standing	$	2,273,502,366
Good standing with restructured terms		18,186,244
Interest overdue more than ninety days — not in foreclosure		16,885,496
Foreclosure in process		-
Other long-term assets — statement value		
Collateral loans		-
Bonds and stocks of parents, subsidiaries, and affiliates — book value:		
Bonds	$	213,481,177
Preferred stocks		-
Common stocks		849,489

(Continued)

RGA REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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	$ 832,636,443
Over 1 year through 5 years	3,385,495,325
Over 5 years through 10 years	5,114,305,216
Over 10 years through 20 years	894,587,146
Over 20 years	1,436,290,286
Total by maturity	$ 11,663,314,416
Bonds, short-term investments, and cash equivalents by class — statement value:	
Class 1	$ 5,764,425,941
Class 2	4,729,801,704
Class 3	712,720,432
Class 4	410,649,295
Class 5	32,319,058
Class 6	13,397,986
Total by class	$ 11,663,314,416
Total bonds, short-term investments, and cash equivalents publicly traded	$ 8,199,788,950
Total bonds, short-term investments, and cash equivalents privately traded	3,463,525,466
Preferred stocks — statement value	51,223,857
Common stocks — market value	48,033,167
Short-term investments — book value	356,252,228
Financial options owned — statement value	-
Financial options written and in force — statement value	-
Financial options open — statement value	-
Financial futures contracts open — current price	-
Cash on deposit	204,866,683
Life insurance in force:	
Industrial	-
Ordinary	537,740,251,702
Credit Life	1,399,883,827
Group Life	19,903,980,444
Amount of accidental death insurance in force under ordinary policies	-
Life insurance policies with disability provisions in force:	
Industrial	-
Ordinary	33,864,956,841
Credit Life	-
Group Life	45,527,033,051

(Continued)

RGA REINSURANCE COMPANY

SUPPLEMENTAL SCHEDULE OF SELECTED FINANCIAL DATA AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2012

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	15,315,922,283
Deferred — not fully paid — account balance	-
Group:	
Amount of income payable	-
Fully paid account balance	-
Not fully paid — account balance	-
Accident and health insurance — premiums in force:	
Ordinary	414,357,010
Group	14,465,751
Credit	-
Deposit funds and dividend accumulations:	
Deposit funds — account balance	200,000,000
Dividend accumulations — account balance	-
Claim payments 2012:	
Group accident and health — year ended December 31, 2012:	
2012	-
2011	-
2010	-
Other accident and health:	
2012	-
2011	-
2010	-
Other coverages that use developmental methods to evaluate claims reserves:	
2012	-
2011	-
2010	-

(Concluded)

RGA Reinsurance Company
(New Zealand Branch)

Annual Financial Report for the year ended 31 December 2012

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
The security of experience. The power of innovation.
www.rgare.com

Statement of Comprehensive Income for the Year Ended 31 December 2012

	Note	2012 $'000	2011 $'000
Revenue			
Premium revenue from reinsurance contracts	6	77,730	81,770
Outward reinsurance expense		(2,191)	(2,330)
Net insurance premium revenue		75,539	79,440
Investment income	7	7,449	4,905
Other income	8	31	26
Total Revenue		**83,019**	**84,371**
Claims and expenses			
Claims expense from reinsurance contracts	9	66,114	44,475
Reinsurance recoveries		(1,370)	(1,360)
Net claims expense		64,744	43,115
Policy acquisition costs	11	11,147	12,645
Other expenses	11	11,189	11,219
Movement in net insurance contract liabilities	20(a)	(6,498)	10,714
Total claims and expenses		**80,582**	**77,693**
Profit before related income tax expense		**2,437**	**6,678**
Income tax expense	23	-	-
Profit for the year		2,437	6,678
Other comprehensive income for the year		-	-
Total comprehensive income for the year		**2,437**	**6,678**

The statement of Comprehensive Income is to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 31.

Statement of Financial Position
as at 31 December 2012

	Note	2012 $'000	2011 $'000
Assets			
Cash and cash equivalents		15,764	6,602
Premium receivable	12	6,062	17,307
Other receivables	12	2,302	2,496
Investments	13	193,533	163,628
Net insurance contract assets	20	231	-
Total assets		**217,892**	**190,033**
Liabilities			
Outstanding claims payable	14	15,214	17,882
Employee entitlements	15	38	-
Net insurance contract liabilities	20	-	6,267
Other payables	14	1,010	698
Total liabilities		**16,262**	**24,847**
Net assets		**201,630**	**165,186**
Head office account		169,802	135,795
Retained profit		31,828	29,391
Total deemed equity		**201,630**	**165,186**

The statement of Financial Position is to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 31.

Statement of Changes in Equity
for the year ended 31 December 2012

	Head Office Account $'000	Retained Earnings $'000	Total $'000
Balance at 1 January 2011	**111,934**	**22,713**	**134,647**
Profit for the year	-	6,678	6,678
Transfer in from Head Office	30,477	-	30,477
Decrease in Head Office Current Account	(6,616)	-	(6,616)
Balance at 31 December 2011	**135,795**	**29,391**	**165,186**
Profit for the year	-	2,437	2,437
Transfer in from Head Office	7,600	-	7,600
Increase in Head Office Current Account	26,407	-	26,407
Balance at 31 December 2012	**169,802**	**31,828**	**201,630**

The statement of Changes in Equity is to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 31.

Statement of Cash Flows
for the year ended 31 December 2012

	Notes	2012 $'000	2011 $'000
Cash flows from operating activities			
Premium received		87,233	72,912
Retrocession premium paid		(1,960)	(2,383)
Claims paid		(68,782)	(41,439)
Retrocession recoveries received		2,095	2,241
Allowances paid		(13,650)	(19,415)
Retrocession allowances received		32	30
Interest received		8,335	7,017
Service fees paid		(6,840)	(6,961)
Payments to suppliers and employees		(365)	(747)
Net cash provided by operating activities	21(b)	**6,098**	**11,255**
Cash flows from investing activities			
Proceeds from sale of investments		18,856	48,676
Payments for investments		(49,799)	(88,284)
Net cash used in investing activities		**(30,943)**	**(39,608)**
Cash flows from financing activities			
Transfer from head office		34,007	23,861
Net cash from financing activities		**34,007**	**23,861**
Net increase/(decrease) in cash and cash equivalents		**9,162**	**(4,492)**
Cash and cash equivalents at the beginning of the financial period		6,602	11,094
Cash and cash equivalents at the end of the financial year	21(a)	**15,764**	**6,602**

The Statement of Cash Flows is to be read in conjunction with the Notes to the Financial Statements set out on pages 7 to 31.

Signed for and on behalf of the board of RGA Reinsurance Company on 29 May 2013.

Todd Larson, Director

Jack Lay, Director

Notes to the Financial Statements
for the Year Ended 31 December 2012

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 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") and other financial reporting standards as appropriate to profit-oriented entities that qualify for and apply 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 elected to apply all available exemptions except those available under NZ IAS 7 Statement of Cash Flows.

The financial statements are presented in New Zealand Dollars ($), which is the Branch's functional currency. All financial information presented in New Zealand Dollars has been rounded to the nearest thousand, except when otherwise indicated.

The financial statements were authorised for issue by the Directors on 29 May 2013.

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

In the current year, the Branch has adopted all of the new and revised Standards and Interpretations issued by the IASB that are relevant to its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations has not resulted in material changes to the Branch's accounting policies.

At the date of authorisation of the financial report, the following Standards and Interpretations, relevant to the Branch, were in issue but not yet effective:

	Title	Operative Date
IFRS 9(1)	Financial Instruments	1 January 2015
IFRS 13(2)	Fair Value Measurement	1 January 2013

(1) The potential effect of the revised Standards on the Company's financial statements has not yet been determined.
(2) An initial assessment of the financial impact of the standard has been undertaken and it is not expected to have a material impact on the Company's financial statements or accounting policies.

2. Summary of significant accounting policies (continued)

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

(a) Principles for life insurance business

The life insurance operations of the Branch are 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 critical illness.

(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 income from financial assets is recognised when it is probable that the economic benefits will flow to the Branch and the amount of revenue can be measured reliably.

Other income

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

Notes to the Financial Statements
for the Year Ended 31 December 2012

2. Summary of significant accounting policies (continued)

(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.

(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.

2. Summary of significant accounting policies (continued)

(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.

(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.

Notes to the Financial Statements
for the Year Ended 31 December 2012

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.

Notes to the Financial Statements
for the Year Ended 31 December 2012

4. Summary of significant actuarial methods and assumptions

The effective date of the actuarial investigation is 31 December 2012. Mr. Andrew Gill (FIAA, FNZSA) conducted the actuarial investigation in his capacity as the actuary within the RGA Group with responsibility for actuarial matters (including the determination of policy liabilities for the purpose of AIFRS and NZIFRS accounting) in relation to the Branch. The amount of insurance contract liabilities has been determined by Mr. Gill in accordance with the methods and assumptions disclosed in this financial report and with the standards of the New Zealand Society of Actuaries. Mr. Gill 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. Gill, 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 durations.

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 5.5% to 52.2%, 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% (2011: 30%) of the underwriting profit less expenses plus investment income. The Branch's current tax loss position is taken into account.

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:

- 2.30% to 3.60% pa (2011: 2.40% to 3.80% pa) for individual and group disability business.

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 2011 to 31 December 2012

Assumption category	Effect on net profit margins increase/(decrease) $'000	Effect on net insurance contract liabilities increase/(decrease) $'000
Discount and inflation rates	2,038	(2,038)
Mortality and morbidity	(2,289)	2,289
Discontinuance rates	-	-
Expenses	-	-
Total	**(251)**	**251**

Effects of changes in actuarial assumptions from 31 December 2010 to 31 December 2011

Assumption category	Effect on net profit margins increase/(decrease) $'000	Effect on net insurance contract liabilities increase/(decrease) $'000
Discount and inflation rates	1,264	(1,264)
Mortality and morbidity	(839)	839
Discontinuance rates	-	-
Expenses	-	-
Total	**425**	**(425)**

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.

Notes to the Financial Statements
for the Year Ended 31 December 2012

(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.

Mortality and morbidity

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

Discontinuance

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

Interest rates

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

Sensitivity analysis

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

Notes to the Financial Statements
for the Year Ended 31 December 2012

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 positive 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.

Notes to the Financial Statements
for the Year Ended 31 December 2012

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 2012 $'000	Equity at 31 December 2012 $'000
Balance per financial statements		**2,437**	**201,630**
Result of change in variables:			
Worsening of future mortality and morbidity claim costs	10%	(31,257)	(31,257)
Worsening of discontinuance rate	20%	-	-
Improvement in discontinuance rate	20%	-	-
Increase in discount rate	1%	(2,771)	(2,771)
Reduction in discount rate	1%	2,535	2,535
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rates	1%	(2,463)	(2,463)

	Change in variable	Profit 2011 $'000	Equity at 31 December 2011 $'000
Balance per financial statements		**6,678**	**165,186**
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)	(2,208)
Reduction in discount rate	1%	1,913	1,913
Increase in future maintenance expenses	10%	-	-
Increase in future inflation rates	1%	(2,483)	(2,483)

Notes to the Financial Statements
for the Year Ended 31 December 2012

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 defines 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). 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.

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.

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.

Notes to the Financial Statements
for the Year Ended 31 December 2012

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

Asset and liability management techniques

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

(e) Concentration of Insurance Risk

The Branch's exposure to concentrations of insurance risk is mitigated by having a diversified portfolio and by retroceding portions of certain risks.

(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

Notes to the Financial Statements
for the Year Ended 31 December 2012

6. Insurance premium revenue

	2012 $'000	2011 $'000
Premium revenue from reinsurance contracts	77,730	81,770

7. Investment income

	2012 $'000	2011 $'000
Interest income:		
Bank deposits	185	229
Investments at fair value through profit or loss	8,302	7,031
Gain/(loss) on disposal of investments	6,885	(1,563)
Change in fair value of investment carried at fair value through profit or loss	(7,923)	(792)
Total investment income	**7,449**	**4,905**

8. Other income

	2012 $'000	2011 $'000
Reinsurance allowances	31	26
Total other income	**31**	**26**

Notes to the Financial Statements
for the Year Ended 31 December 2012

9. Gross claims expense

	2012 $'000	2011 $'000
Claims expense from reinsurance contracts	66,114	44,475

10. Auditor's remuneration

	2012 $'000	2011 $'000
Audit fees paid and payable	111	110

The Branch's auditor is Deloitte.

11. Operating expenses

	2012 $'000	2011 $'000
Policy acquisition costs		
Commission	8,891	9,500
Other	2,256	3,145
	11,147	12,645
Policy maintenance cost		
Commission	6,500	7,448
Other	4,689	3,771
	11,189	11,219
Total operating expenses	**22,336**	**23,864**

12. Receivables

	2012 $'000	2011 $'000
Premium Receivable[1]	6,062	17,307

Other receivables		
Receivable from reinsurance	-	970
Related entities	276	-
Lease rental bond	1	1
Investment income accrued and receivable	1,677	1,525
Withholding tax receivable	348	-
Total other receivables	**2,302**	**2,496**

(1) The premium receivable balance is net of unallocated cash and allowances payable.

Notes to the Financial Statements
for the Year Ended 31 December 2012

13. Investments

The following table presents the fair values of the Branch's investments at 31 December 2012 and 2011. Fair values have been determined using market information obtained from independent pricing services and the valuation methodologies described below.

Financial assets at fair value through profit or loss:

	Fair value hierarchy							
	2012 $'000 Total	**2012 $'000** Level 1	**2012 $'000** Level 2	**2012 $'000** Level 3	**2011 $'000** Total	**2011 $'000** Level 1	**2011 $'000** Level 2	**2011 $'000** Level 3
Interest bearing securities:								
National government	65,344	-	65,344	-	66,320	-	66,320	-
Private sector	128,189	-	128,189	-	97,308	-	97,308	-
Total investments at fair value through profit and loss	**193,533**	**-**	**193,533**	**-**	**163,628**	**-**	**163,628**	**-**
Made up as (based on maturity): Expected to be realised:								
– within 12 months	5,047	-	5,047	-	3,031	-	3,031	-
– more than 12 months	188,486	-	188,486	-	160,597	-	160,597	-
	193,533	**-**	**193,533**	**-**	**163,628**	**-**	**163,628**	**-**

All securities are publicly traded with fixed maturity dates.

AASB 7 establishes a fair value hierarchy which requires an entity to maximise the use of observable inputs and minimise the use of unobservable inputs when measuring fair value. The standard describes three levels of input that may be used to measure fair value:

Level 1 Quoted prices (unadjusted) in active markets for identical assets or liabilities. The prices are obtained from an exchange, pricing service or regulatory agency and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Level 2 Input other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). These are quoted prices in markets that are not active or market standard valuation methodologies and assumptions with significant inputs that are observable.

Level 3 Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There were no transfers between the different levels of fair value hierarchy during the year.

Notes to the Financial Statements
for the Year Ended 31 December 2012

14. Payables

	2012 $'000	2011 $'000
Outstanding claims payable	**15,214**	**17,882**

Other payables		
Payables from reinsurance	10	-
Related entities	3	136
Withholding tax payable	56	79
Other Creditors	941	483
Total other payables	**1,010**	**698**

15. Employee entitlements

	2012 $'000	2011 $'000
Annual leave provision	38	-
Total employee entitlements	**38**	**-**

16. 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.).

17. 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 $6,177,165 expenditure for services in 2012 ($6,433,979 in 2011). As at 31 December 2012, there was an amount receivable from RGAH of $274,878 due to an adjustment to the management fee rate (payable to RGAH of $135,660 in 2011). The amounts receivable or payable are not subject to interest charges or any repayment conditions.

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

Notes to the Financial Statements
for the Year Ended 31 December 2012

18. Statement of sources of operating profit

The Branch operating profit after income tax is represented by:

	2012 $'000	2011 $'000
Planned margins of revenues over expenses released	6,122	5,746
Difference between actual and assumed experience	(9,303)	(4,737)
Effects of changes to underlying assumptions	(1,653)	764
Reversal / (capitalisation) of expected future losses	-	-
Investment earnings on assets in excess of insurance contract liabilities	7,271	4,905
Branch profit after tax	**2,437**	**6,678**

19. 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 mandate disclosure of the solvency position of the Branch. In 2012 The Branch obtained a run-off licence from the RBNZ in preparation for a proposed transfer of the treaties of the Branch, including all of the rights and obligations associated with the treaties, to RGA Reinsurance Company of Australia Limited. A Branch operating under a run-off licence is exempt from the requirement to disclose its solvency position.

Notes to the Financial Statements
for the Year Ended 31 December 2012

20. Net Policy Liabilities Assumed Under Reinsurance

Insurance contract liabilities

(a) Reconciliation of movements in insurance contract liabilities

	Note	2012 $'000	2011 $'000
Gross insurance contract liabilities/(assets) at 1 January		11,664	(1,325)
(Decrease)/increase in insurance contract liabilities reflected in the Statement of Comprehensive Income	(i)	(5,947)	12,989
Gross insurance contract liabilities at 31 December		**5,717**	**11,664**
Liabilities ceded under reinsurance			
Opening balance at 1 January		5,397	3,122
Increase in reinsurance assets reflected in the Statement of Comprehensive Income	(ii)	551	2,275
Closing balance at 31 December		**5,948**	**5,397**
Net insurance contract (assets)/liabilities at 31 December		**(231)**	**6,267**
(i) less (ii) = (Decrease)/increase in net insurance contract liabilities as disclosed in the Statement of Comprehensive Income		**(6,498)**	**10,714**
Expected to be realised within 12 months		23,928	26,331
Expected to be realised in more than 12 months		(24,159)	(20,064)
		(231)	**6,267**

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

	Note	2012 $'000	2011 $'000
Future policy benefits		60,108	58,834
Future bonuses(1)		-	-
Future expenses(1)		-	-
Planned margins over future expenses(1)		-	-
Future charges for acquisition costs		(60,339)	(52,567)
Balance of future revenues(1)		-	-
Net life insurance contract (assets)/liabilities		**(231)**	**6,267**

(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 2012

21. Notes to the Statement of Cash Flows

(a) *Reconciliation of cash and cash equivalents*

For the purposes of the statement of cash flows, cash includes cash on hand and at bank and deposits held at call with financial institutions readily convertible to known amounts of cash. Cash as at the end of the financial year as shown in the Statement of Cash Flows is reconciled to the related items in the Statement of Financial Position as follows:

	2012 $'000	2011 $'000
Cash at bank	15,764	6,602
Deposits held at call	-	-
Total cash and cash equivalents	**15,764**	**6,602**

(b) *Reconciliation of net profit after income tax to net cash from operating activities*

	2012 $'000	2011 $'000
Net profit	**2,437**	**6,678**
Adjustments for non-cash and investing activities:		
Decrease in investment values	1,038	2,355
Net cash provided by operating activities before change in assets and liabilities	**3,475**	**9,033**
Change in assets and liabilities during the financial year:		
Decrease/(Increase) in premiums receivable	11,245	(8,860)
Decrease/(Increase) in other receivables	194	(238)
Increase in insurance contract liabilities ceded	(551)	(1,355)
(Decrease)/Increase in payables	(2,356)	(276)
Increase in employee entitlements	38	-
Decrease in insurance contract liabilities assumed	(5,947)	12,951
Net cash provided by operating activities	**6,098**	**11,255**

Notes to the Financial Statements
for the Year Ended 31 December 2012

22. 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 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 4. The assets are regularly monitored by management to ensure asset and liability mismatching and other risks such as liquidity risk and credit risk are maintained within acceptable limits.

Throughout 2012, the Branch held no derivative financial instrument contracts (2011: nil).

(a) Interest rate risk

The Branch's exposure to interest rate risks and the effective rates for financial assets and financial liabilities at balance date are as follows:

Type	Variable rate 2012 $'000	1 year or less 2012 $'000	Over 1 year 2012 $'000	Non-interest bearing 2012 $'000	Total 2012 $'000	Weighted average interest rate 2012 %
Financial assets						
Cash at bank	15,764	-	-	-	15,764	3.00
Receivables and outstanding premiums	-	-	-	8,364	8,364	-
Investments	-	5,047	188,486	-	193,533	5.21
Total	**15,764**	**5,047**	**188,486**	**8,364**	**217,661**	
Financial liabilities						
Payables	-	-	-	16,224	16,224	
Total	**-**	**-**	**-**	**16,224**	**16,224**	

Notes to the Financial Statements
for the Year Ended 31 December 2012

22. Financial risk management (continued)

(a) Interest rate risk (continued)

Type	Variable rate 2011 $'000	1 year or less 2011 $'000	Over 1 year 2011 $'000	Non-interest bearing 2011 $'000	Total 2011 $'000	Weighted average interest rate 2011 %
Financial assets						
Cash at bank	6,602	-	-	-	6,602	3.15
Receivables and outstanding premiums	-	-	-	19,803	19,803	-
Investments	-	3,031	160,597	-	163,628	5.79
Total	**6,602**	**3,031**	**160,597**	**19,803**	**190,033**	
Financial liabilities						
Payables	-	-	-	18,580	18,580	
Total	**-**	**-**	**-**	**18,580**	**18,580**	

Interest rate risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market interest rates. At the balance date, the Branch's exposure to interest rate risk arose primarily from its fixed interest securities.

Ignoring the impact of any corresponding changes in the value of insurance contract liabilities and taxation, an increase in interest rates of 0.5% would decrease net profit and equity by approximately $3.7 million (2011: $2.7 million). A corresponding decrease of 0.5% would increase net profit and equity by $3.8 million (2011: $2.8 million) A sensitivity of 0.5% per annum has been selected as this is considered reasonable given the current environment for New Zealand interest rates.

(b) 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.

22. Financial risk management (continued)

(d) 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 table in Note 22(a) summarises the maturity profile of the Branch's financial assets and liabilities. The maturity profile of the insurance contract liabilities is shown in note 20(a).

(e) 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 a spread of investment assets.

23. 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.

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:

	2012 $'000	2011 $'000
Operating profit before tax	**2,437**	**6,678**
Prima facie tax on operating profit/(loss) at 28% (2011: 30%)	682	2,003
Tax effect of		
Non assessable income/expenses	(682)	(2,003)
Total income tax expense attributable to operating profit	-	-

Notes to the Financial Statements
for the Year Ended 31 December 2012

24. Events subsequent to reporting date

The reinsurance treaties and all the rights and obligations attached to them are planned to be transferred to RGA Reinsurance Company of Australia Limited's Statutory Fund 2 prior to 1 September 2013. This transfer is subject to approval by the Reserve Bank of New Zealand. All insurance contract assets and liabilities will be transferred out of the Branch and, subsequent to this transfer no insurance activities will be undertaken by the Branch.

Except for the item mentioned above, 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.

Deloitte.

Independent Auditor's Report to the Shareholders 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 2012, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows 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 31.

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 Responsibilities

Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing and International Standards on Auditing (New Zealand). 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.

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

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.

Opinion

In our opinion, the financial statements of RGA Reinsurance Company – New Zealand branch:

- give a true and fair view of RGA Reinsurance Company – New Zealand branch's financial position as at 31 December 2012 and of its financial performance and cash flows for the year ended on that date; and
- comply with generally accepted accounting practice in New Zealand;

Emphasis of Matter

The New Zealand branch is part of RGA Reinsurance Company, which is incorporated in the United States of America. As described in Note 2, 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.

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 2012:

- 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

Chartered Accountants
29 May 2013
Christchurch, New Zealand