

REINSURANCE GROUP OF AMERICA INC

Form 10-Q

May 05, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

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

For the quarterly period ended March 31, 2009

OR

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

**Commission File Number 1-11848
REINSURANCE GROUP OF AMERICA, INCORPORATED
(Exact name of Registrant as specified in its charter)**

MISSOURI **43-1627032**
(State or other jurisdiction (IRS employer
of incorporation or organization) identification number)
1370 Timberlake Manor Parkway
Chesterfield, Missouri 63017
(Address of principal executive offices)

(636) 736-7000
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of April 30, 2009, 72,763,398 shares of the registrant's common stock were outstanding.

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

| | March 31, 2009 | December 31, 2008 |
|--|-------------------|----------------------|
| (Dollars in thousands) | | |
| Assets | | |
| Fixed maturity securities: | | |
| Available-for-sale at fair value (amortized cost of \$9,873,449 and \$9,382,848 at March 31, 2009 and December 31, 2008, respectively) | \$ 8,831,920 | \$ 8,531,804 |
| Mortgage loans on real estate | 764,038 | 775,050 |
| Policy loans | 1,081,030 | 1,096,713 |
| Funds withheld at interest | 4,505,054 | 4,520,398 |
| Short-term investments | 54,552 | 58,123 |
| Other invested assets | 582,784 | 628,649 |
| | | |
| Total investments | 15,819,378 | 15,610,737 |
| Cash and cash equivalents | 586,542 | 875,403 |
| Accrued investment income | 118,140 | 87,424 |
| Premiums receivable and other reinsurance balances | 657,647 | 640,235 |
| Reinsurance ceded receivables | 746,736 | 735,155 |
| Deferred policy acquisition costs | 3,602,857 | 3,610,334 |
| Other assets | 103,014 | 99,530 |
| | | |
| Total assets | \$ 21,634,314 | \$ 21,658,818 |
| | | |
| Liabilities and Stockholders Equity | | |
| Future policy benefits | \$ 6,636,919 | \$ 6,431,530 |
| Interest-sensitive contract liabilities | 7,613,489 | 7,690,942 |
| Other policy claims and benefits | 1,956,834 | 1,923,018 |
| Other reinsurance balances | 197,695 | 173,645 |
| Deferred income taxes | 251,261 | 310,360 |
| Other liabilities | 577,909 | 585,199 |
| Long-term debt | 917,913 | 918,246 |
| Collateral finance facility | 850,019 | 850,035 |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company | 159,081 | 159,035 |
| | | |
| Total liabilities | 19,161,120 | 19,042,010 |
| | | |
| Commitments and contingent liabilities (See Note 8) | | |
| | | |
| Stockholders Equity: | | |
| Preferred stock (par value \$.01 per share; 10,000,000 shares authorized; no shares issued or outstanding) | | |
| Common stock (par value \$.01 per share; 140,000,000 shares authorized; 73,363,398 shares issued at March 31, 2009 and December 31, 2008) | 734 | 734 |

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| | | |
|--|---------------|---------------|
| Warrants | 66,912 | 66,914 |
| Additional paid-in-capital | 1,455,022 | 1,450,041 |
| Retained earnings | 1,691,292 | 1,682,087 |
| Accumulated other comprehensive income: | | |
| Accumulated currency translation adjustment, net of income taxes | (3,050) | 19,794 |
| Unrealized depreciation of securities, net of income taxes | (695,070) | (553,407) |
| Pension and postretirement benefits, net of income taxes | (14,456) | (14,658) |
| Total stockholders' equity before treasury stock | 2,501,384 | 2,651,505 |
| Less treasury shares held of 600,125 and 740,195 at cost at March 31, 2009 and December 31, 2008, respectively | (28,190) | (34,697) |
| Total stockholders' equity | 2,473,194 | 2,616,808 |
| Total liabilities and stockholders' equity | \$ 21,634,314 | \$ 21,658,818 |

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

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

| | Three months ended March 31, | |
|--|---|------------------|
| | 2009 | 2008 |
| | (Dollars in thousands, except per share data) | |
| Revenues: | | |
| Net premiums | \$ 1,346,047 | \$ 1,298,065 |
| Investment income, net of related expenses | 223,196 | 199,526 |
| Investment related losses, net | (72,262) | (155,260) |
| Other revenues | 33,859 | 17,936 |
| Total revenues | 1,530,840 | 1,360,267 |
| Benefits and Expenses: | | |
| Claims and other policy benefits | 1,169,744 | 1,119,512 |
| Interest credited | 36,909 | 73,897 |
| Policy acquisition costs and other insurance expenses | 198,801 | 16,262 |
| Other operating expenses | 66,749 | 63,340 |
| Interest expense | 22,117 | 23,094 |
| Collateral finance facility expense | 2,314 | 7,474 |
| Total benefits and expenses | 1,496,634 | 1,303,579 |
| Income from continuing operations before income taxes | 34,206 | 56,688 |
| Provision for income taxes | 10,916 | 20,099 |
| Income from continuing operations | 23,290 | 36,589 |
| Discontinued operations: | | |
| Loss from discontinued accident and health operations, net of income taxes | | (5,084) |
| Net income | \$ 23,290 | \$ 31,505 |
| Basic earnings per share: | | |
| Income from continuing operations | \$ 0.32 | \$ 0.59 |
| Discontinued operations | | (0.08) |
| Net income | \$ 0.32 | \$ 0.51 |
| Diluted earnings per share: | | |
| Income from continuing operations | \$ 0.32 | \$ 0.57 |
| Discontinued operations | | (0.08) |
| Net income | \$ 0.32 | \$ 0.49 |
| Dividends declared per share | \$ 0.09 | \$ 0.09 |

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

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

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2009 | 2008 |
| | (Dollars in thousands) | |
| Cash Flows from Operating Activities: | | |
| Net income | \$ 23,290 | \$ 31,505 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Change in operating assets and liabilities: | | |
| Accrued investment income | (30,900) | (26,493) |
| Premiums receivable and other reinsurance balances | (47,375) | (49,386) |
| Deferred policy acquisition costs | (26,277) | (204,731) |
| Reinsurance ceded balances | (11,581) | (36,664) |
| Future policy benefits, other policy claims and benefits, and other reinsurance balances | 384,229 | 330,732 |
| Deferred income taxes | 35,531 | 43,762 |
| Other assets and other liabilities, net | (1,633) | (48,290) |
| Amortization of net investment premiums, discounts and other | (34,342) | (23,199) |
| Investment related losses, net | 72,262 | 155,260 |
| Excess tax benefits from share-based payment arrangement | (1,442) | (3,547) |
| Other, net | (9,277) | 19,566 |
| Net cash provided by operating activities | 352,485 | 188,515 |
| Cash Flows from Investing Activities: | | |
| Sales of fixed maturity securities available-for-sale | 423,107 | 575,587 |
| Maturities of fixed maturity securities available-for-sale | 9,476 | 53,521 |
| Purchases of fixed maturity securities available-for-sale | (965,271) | (832,146) |
| Cash invested in funds withheld at interest | (23,100) | (26,946) |
| Net increase on securitized lending activities | | 21,267 |
| Principal payments on mortgage loans on real estate | 8,065 | 18,799 |
| Principal payments on policy loans | 15,684 | 19,975 |
| Change in short-term investments and other invested assets | 772 | (76,318) |
| Net cash used in investing activities | (531,267) | (246,261) |
| Cash Flows from Financing Activities: | | |
| Dividends to stockholders | (6,537) | (5,585) |
| Purchases of treasury stock | (1,607) | (3,093) |
| Excess tax benefits from share-based payment arrangement | 1,442 | 3,547 |
| Exercise of stock options, net | 250 | 1,489 |
| Change in securities sold under agreements to repurchase and cash collateral for derivative positions | (52,955) | 31,912 |
| Excess payments on universal life and other investment type policies and contracts | (44,496) | (70,750) |

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| | | |
|--|------------|------------|
| Net cash used in financing activities | (103,903) | (42,480) |
| Effect of exchange rate changes on cash | (6,176) | (42) |
| Change in cash and cash equivalents | (288,861) | (100,268) |
| Cash and cash equivalents, beginning of period | 875,403 | 404,351 |
| Cash and cash equivalents, end of period | \$ 586,542 | \$ 304,083 |
| Supplementary information: | | |
| Cash paid for interest | \$ 13,390 | \$ 20,824 |
| Cash paid for income taxes, net of refunds | \$ 3,847 | \$ 12,095 |

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

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REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Organization and Basis of Presentation

Reinsurance Group of America, Incorporated (RGA) is an insurance holding company that was formed on December 31, 1992. The accompanying unaudited condensed consolidated financial statements of RGA and its subsidiaries (collectively, the Company) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three-month period ended March 31, 2009 are not necessarily indicative of the results that may be expected for the year ending December 31, 2009. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2008 Annual Report on Form 10-K (2008 Annual Report) filed with the Securities and Exchange Commission on March 2, 2009.

The accompanying unaudited condensed consolidated financial statements include the accounts of Reinsurance Group of America, Incorporated and its subsidiaries. All intercompany accounts and transactions have been eliminated. The Company has reclassified the presentation of certain prior-period information to conform to the current presentation.

2. Earnings Per Share

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

| | Three months ended | |
|--|---------------------------|---------------------------|
| | March 31, 2009 | March 31, 2008 |
| Earnings: | | |
| Income from continuing operations (numerator for basic and diluted calculations) | \$23,290 | \$ 36,589 |
| Shares: | | |
| Weighted average outstanding shares (denominator for basic calculation) | 72,710 | 62,146 |
| Equivalent shares from outstanding stock options | 174 | 2,084 |
| Denominator for diluted calculation | 72,884 | 64,230 |
| Earnings per share: | | |
| Basic | \$ 0.32 | \$ 0.59 |
| Diluted | \$ 0.32 | \$ 0.57 |

The calculation of common equivalent shares does not include the impact of options or warrants having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three months ended March 31, 2009, approximately 1.5 million stock options and approximately 0.6 million performance contingent shares were excluded from the calculation. For the three months ended March 31, 2008, approximately 0.7 million stock options and approximately 0.4 million performance contingent shares were excluded from the calculation.

3. Comprehensive Income

The following schedule reflects the change in accumulated other comprehensive income (*dollars in thousands*):

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| | Three months ended | |
|---|---------------------------|---------------------------|
| | March 31, 2009 | March 31, 2008 |
| Net income | \$ 23,290 | \$ 31,505 |
| Accumulated other comprehensive income (loss), net of income tax: | | |
| Unrealized losses, net of reclassification adjustment for losses included in net income | (141,663) | (145,996) |
| Currency translation adjustments | (22,844) | (18,325) |
| Unrealized pension and postretirement benefit adjustment | 202 | 152 |
| Comprehensive loss | \$(141,015) | \$(132,664) |

4. Fair Value Disclosures

The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at March 31, 2009 and December 31, 2008. Fair values have been determined by using available market information and the valuation methodologies described in Note 6 of the consolidated financial statements accompanying the 2008 Annual Report. 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 amounts (dollars in thousands):

| | March 31, 2009 | | December 31, 2008 | |
|---|-----------------------|-------------------------|--------------------------|-------------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Assets: | | | | |
| Fixed maturity securities | \$8,831,920 | \$ 8,831,920 | \$8,531,804 | 8,531,804 |
| Mortgage loans on real estate | 764,038 | 691,745 | 775,050 | 755,383 |
| Policy loans | 1,081,030 | 1,081,030 | 1,096,713 | 1,096,713 |
| Funds withheld at interest | 4,505,054 | 4,390,353 | 4,520,398 | 4,494,716 |
| Short-term investments | 54,552 | 54,552 | 58,123 | 58,123 |
| Other invested assets | 582,784 | 571,401 | 628,649 | 638,087 |
| Cash and cash equivalents | 586,542 | 586,542 | 875,403 | 875,403 |
| Accrued investment income | 118,140 | 118,140 | 87,424 | 87,424 |
| Reinsurance ceded receivables | 118,156 | 48,315 | 115,445 | 11,233 |
| Liabilities: | | | | |
| Interest-sensitive contract liabilities | \$5,580,634 | \$ 5,401,722 | \$5,664,488 | \$ 4,890,669 |
| Long-term and short-term debt | 917,913 | 531,484 | 918,246 | 606,890 |
| Collateral finance facility | 850,019 | 357,000 | 850,035 | 493,000 |
| Company-obligated mandatorily redeemable preferred securities | 159,081 | 174,948 | 159,035 | 186,082 |

Publicly traded fixed maturity securities are valued based upon quoted market prices or estimates from independent pricing services, independent broker quotes and pricing matrices. Private placement fixed maturity securities are valued based on the credit quality and duration of marketable securities deemed comparable by the Company's investment advisor, which may be of another issuer. The fair value of mortgage loans on real estate is estimated using discounted cash flows. Policy loans typically carry an interest rate that is adjusted annually based on a market index and therefore carrying value approximates fair value. The carrying value of funds withheld at interest approximates

fair value except where the funds withheld are specifically identified in the agreement. When funds withheld are specifically identified in the agreement, the fair value is based on the fair value of the underlying assets which are held by the ceding company. The carrying values of cash and cash equivalents and short-term investments approximates fair values due to the short-term maturities of these instruments. Common and preferred equity investments and derivative financial instruments included in other invested assets are reflected at fair value on the consolidated balance sheets based primarily on quoted market prices, while limited partnership interests are carried at cost. The fair value of limited partnerships is based on net asset values. The carrying value for accrued investment income approximates fair value.

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The carrying and fair values of interest-sensitive contract liabilities exclude contracts with significant mortality risk. The fair value of the Company's interest-sensitive contract liabilities and related reinsurance ceded receivables is based on the cash surrender value of the liabilities, adjusted for recapture fees. The fair value of the Company's long-term debt is estimated based on either quoted market prices or quoted market prices for the debt of corporations with similar credit quality. The fair values of the Company's collateral finance facility and company-obligated mandatorily redeemable preferred securities are estimated using discounted cash flows.

Statement of Financial Accounting Standard (SFAS) No. 157, Fair Value Measurements (SFAS 157) defines 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. In accordance with SFAS 157, valuation techniques utilized by management for invested assets and embedded derivatives reported at fair value are generally categorized into three types:

Market Approach. Market approach valuation techniques use prices and other relevant information from market transactions involving identical or comparable assets or liabilities. Valuation techniques consistent with the market approach include comparables and matrix pricing. Comparables use market multiples, which might lie in ranges with a different multiple for each comparable. The selection of where within the range the appropriate multiple falls requires judgment, considering both quantitative and qualitative factors specific to the measurement. Matrix pricing is a mathematical technique used principally to value certain securities without relying exclusively on quoted prices for the specific securities but comparing the securities to benchmark or comparable securities.

Income Approach. Income approach valuation techniques convert future amounts, such as cash flows or earnings, to a single present amount, or a discounted amount. These techniques rely on current expectations of future amounts. Examples of income approach valuation techniques include present value techniques, option-pricing models and binomial or lattice models that incorporate present value techniques.

Cost Approach. Cost approach valuation techniques are based upon the amount that, at present, would be required to replace the service capacity of an asset, or the current replacement cost. That is, from the perspective of a market participant (seller), the price that would be received for the asset is determined based on the cost to a market participant (buyer) to acquire or construct a substitute asset of comparable utility.

The three approaches described within SFAS 157 are consistent with generally accepted valuation methodologies. While all three approaches are not applicable to all assets or liabilities reported at fair value, where appropriate and possible, one or more valuation techniques may be used. The selection of the valuation method(s) to apply considers the definition of an exit price and the nature of the asset or liability being valued and significant expertise and judgment is required. The Company performs regular analysis and review of the various methodologies utilized in determining fair value to ensure that the valuation approaches utilized are appropriate and consistently applied, and that the various assumptions are reasonable. The Company also utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. The Company performs analysis and review of the information and prices received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by the Company's investment and accounting personnel. Examples of procedures performed include, but are not limited to, initial and ongoing review of third party pricing services and methodologies, review of pricing trends and monitoring of recent trade information. In addition, the Company utilizes both internal and external cash flow models to analyze the reasonableness of fair values utilizing credit spread and other market assumptions, where appropriate. As a result of the analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly.

For invested assets reported at fair value, when available, fair values are 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 the market valuation techniques described above, primarily a combination of the market approach, including matrix pricing and the income approach. The assumptions and inputs used by management in applying these methodologies 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.

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The significant inputs to the market standard valuation methodologies for certain types of securities with reasonable levels of price transparency are inputs that are observable in the market or can be derived principally from or corroborated by observable market data. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. When observable inputs are not available, the market standard valuation methodologies 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 consistent with what other market participants would use when pricing such securities.

The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings.

For embedded derivative liabilities associated with the underlying products in reinsurance treaties, primarily equity-indexed and variable annuity treaties, the Company utilizes a market standard method, which includes an estimate of future equity option purchases and an adjustment for the Company's own credit risk that takes into consideration the Company's financial strength rating, also commonly referred to as a claims paying rating. The capital market inputs to the model, such as equity indexes, equity volatility, interest rates and the Company's credit adjustment, are generally observable. However, the valuation models also use inputs requiring certain actuarial assumptions such as future interest margins, policyholder behavior, including future equity participation rates, and explicit risk margins related to non-capital market inputs, that are generally not observable and may require use of significant management judgment. Changes in interest rates, equity indices, equity volatility, the Company's own credit risk, and actuarial assumptions regarding policyholder behavior may result in significant fluctuations in the value of embedded derivatives liabilities associated with equity-indexed annuity reinsurance treaties.

The fair value of embedded derivatives associated with funds withheld reinsurance treaties is determined based upon a total return swap methodology with reference to the fair value of the investments held by the ceding company that support the Company's funds withheld at interest asset. The fair value of the underlying assets is generally based on market observable inputs using market standard valuation methodologies. However, the valuation also requires certain significant inputs based on actuarial assumptions about policyholder behavior, which are generally not observable. For the quarter ended March 31, 2009, the application of valuation methodologies applied to similar assets and liabilities has been consistent.

SFAS 157 also establishes 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. The standard describes three levels of inputs that may be used to measure fair value:

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

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include financial instruments whose

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value is determined using market standard valuation methodologies described above. When observable inputs are not available, the market standard methodologies for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, this category generally includes U.S. and foreign corporate securities (primarily private placements), asset-backed securities (including those with exposure to subprime mortgages), and to a lesser extent, certain residential and commercial mortgage-backed securities, among others. Additionally, the Company's embedded derivatives, all of which are associated with reinsurance treaties, are classified in Level 3 since their values include significant unobservable inputs associated with actuarial assumptions regarding policyholder behavior.

Embedded derivatives are reported with the host instruments on the condensed consolidated balance sheet.

As required by SFAS 157, 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 and liabilities measured at fair value on a recurring basis as of March 31, 2009 and December 31, 2008 are summarized below (*dollars in thousands*).

| | Total | March 31, 2009 Fair Value Measurements Using: | | |
|---|--------------------|--|--------------------|--------------------|
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Fixed maturity securities available-for-sale: | | | | |
| U.S. corporate securities | \$3,102,270 | \$ | \$2,295,713 | \$ 806,557 |
| Canadian and Canadian provincial governments | 1,807,262 | | 1,802,479 | 4,783 |
| Residential mortgage-backed securities | 1,207,289 | | 1,128,362 | 78,927 |
| Foreign corporate securities | 1,148,472 | 1,703 | 871,432 | 275,337 |
| Asset-backed securities | 385,205 | | 137,163 | 248,042 |
| Commercial mortgage-backed securities | 721,992 | | 670,017 | 51,975 |
| U.S. government and agencies securities | 3,771 | 3,718 | 53 | |
| State and political subdivision securities | 34,581 | 5,759 | | 28,822 |
| Other foreign government securities | 421,078 | 85,951 | 247,504 | 87,623 |
| Total fixed maturity securities available-for-sale | 8,831,920 | 97,131 | 7,152,723 | 1,582,066 |
| Funds withheld at interest embedded derivatives | (553,313) | | | (553,313) |
| Short-term investments | 11,863 | | 10,158 | 1,705 |
| Other invested assets equity securities | 126,156 | 75,117 | 33,704 | 17,335 |
| Other invested assets derivatives | 173,086 | | 173,086 | |
| Reinsurance ceded receivable embedded derivatives | 61,544 | | | 61,544 |
| Total | \$8,651,256 | \$172,248 | \$7,369,671 | \$1,109,337 |

Liabilities:

| | | | | |
|--|--------------|----|-------------|--------------|
| Interest sensitive contract liabilities embedded derivatives | \$ (733,864) | \$ | \$ | \$ (733,864) |
| Other liabilities derivatives | (18,940) | | (18,940) | |
| Total | \$ (752,804) | \$ | \$ (18,940) | \$ (733,864) |

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| | December 31, 2008 | | | |
|--|---------------------|--------------------------------|--------------------|---------------------|
| | Total | Fair Value Measurements Using: | | |
| | | Level 1 | Level 2 | Level 3 |
| Assets: | | | | |
| Fixed maturity securities available-for-sale: | | | | |
| U.S. corporate securities | \$3,012,633 | \$ | \$2,196,348 | \$ 816,285 |
| Canadian and Canadian provincial governments | 1,891,239 | | 1,881,274 | 9,965 |
| Residential mortgage-backed securities | 1,149,185 | | 1,118,761 | 30,424 |
| Foreign corporate securities | 973,433 | 1,714 | 795,111 | 176,608 |
| Asset-backed securities | 339,378 | | 107,509 | 231,869 |
| Commercial mortgage-backed securities | 760,590 | | 701,549 | 59,041 |
| U.S. government and agencies securities | 8,431 | 3,072 | 5,359 | |
| State and political subdivision securities | 38,654 | 6,167 | | 32,487 |
| Other foreign government securities | 358,261 | 85,606 | 167,216 | 105,439 |
| Total fixed maturity securities available-for-sale | 8,531,804 | 96,559 | 6,973,127 | 1,462,118 |
| Funds withheld at interest embedded derivatives | (512,888) | | | (512,888) |
| Short-term investments | 570 | | 218 | 352 |
| Other invested assets equity securities | 159,374 | 104,526 | 37,399 | 17,449 |
| Other invested assets derivatives | 206,341 | | 206,341 | |
| Reinsurance ceded receivable embedded derivatives | 66,716 | | | 66,716 |
| Total | \$8,451,917 | \$201,085 | \$7,217,085 | \$1,033,747 |
| Liabilities: | | | | |
| Interest sensitive contract liabilities embedded derivatives | | | | |
| | \$ (807,431) | \$ | \$ | \$ (807,431) |
| Other liabilities derivatives | (10,189) | | (10,189) | |
| Total | \$ (817,620) | \$ | \$ (10,189) | \$ (807,431) |

As of March 31, 2009 and December 31, 2008, respectively, the Company classified approximately 17.9% and 17.1% of its fixed maturity securities in the Level 3 category in accordance with SFAS 157. These securities primarily consist of private placement corporate securities with an inactive trading market. Additionally, the Company has included asset-backed securities with sub-prime exposure in the Level 3 category due to the current market uncertainty associated with these securities and the Company's utilization of information from third parties.

The tables below present reconciliations for all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2009 and 2008 (*dollars in thousands*).

Total Fair Value Measurements for the three months ended March 31, 2009
Total gains/losses

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| | Balance January 1, 2009 | (realized/unrealized) included in: Earnings, net | Other comprehensive income | Purchases, issuances and disposals | Transfers in and/or out of Level 3 | Balance March 31, 2009 |
|--|-------------------------------|---|----------------------------------|---|---|------------------------------|
| Assets: | | | | | | |
| Fixed maturity securities available-for-sale | \$ 1,462,118 | \$ (36,552) | \$ 8,423 | \$ 138,920 | \$ 9,157 | \$ 1,582,066 |
| Funds withheld at interest embedded derivatives | (512,888) | (40,425) | | | | (553,313) |
| Short-term investments | 352 | (566) | 635 | 1,284 | | 1,705 |
| Other invested assets equity securities | 17,449 | (5,771) | 4,393 | 1,078 | 186 | 17,335 |
| Reinsurance ceded receivable embedded derivatives | 66,716 | (1,630) | | (3,542) | | 61,544 |
| Total | \$ 1,033,747 | \$ (84,944) | \$ 13,451 | \$ 137,740 | \$ 9,343 | \$ 1,109,337 |
| Liabilities: | | | | | | |
| Interest sensitive contract liabilities embedded derivatives | \$ (807,431) | \$ 57,805 | \$ | \$ 15,762 | \$ | \$ (733,864) |
| Total | \$ (807,431) | \$ 57,805 | \$ | \$ 15,762 | \$ | \$ (733,864) |

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| Total Fair Value Measurements for the three months ended March 31, 2008 | | | | | | |
|---|---|--------------------|--------------------------------|---|---|---------------------|
| Balance | Total gains/losses (realized/unrealized) included in: | | | Purchases, issuances and disposals | Transfers in and/or out of Level 3 | Balance |
| | January 1, 2008 | Earnings, net | Other comprehensive loss | | | |
| Assets: | | | | | | |
| Fixed maturity securities available-for-sale | \$ 1,500,054 | \$ (7,110) | \$(36,121) | \$ 71,283 | \$(18,940) | \$ 1,509,166 |
| Funds withheld at interest embedded derivatives | (85,090) | (148,528) | | | | (233,618) |
| Other invested assets equity securities | 13,950 | 1 | (479) | 6,730 | | 20,202 |
| Reinsurance ceded receivable embedded derivatives | 68,298 | 6,045 | | 3,873 | | 78,216 |
| Total | \$ 1,497,212 | \$(149,592) | \$(36,600) | \$ 81,886 | \$(18,940) | \$ 1,373,966 |
| Liabilities: | | | | | | |
| Interest sensitive contract liabilities embedded derivatives | \$ (531,160) | \$ (43,678) | \$ | \$(10,734) | \$ | \$ (585,572) |
| Total | \$ (531,160) | \$ (43,678) | \$ | \$(10,734) | \$ | \$ (585,572) |

The tables below summarize gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recorded in earnings for Level 3 assets and liabilities for the three months ended March 31, 2009 and 2008 (*dollars in thousands*).

Total Gains and Losses
Classification of gains/losses (realized/unrealized) included in earnings for the three months ended March 31, 2009

| Investment income, net of related expenses | Investment related gains (losses), net | Claims & other policy benefits | Interest credited | Policy acquisition costs and other insurance expenses | Total |
|--|--|--------------------------------|-------------------|---|-------|
|--|--|--------------------------------|-------------------|---|-------|

Assets:

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| | | | | | | |
|--|----------|------------|-----------|----------|-----------|------------|
| Fixed maturity securities available-for-sale | \$ 1,321 | \$(37,873) | \$ | \$ | \$ | \$(36,552) |
| Funds withheld at interest embedded derivatives | | (40,425) | | | | (40,425) |
| Short-term investments | 7 | (573) | | | | (566) |
| Other invested assets equity securities | (508) | (5,263) | | | | (5,771) |
| Reinsurance ceded receivable embedded derivatives | | | | | (1,630) | (1,630) |
| Total | \$ 820 | \$(84,134) | \$ | \$ | \$(1,630) | \$(84,944) |
| Liabilities: | | | | | | |
| Interest sensitive contract liabilities embedded derivatives | \$ | \$ 35,213 | \$(1,567) | \$24,159 | \$ | \$ 57,805 |
| Total | \$ | \$ 35,213 | \$(1,567) | \$24,159 | \$ | \$ 57,805 |

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| | Total Gains and Losses | | | | | | Total |
|--|---|--|-------------------|---|----------------------|--|---------------------|
| | Classification of gains/losses (realized/unrealized) included in earnings for the three months ended March 31, 2008 | | | | | | |
| | Investment income, net of related expenses | Investment related gains (losses), net | Other revenues | Claims & other policy benefits | Interest credited | Policy acquisition costs and other insurance expenses | |
| Assets: | | | | | | | |
| Fixed maturity securities available-for-sale | \$ (188) | \$ (6,922) | \$ | \$ | \$ | \$ | \$ (7,110) |
| Funds withheld at interest embedded derivatives | | (148,528) | | | | | (148,528) |
| Other invested assets equity securities | 1 | | | | | | 1 |
| Reinsurance ceded receivable embedded derivatives | | | | | | 6,045 | 6,045 |
| Total | \$ (187) | \$ (155,450) | \$ | \$ | \$ | \$ 6,045 | \$ (149,592) |
| Liabilities: | | | | | | | |
| Interest sensitive contract liabilities embedded derivatives | \$ | \$ (6,487) | \$ | \$ 451 | \$ (37,642) | \$ | \$ (43,678) |
| Total | \$ | \$ (6,487) | \$ | \$ 451 | \$ (37,642) | \$ | \$ (43,678) |

The tables below summarize changes in unrealized gains or losses recorded in earnings for the three months ended March 31, 2009 and 2008 for Level 3 assets and liabilities that were still held at March 31, 2009 and 2008 (*dollars in thousands*).

| | Changes in Unrealized Gains and Losses | | | | | | Total |
|--|--|--|---|----------------------|--|--|-------|
| | Changes in unrealized gains/losses relating to assets and liabilities still held at the reporting date for the three months ended March 31, 2009 | | | | | | |
| | Investment income, net of related expenses | Investment related gains (losses), net | Claims & other policy benefits | Interest credited | Policy acquisition costs and other insurance expenses | | |

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Assets:

| | | | | | | |
|---|---------|------------|----|----|--------|------------|
| Fixed maturity securities available-for-sale | \$1,338 | \$(34,394) | \$ | \$ | \$ | \$(33,056) |
| Funds withheld at interest embedded derivatives | | (40,425) | | | | (40,425) |
| Short-term investments | 7 | (408) | | | | (401) |
| Other invested assets equity securities | (508) | (4,283) | | | | (4,791) |
| Reinsurance ceded receivable embedded derivatives | | | | | 492 | 492 |
| Total | \$ 837 | \$(79,510) | \$ | \$ | \$ 492 | \$(78,181) |

Liabilities:

| | | | | | | |
|--|----|-----------|-----------|----------|----|-----------|
| Interest sensitive contract liabilities embedded derivatives | \$ | \$ 35,213 | \$(3,329) | \$16,413 | \$ | \$ 48,297 |
| Total | \$ | \$ 35,213 | \$(3,329) | \$16,413 | \$ | \$ 48,297 |

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Changes in Unrealized Gains and Losses
Changes in unrealized gains/losses relating to assets and liabilities still held at the reporting
date for the three
months ended March 31, 2008

| | Investment income, net of related expenses | Investment related gains (losses), net | Other revenues | Claims & Other policy benefits | Interest credited | Policy acquisition costs and other insurance expenses | Total |
|--|--|---|-------------------|--|----------------------|--|--------------------|
| Assets: | | | | | | | |
| Fixed maturity securities available-for-sale | \$(198) | \$ (1,979) | \$ | \$ | \$ | \$ | \$ (2,177) |
| Funds withheld at interest embedded derivatives | | (148,528) | | | | | (148,528) |
| Other invested assets equity securities | 1 | | | | | | 1 |
| Reinsurance ceded receivable embedded derivatives | | | | | | 7,811 | 7,811 |
| Total | \$(197) | \$(150,507) | \$ | \$ | \$ | \$7,811 | \$(142,893) |
| Liabilities: | | | | | | | |
| Interest sensitive contract liabilities embedded derivatives | \$ | \$ (6,487) | \$ | \$71 | \$(53,245) | \$ | \$ (59,661) |
| Total | \$ | \$ (6,487) | \$ | \$71 | \$(53,245) | \$ | \$ (59,661) |

5. Derivative Instruments

The following table presents the notional amounts and fair value of derivative instruments (dollars in thousands):

| | March 31, 2009 | | | December 31, 2008 | | |
|--|--------------------|-------------------------------|-------------|--------------------|-------------------------------|-------------|
| | Notional Amount | Carrying Value/ Fair Value | | Notional Amount | Carrying Value/ Fair Value | |
| | | Assets | Liabilities | | Assets | Liabilities |

**Derivatives not
designated as hedging
instruments:**

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| | | | | | | |
|--|---------------------|-------------------|---------------------|---------------------|-------------------|---------------------|
| Interest rate swaps ⁽¹⁾ | \$ 905,116 | \$ 116,097 | \$ 4,349 | \$ 672,716 | \$ 155,189 | \$ 241 |
| Financial futures ⁽¹⁾ | 243,131 | | | 260,568 | | |
| Foreign currency forwards ⁽¹⁾ | 31,300 | 71 | | 31,300 | 2,209 | |
| Consumer price index (CPI) swaps | 110,140 | 321 | | | | |
| Credit default swaps ⁽¹⁾ | 290,000 | | 12,831 | 290,000 | | 7,705 |
| Embedded derivatives in: | | | | | | |
| Modified coinsurance or funds withheld arrangements ⁽²⁾ | | | 553,313 | | | 512,888 |
| Indexed annuity products ⁽³⁾ | | 61,544 | 492,632 | | 66,716 | 530,986 |
| Variable annuity products ⁽³⁾ | | | 241,232 | | | 276,445 |
| Total non-hedging derivatives | \$ 1,579,687 | \$ 178,033 | \$ 1,304,357 | \$ 1,254,584 | \$ 224,114 | \$ 1,328,265 |
| Derivatives designated as hedging instruments: | | | | | | |
| Interest rate swaps ⁽¹⁾ | \$ 21,783 | \$ | \$ 1,760 | \$ 21,783 | \$ | \$ 2,243 |
| Foreign currency swaps ⁽¹⁾ | 296,497 | 56,597 | | 296,497 | 48,943 | |
| Total hedging derivatives | \$ 318,280 | \$ 56,597 | \$ 1,760 | \$ 318,280 | \$ 48,943 | \$ 2,243 |
| Total derivatives | \$ 1,897,967 | \$ 234,630 | \$ 1,306,117 | \$ 1,572,864 | \$ 273,057 | \$ 1,330,508 |

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- (1) Carried on the Company's consolidated balance sheets in other invested assets or as liabilities within other liabilities, at fair value.
- (2) Embedded is included on the consolidated balance sheets with the host contract in funds withheld at interest, at fair value.
- (3) Embedded liability is included on the consolidated balance sheets with the host contract in interest-sensitive contract liabilities, at fair value. Embedded asset is included on the consolidated balance sheets in reinsurance ceded receivables.

Accounting for Derivative Instruments and Hedging Activities

As of March 31, 2009 and December 31, 2008, the Company held interest rate swaps that were designated and qualified as a fair value hedge of interest rate risk. As of March 31, 2009 and December 31, 2008, the Company held foreign currency swaps that were designated and qualified as a hedge of a portion of its net investment in its Canada operation. As of March 31, 2009 and December 31, 2008, the Company also had derivative instruments that were not designated as hedging instruments. See Note 2 Summary of Significant Accounting Policies of the Company's 2008 annual report on Form 10-K for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. The Company does not enter into derivative instruments for speculative purposes. Derivative instruments are carried at fair value and generally require an insignificant amount of cash at inception of the contract.

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 have met the requirements of SFAS 133. The gain or loss on the hedged item attributable to the hedged benchmark interest rate and the offsetting gain or loss on the related interest rate swaps for the three months ended March 31, 2009 were (dollars in thousands):

| Type of Fair Value Hedge | Derivative Gain (loss) Location | Hedge Gain (Loss) Recognized | Hedged Item Gain (Loss) Item | Hedged Item Gain (Loss) Location | Hedged Item Gain (Loss) Recognized |
|--------------------------------|--|---------------------------------------|--|--|---|
| Interest rate swaps | Investment related gains (losses), net | \$ 483 | Fixed rate fixed maturity securities | Investment related gains (losses), net | \$ (521) |

The Company's investment related gains (losses), net representing the ineffective portion of all fair value hedges was immaterial for the three months ended March 31, 2009. The Company had no fair value hedges for the three months ended March 31, 2008.

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

Hedges of Net Investments in Foreign Operations

The Company uses foreign currency swaps to hedge a portion of its net investment in its Canadian operation against adverse movements in exchange rates. A summary of the Company's net investments in foreign operations (NIFO) hedges on our financial statements for the three months ended March 31, 2009 were (dollars in thousands):

| Type of NIFO Hedge | Derivative Gain (Loss) in OCI | Effective Portion Location of Gain (Loss) Reclassified From Accumulated OCI | Gain (Loss) Reclassified from accumulated OCI into income | Ineffective Portion Income Statement Location of Gain (Loss) | Ineffective Gain (Loss) in Income |
|------------------------------|-------------------------------------|---|--|---|--------------------------------------|
| Foreign currency swaps | \$56,751 | None | \$ | Investment income | \$ |

The Company measures ineffectiveness on the foreign currency swaps based upon the change in forward rates. There was no ineffectiveness recorded in the periods presented herein.

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The Company's other comprehensive income for the three months ended March 31, 2009 and 2008, include gains of \$8.2 million and \$6.4 million, respectively, related to foreign currency swaps used to hedge its net investment in its Canada operation. The cumulative foreign currency translation gain recorded in accumulated other comprehensive income related to these hedges was \$56.8 million and \$48.6 million at March 31, 2009 and December 31, 2008, respectively. When net investments in foreign operations are sold or substantially liquidated, the amounts in accumulated other comprehensive income are reclassified to the consolidated statements of income. A pro rata portion will be reclassified upon partial sale of the net investments in foreign operations.

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, including derivatives used to economically hedge changes in the fair value of liabilities associated with the reinsurance of variable annuities with guaranteed living benefits. The gain or loss related to the change in fair value for these derivative instruments is recognized in investment related gains (losses), in the consolidated statements of income, except where otherwise noted. For the three months ended March 31, 2009 and 2008, the Company recognized as investment related losses, net, excluding embedded derivatives, changes in fair value of \$20.2 million and \$0.2 million, respectively, related to derivatives that do not qualify for hedge accounting.

Interest Rate Swaps

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). In 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 entered into 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.

Financial Futures

Exchange-traded equity futures are used primarily to economically hedge liabilities embedded in certain variable annuity products assumed by the Company. In exchange-traded equity futures transactions, the Company agrees to purchase or sell a specified number of contracts, the value of which is determined by the different stock indices, and to post variation margin on a daily basis in an amount equal to the difference in the daily estimated fair values of those contracts. The Company enters into exchange-traded equity futures with regulated futures commission merchants that are members of the exchange.

Foreign Currency Swaps

Foreign currency swaps are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. In a foreign currency swap transaction, the Company agrees with another party to exchange, at specified intervals, the difference between one currency and another at a forward exchange rate calculated by reference to an agreed upon principal amount. The principal amount of each currency is exchanged at the inception and termination of the currency swap by each party. The Company also uses foreign currency swaps to hedge the foreign currency risk associated with certain of its net investments in foreign operations.

Foreign Currency Forwards

Foreign currency forwards are used by the Company to reduce the risk from fluctuations in foreign currency exchange rates associated with its assets and liabilities denominated in foreign currencies. In a foreign currency forward transaction, the Company agrees with another party to deliver a specified amount of an identified currency at a specified future date. The price is agreed upon at the time of the contract and payment for such a contract is made in a different currency at the specified future date.

CPI Swaps

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. In a CPI swap transaction, the Company agrees with another party to exchange the actual

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amount of inflation realized over a specified period of time for a fixed amount of inflation determined at inception. These transactions are entered into 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.

Credit Default Swaps

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

Embedded Derivatives

The Company has certain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. These host contracts include reinsurance treaties structured on a modified coinsurance or funds withheld basis. Additionally, the Company reinsures equity-indexed annuity and variable annuity contracts with benefits that are considered embedded derivatives, including guaranteed minimum withdrawal benefits, guaranteed minimum accumulation benefits, and guaranteed minimum income benefits. The amounts related to embedded derivatives in modified coinsurance or funds withheld arrangements and variable annuity contracts included in investment related gains (losses), during the three months ended March 31, 2009 and 2008 were losses of \$(5.2) million, \$(154.8) million, respectively. After the associated amortization of DAC and taxes, the related amounts included in net income during the three months ended March 31, 2009 and 2008 were losses of \$(27.1) million and \$(20.0) million, respectively. The amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses during the three months ended March 31, 2009 and 2008 were gains (losses) of \$21.7 million and \$(14.0) million, respectively. After the associated amortization of DAC and taxes, the related amounts included in net income during the three months ended March 31, 2009 and 2008 were gains of \$11.2 million and \$6.2 million, respectively.

A summary of the effect of non-hedging derivatives, including embedded derivatives, on our income statement for the three months ended March 31, 2009 is as follows (dollars in thousands):

| Type of Non-hedging Derivative | Income Statement Location of Gain (Loss) | Gain (Loss) |
|---|---|-------------|
| Interest rate swaps | Investment related gains (losses), net | \$(38,864) |
| Financial futures | Investment related gains (losses), net | 22,311 |
| Foreign currency forwards | Investment related gains (losses), net | (2,042) |
| CPI swaps | Investment related gains (losses), net | 310 |
| Credit default swaps | Investment related gains (losses), net | (1,911) |
| Embedded derivatives in: | | |
| Modified coinsurance or funds withheld arrangements | Investment related gains (losses), net | (40,425) |
| | Policy acquisition costs and other insurance expenses | (2,657) |
| Indexed annuity products | Interest credited | 24,353 |
| Variable annuity products | Investment related gains (losses), net | 35,213 |
| Total non-hedging derivatives | | \$ (3,712) |

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.

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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. Because exchange-traded futures are affected through regulated exchanges, and positions are marked to market on a daily basis, the Company has minimal exposure to credit-related losses in the event of nonperformance by counterparties to such derivative instruments.

The Company enters into various collateral arrangements, which require both the posting and accepting of collateral in connection with its derivative instruments. As of March 31, 2009, and December 31, 2008, the Company held cash collateral under its control of \$106.8 million and \$159.8 million, respectively. This unrestricted cash collateral is included in cash and cash equivalents and the obligation to return it is included in other liabilities in the consolidated balance sheets. From time to time, the Company has accepted collateral consisting of various securities, however there were no securities held as collateral as of March 31, 2009, and December 31, 2008. Collateral agreements contain attachment thresholds that vary depending on the posting party's financial strength ratings. As of March 31, 2009, the Company had no collateral posting requirements associated with \$18.9 million of derivative liabilities.

In addition, the Company has exchange-traded futures, which require the maintenance of a margin account. As of March 31, 2009 and December 31, 2008, the Company's margin account balances were \$30.8 and \$25.9 million, respectively, which is included in cash and cash equivalents.

6. Investment Related Gains and Losses

Investment related gains and losses consisted of the following (*dollars in thousands*):

| | Three months ended | |
|--|---------------------------|---------------------------|
| | March 31, 2009 | March 31, 2008 |
| Fixed maturities and equity securities available-for-sale: | | |
| Gain on investment activity | \$ 12,230 | \$ 10,080 |
| Loss on investment activity | (19,649) | (5,360) |
| Impairments | (39,825) | (5,150) |
| Derivatives and other, net | (25,018) | (154,830) |
| Net losses | \$(72,262) | \$(155,260) |

The increase in impairments in 2009 is due to the continued turmoil in the U.S. and global financial markets which has resulted in bankruptcies, consolidations and government interventions. The decrease in derivative losses is primarily due to a decline in the fair value of embedded derivatives associated with modified coinsurance and funds withheld treaties.

The Company monitors its investment securities to determine impairments in value and evaluates factors such as financial condition of the issuer, payment performance, the length of time and the extent to which the market value has been below amortized cost, compliance with covenants, general market conditions and industry sector, current intent and ability to hold securities and various other subjective factors. Based on management's judgment, securities determined to have an other-than-temporary impairment in value are written down to fair value. See Note 2 – Summary of Significant Accounting Policies in the Notes to Consolidated Financial Statements of the 2008 Annual Report for additional information on the Company's policy regarding other-than-temporary impairments.

7. Segment Information

The accounting policies of the segments are the same as those described in the Summary of Significant Accounting Policies in Note 2 of the consolidated financial statements accompanying the 2008 Annual Report. Effective January 1, 2009, due to immateriality, the discontinued accident and health operations are included in the results of the Corporate and Other segment. The Company measures segment performance primarily based on profit or loss from operations before income taxes. There are no intersegment reinsurance transactions and the Company does not have

any material long-lived assets. Investment income is allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes.

The Company allocates capital to its segments based on an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model considers the unique and specific nature of the risks inherent in the Company's businesses. As a

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result of the economic capital allocation process, a portion of investment income and investment related gains and losses are credited to the segments based on the level of allocated equity. In addition, the segments are charged for excess capital utilized above the allocated economic capital basis. This charge is included in policy acquisition costs and other insurance expenses.

Information related to total revenues, income (loss) from continuing operations before income taxes, and total assets of the Company for each reportable segment are summarized below (*dollars in thousands*).

| | Total revenues | | Income (loss) from continuing operations before income taxes | |
|-----------------------|-----------------------------------|-------------|--|-----------|
| | | | Three months ended March 31, | |
| | Three months ended March 31, 2009 | 2008 | 2009 | 2008 |
| U.S. | \$ 902,276 | \$ 711,794 | \$ 12,849 | \$ 15,285 |
| Canada | 169,804 | 170,953 | 16,186 | 23,671 |
| Europe & South Africa | 180,687 | 197,552 | 8,535 | 6,043 |
| Asia Pacific | 262,587 | 255,415 | 3,573 | 18,563 |
| Corporate and Other | 15,486 | 24,553 | (6,937) | (6,874) |
| Total | \$1,530,840 | \$1,360,267 | \$34,206 | \$56,688 |

| Total assets | March 31, 2009 | December 31, |
|-----------------------|----------------|---------------|
| | | 2008 |
| U.S. | \$ 15,030,739 | \$ 15,061,753 |
| Canada | 2,464,024 | 2,710,187 |
| Europe & South Africa | 1,086,888 | 1,134,990 |
| Asia Pacific | 1,642,864 | 1,413,611 |
| Corporate and Other | 1,409,799 | 1,338,277 |
| Total | \$21,634,314 | \$ 21,658,818 |

8. Commitments and Contingent Liabilities

The Company has commitments to fund investments in limited partnerships in the amount of \$109.9 million at March 31, 2009. The Company anticipates that the majority of these amounts will be invested over the next five years; however, contractually these commitments could become due at the request of the counterparties. Investments in limited partnerships are carried at cost and included in other invested assets in the condensed consolidated balance sheets.

The Company is subject to litigation in the normal course of its business. The Company currently has no material litigation. However, if such material litigation did arise, it is possible that an adverse outcome on any particular arbitration or litigation situation could have a material adverse effect on the Company's consolidated financial position and/or net income in a particular reporting period.

The Company has obtained letters of credit, issued by banks, in favor of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits. At March 31, 2009 and December 31, 2008, there were approximately \$26.5 million and \$26.6 million, respectively, of outstanding bank letters of credit in favor of third parties. Additionally, the Company utilizes letters of credit to secure reserve credits

when it retrocedes business to its offshore subsidiaries, including RGA Americas Reinsurance Company, Ltd., RGA Reinsurance Company (Barbados) Ltd. and RGA Atlantic Reinsurance Company, Ltd. The Company cedes business to its offshore affiliates to help reduce the amount of regulatory capital required in certain jurisdictions, such as the U.S. and the United Kingdom. The capital required to support the business in the offshore affiliates reflects more realistic expectations than the original jurisdiction of the business, where capital requirements are often considered to be quite conservative. As of March 31, 2009 and December 31, 2008, \$388.3 million and \$428.8 million, respectively, in letters of credit from various banks were outstanding between the various subsidiaries of the Company. The Company maintains a syndicated revolving credit facility with an overall capacity of \$750.0 million, which is scheduled to mature in March 2012. The Company may borrow cash and may obtain letters of credit in multiple currencies under this facility. As of March 31, 2009, the Company had \$349.7 million in issued, but undrawn, letters of credit under this facility, which is included in the total above. Applicable

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letter of credit fees and fees payable for the credit facility depend upon the Company's senior unsecured long-term debt rating. Fees associated with the Company's other letters of credit are not fixed for periods in excess of one year and are based on the Company's ratings and the general availability of these instruments in the marketplace.

RGA has issued guarantees to third parties on behalf of its subsidiaries' performance for the payment of amounts due under certain credit facilities, reinsurance treaties and office lease obligations, whereby if a subsidiary fails to meet an obligation, RGA or one of its other subsidiaries will make a payment to fulfill the obligation. In limited circumstances, treaty guarantees are granted to ceding companies in order to provide them additional security, particularly in cases where RGA's subsidiary is relatively new, unrated, or not of a significant size. Liabilities supported by the treaty guarantees, before consideration for any legally offsetting amounts due from the guaranteed party, totaled \$280.8 million and \$273.6 million as of March 31, 2009 and December 31, 2008, respectively, and are reflected on the Company's condensed consolidated balance sheets in future policy benefits. Potential guaranteed amounts of future payments will vary depending on production levels and underwriting results. Guarantees related to trust preferred securities and credit facilities provide additional security to third parties should a subsidiary fail to make principal and/or interest payments when due. As of March 31, 2009, RGA's exposure related to these guarantees was \$159.1 million.

In addition, the Company indemnifies its directors and officers as provided in its charters and by-laws. Since this indemnity generally is not subject to limitation with respect to duration or amount, the Company does not believe that it is possible to determine the maximum potential amount due under this indemnity in the future.

9. Employee Benefit Plans

The components of net periodic benefit costs were as follows (*dollars in thousands*):

| | Three months ended March 31, | | | |
|--|-------------------------------------|-------------|-----------------------|-------------|
| | Pension Benefits | | Other Benefits | |
| | 2009 | 2008 | 2009 | 2008 |
| Determination of net periodic benefit cost: | | | | |
| Service cost | \$ 912 | \$ 819 | \$ 158 | \$ 158 |
| Interest cost | 745 | 586 | 159 | 145 |
| Expected rate of return on plan assets | (547) | (469) | | |
| Amortization of prior service cost | 7 | 7 | | |
| Amortization of prior actuarial loss | 125 | 72 | 23 | 35 |
| Net periodic benefit cost | \$1,242 | \$1,015 | \$340 | \$338 |

The Company made pension contributions of \$4.0 million during the first quarter of 2009 and expects to make total contributions of \$4.6 million in 2009.

10. Equity Based Compensation

Equity compensation expense was \$3.5 million and \$5.4 million in the first quarter of 2009 and 2008, respectively. In the first quarter of 2009, the Company granted 0.7 million stock options at \$32.20 weighted average per share and 0.3 million performance contingent units to employees. Additionally, non-employee directors were granted a total of 7,600 shares of common stock. As of March 31, 2009, 1.9 million share options at \$34.82 weighted average per share vested and exercisable with a remaining weighted average exercise period of 3.8 years. As of March 31, 2009, the total compensation cost of non-vested awards not yet recognized in the financial statements was \$24.9 million. It is estimated that these costs will vest over a weighted average period of 2.0 years.

11. New Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 expands existing disclosures regarding fair value of financial instruments required in annual reports to interim periods. The disclosures required by FSP FAS 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 107-1 and APB 28-1 on its

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In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly*, (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 is effective prospectively for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 157-4 on its condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 115-2 and FAS 124-2 on its condensed consolidated financial statements.

In January 2009, the FASB issued FSP Emerging Issues Task Force (EITF) Issue 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20* (EITF 99-20-1). EITF 99-20-1 provides guidance on determining other-than-temporary impairments on securities subject to EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*. The primary effect of EITF 99-20-1 was to remove the requirement that a holder attempt to determine the underlying cash flows on an asset-backed security based on the assumptions that a market participant would make in determining the current fair value of the instrument. Instead, the focus has been placed on determining the estimated cash flows as determined by the holder for all sources including its own comprehensive credit analysis. The provisions of EITF 99-20-1 were required to be applied prospectively for interim periods and fiscal years ending after December 15, 2008. The Company's adoption of EITF 99-20-1 did not have a significant impact on how the Company values its structured investment securities.

In December 2008, the FASB issued FSP No. FAS 132(r)-1, *Employers Disclosures about Postretirement Benefit Plan Assets* (FSP 132(r)-1). FSP 132(r)-1 provides guidance for disclosure of the types of assets and associated risks in retirement plans. The new disclosures are designed to provide additional insight into the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period, significant concentrations of risk within plan assets and how investment decisions are made, including factors necessary to understanding investment policies and strategies. The disclosures about plan assets required by FSP 132(r)-1 is effective for financial statements with fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of FSP 132(r)-1 on its condensed consolidated financial statements.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* (FSP 157-3). FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance on October 10, 2008, including prior periods for which financial statements had not been issued. The Company did not consider it necessary to change any valuation techniques as a result of FSP 157-3. The Company also adopted FSP No. FAS 157-2,

Effective Date of FASB Statement No. 157 (FSP 157-2) which delayed the effective date of SFAS 157 for certain nonfinancial assets and liabilities that are recorded at fair value on a nonrecurring basis. The effective date was delayed until January 1, 2009 and impacts balance sheet items including nonfinancial assets and liabilities in a business combination and the impairment testing of goodwill and long-lived assets. The adoption of FSP 157-2 did not have a material impact on the Company's condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* An Amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after

November 15, 2008. The Company adopted SFAS 161 in the first quarter of 2009.

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In February 2008, the FASB issued FSP No. FAS 140-3, Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP 140-3). FSP 140-3 provides guidance for evaluating whether to account for a transfer of a financial asset and repurchase financing as a single transaction or as two separate transactions. FSP 140-3 is effective prospectively for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of FSP 140-3 did not have a material impact on the Company's condensed consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations A Replacement of FASB Statement No. 141 (SFAS 141(r)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements An Amendment of ARB No. 51 (SFAS 160). SFAS 141(r) establishes principles and requirements for how an acquirer recognizes and measures certain items in a business combination, as well as disclosures about the nature and financial effects of a business combination. SFAS 160 establishes accounting and reporting standards surrounding noncontrolling interest, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. The pronouncements are effective for fiscal years beginning on or after December 15, 2008 and apply prospectively to business combinations. Presentation and disclosure requirements related to noncontrolling interests must be retrospectively applied. The adoption of SFAS 141(r) and SFAS 160 did not have a material impact on the Company's condensed consolidated financial statements.

12. Subsequent Event

On April 29, 2009, the Company repurchased \$80.2 million face amount of its 6.75% junior subordinated debentures for \$39.2 million. The Company will record a pretax gain of \$40.2 million, after fees, for the period ended June 30, 2009.

Table of Contents**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Forward-Looking and Cautionary Statements**

This report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, among others, statements relating to projections of the strategies, earnings, revenues, income or loss, ratios, future financial performance, and growth potential of the Company. The words intend, expect, project, estimate, predict, anticipate, should, believe, and other similar expressions also are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements.

Numerous important factors could cause actual results and events to differ materially from those expressed or implied by forward-looking statements including, without limitation, (1) adverse capital and credit market conditions and their impact on the Company's liquidity, access to capital and cost of capital, (2) the impairment of other financial institutions and its effect on the Company's business, (3) requirements to post collateral or make payments due to declines in market value of assets subject to the Company's collateral arrangements, (4) the fact that the determination of allowances and impairments taken on the Company's investments is highly subjective, (5) adverse changes in mortality, morbidity, lapsation or claims experience, (6) changes in the Company's financial strength and credit ratings and the effect of such changes on the Company's future results of operations and financial condition, (7) inadequate risk analysis and underwriting, (8) general economic conditions or a prolonged economic downturn affecting the demand for insurance and reinsurance in the Company's current and planned markets, (9) the availability and cost of collateral necessary for regulatory reserves and capital, (10) market or economic conditions that adversely affect the value of the Company's investment securities or result in the impairment of all or a portion of the value of certain of the Company's investment securities, that in turn could affect regulatory capital, (11) market or economic conditions that adversely affect the Company's ability to make timely sales of investment securities, (12) risks inherent in the Company's risk management and investment strategy, including changes in investment portfolio yields due to interest rate or credit quality changes, (13) fluctuations in U.S. or foreign currency exchange rates, interest rates, or securities and real estate markets, (14) adverse litigation or arbitration results, (15) the adequacy of reserves, resources and accurate information relating to settlements, awards and terminated and discontinued lines of business, (16) the stability of and actions by governments and economies in the markets in which the Company operates, (17) competitive factors and competitors' responses to the Company's initiatives, (18) the success of the Company's clients, (19) successful execution of the Company's entry into new markets, (20) successful development and introduction of new products and distribution opportunities, (21) the Company's ability to successfully integrate and operate reinsurance business that the Company acquires, (22) regulatory action that may be taken by state Departments of Insurance with respect to the Company, (23) the Company's dependence on third parties, including those insurance companies and reinsurers to which the Company cedes some reinsurance, third-party investment managers and others, (24) the threat of natural disasters, catastrophes, terrorist attacks, epidemics or pandemics anywhere in the world where the Company or its clients do business, (25) changes in laws, regulations, and accounting standards applicable to the Company, its subsidiaries, or its business, (26) the effect of the Company's status as an insurance holding company and regulatory restrictions on its ability to pay principal of and interest on its debt obligations, and (27) other risks and uncertainties described in this document and in the Company's other filings with the Securities and Exchange Commission (SEC).

Forward-looking statements should be evaluated together with the many risks and uncertainties that affect the Company's business, including those mentioned in this document and the cautionary statements described in the periodic reports the Company files with the SEC. These forward-looking statements speak only as of the date on which they are made. The Company does not undertake any obligations to update these forward-looking statements, even though the Company's situation may change in the future. The Company qualifies all of its forward-looking statements by these cautionary statements. For a discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in the forward-looking statements, you are advised to see Item 1A Risk Factors in the 2008 Annual Report.

Table of Contents**Overview**

Reinsurance Group of America, Incorporated (RGA) is an insurance holding company that was formed on December 31, 1992. RGA and its subsidiaries (collectively, the Company) are primarily engaged in the life reinsurance business, which involves reinsuring life insurance policies that are often in force for the remaining lifetime of the underlying individuals insured, with premiums earned typically over a period of 10 to 30 years. Each year, however, a portion of the business under existing treaties terminates due to, among other things, lapses or surrenders of underlying policies, deaths of policyholders, and the exercise of recapture options by ceding companies. The Company derives revenues primarily from renewal premiums from existing reinsurance treaties, new business premiums from existing or new reinsurance treaties, income earned on invested assets, and fees earned from financial reinsurance transactions. The Company believes that industry trends have not changed materially from those discussed in its 2008 Annual Report.

The Company s profitability primarily depends on the volume and amount of death claims incurred and its ability to adequately price the risks it assumes. While death claims are reasonably predictable over a period of years, claims become less predictable over shorter periods and are subject to significant fluctuation from quarter to quarter and year to year. The maximum amount of coverage the Company retains per life is \$8.0 million. Claims in excess of this retention amount are retroceded to retrocessionaires; however, the Company remains fully liable to the ceding company for the entire amount of risk it assumes. The Company believes its sources of liquidity are sufficient to cover potential claims payments on both a short-term and long-term basis.

The Company measures performance based on income or loss from continuing operations before income taxes for each of its five segments. The Company s U.S., Canada, Europe & South Africa and Asia Pacific operations provide traditional life reinsurance to clients. The Company s U.S. operations also provide asset-intensive and financial reinsurance products. The Company also provides insurers with critical illness reinsurance in its Canada, Europe & South Africa and Asia Pacific operations. Asia Pacific operations also provide financial reinsurance. The Corporate and Other segment results include the corporate investment activity, general corporate expenses, interest expense of RGA, operations of RGA Technology Partners, Inc., a wholly-owned subsidiary that develops and markets technology solutions for the insurance industry, Argentine privatized pension business in run-off, investment income and expense associated with the Company s collateral finance facility and the provision for income taxes. Effective January 1, 2009, due to immateriality, the discontinued accident and health operations are included in the results of the Corporate and Other segment. Prior to 2009, the results of the Company s discontinued accident and health operations were reflected as discontinued operations.

The Company allocates capital to its segments based on an internally developed risk capital model, the purpose of which is to measure the risk in the business and to provide a basis upon which capital is deployed. The economic capital model considers the unique and specific nature of the risks inherent in RGA s businesses. As a result of the economic capital allocation process, a portion of investment income and investment related gains and losses are credited to the segments based on the level of allocated equity. In addition, the segments are charged for excess capital utilized above the allocated economic capital basis. This charge is included in policy acquisition costs and other insurance expenses.

Results of Operations

Consolidated income from continuing operations before income taxes decreased \$22.5 million, or 39.7%, in the first quarter of 2009, as compared to the same period in 2008. The decrease in the first quarter reflects an increase in investment related losses due to the recognition of investment impairments, adverse mortality experience and unfavorable foreign currency fluctuations. Offsetting these negative income items were increases in investment income, U.S. segment net premiums and a slight decrease in the unrealized loss due to unfavorable changes in the value of embedded derivatives within the U.S. segment. Foreign currency exchange fluctuations resulted in a decrease to income from continuing operations before income taxes of approximately \$13.6 million for the first quarter of 2009 compared to 2008.

The Company recognizes unrealized gains and losses due to changes in value of embedded derivatives on modified coinsurance or funds withheld treaties, equity-indexed annuity treaties (EIAs) and variable annuity products. The change in the value of embedded derivatives related to reinsurance treaties written on a modified coinsurance or

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funds withheld basis are subject to the provisions of Statement of Financial Accounting Standards (SFAS) No. 133 Implementation Issue No. B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments (Issue B36). The unrealized gains and losses associated with Issue B36, after adjustment for deferred acquisition costs, had a favorable effect on income of \$31.9 million in the first quarter of 2009 as compared to the first quarter of 2008. Changes in risk free rates used in the present value calculations of embedded derivatives associated with EIAs affect the amount of unrealized gains and losses the Company recognizes. The unrealized gains and losses associated with EIAs, after adjustment for deferred acquisition costs and retrocession, had a favorable effect on income of \$16.5 million in the first quarter of 2009 as compared to the first quarter of 2008. The change in the Company's liability for variable annuities associated with guaranteed minimum living benefits affect the amount of unrealized gains and losses the Company recognizes. The unrealized gains and losses associated with guaranteed minimum living benefits, after adjustment for deferred acquisition costs, had an unfavorable effect on income of \$42.8 million in the first quarter of 2009 as compared to the first quarter of 2008.

The combined changes in these three types of embedded derivatives, after adjustment for deferred acquisition costs and retrocession, resulted in an increase in consolidated income from continuing operations before income taxes of approximately \$5.6 million in the first quarter of 2009 as compared to the first quarter of 2008. These fluctuations do not affect current cash flows, crediting rates or spread performance on the underlying treaties. Therefore, Company management believes it is helpful to distinguish between the effects of changes in these embedded derivatives and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income, and interest credited.

Consolidated net premiums increased \$48.0 million, or 3.7%, for the three months ended March 31, 2009, as compared to the same period in 2008, due to growth in life reinsurance in force in the U.S. segment. Foreign currency fluctuations unfavorably affected net premiums by approximately \$144.7 million for the first quarter of 2009 compared to 2008. Consolidated assumed insurance in force decreased slightly to \$2.1 trillion as of March 31, 2009 from \$2.2 trillion as of March 31, 2008 due to unfavorable currency fluctuations. The Company added new business production, measured by face amount of insurance in force, of \$85.2 billion and \$76.4 billion during the first quarter of 2009 and 2008, respectively. Management believes industry consolidation, reduced capital levels in the life insurance industry and the established practice of reinsuring mortality risks should continue to provide opportunities for growth, albeit at rates less than historically experienced.

Consolidated investment income, net of related expenses, increased \$23.7 million, or 11.9%, for the three months ended March 31, 2009, as compared to the same period in 2008, primarily due to market value changes related to the Company's funds withheld at interest investment related to the reinsurance of certain equity-indexed annuity products, which are substantially offset by a corresponding change in interest credited to policyholder account balances resulting in a negligible effect on net income. The first quarter increase in investment income also reflects a larger average invested asset base offset by a lower effective investment portfolio yield. Average invested assets at amortized cost for the first quarter of 2009 totaled \$12.8 billion, a 10.7% increase over March 31, 2008. The average yield earned on investments, excluding funds withheld, was 5.57% in the first quarter of 2009 and 6.06% for the first quarter of 2008. The average yield will vary from quarter to quarter and year to year depending on a number of variables, including the prevailing interest rate and credit spread environment, changes in the mix of the underlying investments and cash balances, and the timing of dividends and distributions on certain investments.

Investment related losses, net decreased \$83.0 million, or 53.5%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease in the first quarter is due to a reduced net loss on the embedded derivatives related to Issue B36 and guaranteed minimum living benefits of \$149.6 million offset by an increase in investment impairments of \$35.1 million and net hedging losses related to the liabilities associated with guaranteed minimum living benefits of \$18.8 million. See the discussion of Investments in the Liquidity and Capital Resources section of Management's Discussion and Analysis for additional information on the impairment losses. Investment income and investment related gains and losses are allocated to the operating segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes.

The effective tax rate on a consolidated basis was 31.9% and 35.5% for the first quarter of 2009 and 2008, respectively. These effective tax rates were affected by the ongoing application of FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 and by the

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earnings of non-U.S. subsidiaries in which the Company is permanently reinvested whose statutory tax rates are less than the U.S. statutory tax rate.

Critical Accounting Policies

The Company's accounting policies are described in the Summary of Significant Accounting Policies in Note 2 of the consolidated financial statements accompanying the 2008 Annual Report. The Company believes its most critical accounting policies include the capitalization and amortization of deferred acquisition costs (DAC); the establishment of liabilities for future policy benefits, other policy claims and benefits, including incurred but not reported claims; the valuation of fixed maturity investments, embedded derivatives and investment impairments, if any; accounting for income taxes; and the establishment of arbitration or litigation reserves. The balances of these accounts require extensive use of assumptions and estimates, particularly related to the future performance of the underlying business. Additionally, for each of the Company's reinsurance contracts, it must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that the possibility of a significant loss from insurance risk will occur only under remote circumstances, it records the contract under a deposit method of accounting with the net amount receivable or payable reflected in premiums receivable and other reinsurance balances or other reinsurance liabilities on the condensed consolidated balance sheets. Fees earned on the contracts are reflected as other revenues, as opposed to net premiums, on the condensed consolidated statements of income.

Differences in experience compared with the assumptions and estimates utilized in the justification of the recoverability of DAC, in establishing reserves for future policy benefits and claim liabilities, or in the determination of other-than-temporary impairments to investment securities can have a material effect on the Company's results of operations and financial condition.

Deferred Acquisition Costs (DAC)

Costs of acquiring new business, which vary with and are primarily related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. DAC amounts reflect the Company's expectations about the future experience of the business in force and include commissions and allowances as well as certain costs of policy issuance and underwriting. Some of the factors that can affect the carrying value of DAC include mortality assumptions, interest spreads and policy lapse rates. For traditional life and related coverages, the Company performs periodic tests to determine that DAC remains recoverable, and the cumulative amortization is re-estimated and, if necessary, adjusted by a cumulative charge or credit to current operations. For its asset-intensive business, the Company updates the estimated gross profits with actual gross profits each reporting period, resulting in an increase or decrease to DAC to reflect the difference in the actual gross profits versus the previously estimated gross profits.

Liabilities for Future Policy Benefits and Other Policy Liabilities

Liabilities for future policy benefits under long-term life insurance policies (policy reserves) are computed based upon expected investment yields, mortality and withdrawal (lapse) rates, and other assumptions, including a provision for adverse deviation from expected claim levels. The Company primarily relies on its own valuation and administration systems to establish policy reserves. The policy reserves the Company establishes may differ from those established by the ceding companies due to the use of different mortality and other assumptions. However, the Company relies upon its ceding company clients to provide accurate data, including policy-level information, premiums and claims, which is the primary information used to establish reserves. The Company's administration departments work directly with its clients to help ensure information is submitted by them in accordance with the reinsurance contracts. Additionally, the Company performs periodic audits of the information provided by ceding companies. The Company establishes reserves for processing backlogs with a goal of clearing all backlogs within a ninety-day period. The backlogs are usually due to data errors the Company discovers or computer file compatibility issues, since much of the data reported to the Company is in electronic format and is uploaded to its computer systems.

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The Company periodically reviews actual historical experience and relative anticipated experience compared to the assumptions used to establish aggregate policy reserves. Further, the Company establishes premium deficiency reserves if actual and anticipated experience indicates that existing aggregate policy reserves, together with the present value of future gross premiums, are not sufficient to cover the present value of future benefits, settlement and maintenance costs and to recover unamortized acquisition costs. The premium deficiency reserve is established through a charge to income, as well as a reduction to unamortized acquisition costs and, to the extent there are no unamortized acquisition costs, an increase to future policy benefits. Because of the many assumptions and estimates used in establishing reserves and the long-term nature of the Company's reinsurance contracts, the reserving process, while based on actuarial science, is inherently uncertain. If the Company's assumptions, particularly on mortality, are inaccurate, its reserves may be inadequate to pay claims and there could be a material adverse effect on its results of operations and financial condition.

Other policy claims and benefits include claims payable for incurred but not reported losses, which are determined using case-basis estimates and lag studies of past experience. These estimates are periodically reviewed and any adjustments to such estimates, if necessary, are reflected in current operations. The time lag from the date of the claim or death to the date when the ceding company reports the claim to the Company can be several months and can vary significantly by ceding company and business segment. The Company updates its analysis of incurred but not reported claims, including lag studies, on a periodic basis and adjusts its claim liabilities accordingly. The adjustments in a given period are generally not significant relative to the overall policy liabilities.

Valuation of Fixed Maturity Securities

The Company primarily invests in fixed maturity securities, including bonds and redeemable preferred stocks. These securities are classified as available-for-sale and accordingly are carried at fair value on the condensed consolidated balance sheets. The difference between amortized cost and fair value is reflected as an unrealized gain or loss, less applicable deferred taxes as well as related adjustments to deferred acquisition costs, if applicable, in accumulated other comprehensive income (AOCI) in stockholders' equity. The determinations of fair value may require extensive use of assumptions and inputs.

The Company performs regular analysis and review of the various methodologies, assumptions and inputs utilized in determining fair value to ensure that the valuation approaches utilized are appropriate and consistently applied, and that the various assumptions are reasonable. The Company also utilizes information from third parties, such as pricing services and brokers, to assist in determining fair values for certain assets and liabilities; however, management is ultimately responsible for all fair values presented in the Company's financial statements. The Company performs analysis and review of the information and prices received from third parties to ensure that the prices represent a reasonable estimate of the fair value. This process involves quantitative and qualitative analysis and is overseen by the Company's investment and accounting personnel. Examples of procedures performed include, but are not limited to, initial and ongoing review of third party pricing services and methodologies, review of pricing trends and monitoring of recent trade information. In addition, the Company utilizes both internal and external cash flow models to analyze the reasonableness of fair values utilizing credit spread and other market assumptions, where appropriate. As a result of the analysis, if the Company determines there is a more appropriate fair value based upon the available market data, the price received from the third party is adjusted accordingly.

When available, fair values are 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 standard valuation techniques, primarily a combination of a market approach, including matrix pricing and an income approach. The assumptions and inputs used by management in applying these methodologies include, but are not limited to: interest rates, credit standing of the issuer or counterparty, industry sector of the issuer, coupon rate, call provisions, sinking fund requirements, maturity, estimated duration and assumptions regarding liquidity and future cash flows.

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

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When observable inputs are not available, the market standard valuation methodologies 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 consistent with what other market participants would use when pricing such securities.

The use of different methodologies, assumptions and inputs may have a material effect on the estimated fair values of the Company's securities holdings.

Additionally, the Company evaluates its intent and ability to hold securities, along with factors such as the financial condition of the issuer, payment performance, the extent to which the market value has been below amortized cost, compliance with covenants, general market and industry sector conditions, and various other factors. Securities, based on management's judgments, with an other-than-temporary impairment in value are written down to management's estimate of fair value.

Valuation of Embedded Derivatives

The Company reinsures certain annuity products that contain terms that are deemed to be embedded derivatives, primarily equity-indexed annuities and variable annuities with guaranteed minimum benefits. The Company assesses each identified embedded derivative to determine whether it is required to be bifurcated under SFAS No. 133,

Accounting for Derivative Instruments and Hedging Activities (SFAS 133). If the instrument would not be accounted for in its entirety at fair value and it is determined that the terms of the embedded derivative are not clearly and closely related to the economic characteristics of the host contract, and that a separate instrument with the same terms would qualify as a derivative instrument, the embedded derivative is bifurcated from the host contract and accounted for separately. Such embedded derivatives are carried on the condensed consolidated balance sheets at fair value with the host contract.

The valuation of the various embedded derivatives requires complex calculations based on actuarial and capital market inputs assumptions related to estimates of future cash flows. Such assumptions include, but are not limited to, assumptions regarding equity market performance, equity market volatility, interest rates, credit spreads, benefits and related contract charges, mortality, lapses, withdrawals, benefit selections and non-performance risk. These assumptions have a significant impact on the value of the embedded derivatives. For example, independent future decreases in equity market returns, future decreases in interest rates and future increases in equity market volatilities would increase the value of the embedded derivative associated with guaranteed minimum withdrawal benefits on variable annuities, resulting in an increase in investment related losses. See Market Risk disclosures in Management's Discussion and Analysis of Financial Condition and Results of Operations for additional information.

Additionally, reinsurance treaties written on a modified coinsurance or funds withheld basis are subject to the provisions of SFAS 133 Implementation Issue No. B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments (Issue B36). The majority of the Company's funds withheld at interest balances are associated with its reinsurance of annuity contracts, the majority of which were subject to the provisions of Issue B36. Management believes the embedded derivative feature in each of these reinsurance treaties is similar to a total return swap on the assets held by the ceding companies. The valuation of the Issue B36 embedded derivative is sensitive to the credit spread environment. Increases in credit spreads result in a decrease in value of the embedded derivative and therefore an increase in investment related losses. See Management's Discussion and Analysis of Financial Condition and Results of Operations for the U.S. Asset-Intensive Segment for additional information.

Income Taxes

Income taxes represent the net amount of income taxes that the Company expects to pay to or receive from various taxing jurisdictions in connection with its operations. The Company provides for federal, state and foreign income

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taxes currently payable, as well as those deferred due to temporary differences between the financial reporting and tax bases of assets and liabilities. The Company's accounting for income taxes represents management's best estimate of various events and transactions.

Deferred tax assets and liabilities resulting from temporary differences between the financial reporting and tax bases of assets and liabilities are measured at the balance sheet date using enacted tax rates expected to apply to taxable income in the years the temporary differences are expected to reverse.

Due to the recent turmoil in the financial markets, the ability of the Company to realize its deferred tax assets has taken on heightened importance. The realization of deferred tax assets depends upon the existence of sufficient taxable income within the carryback or carryforward periods under the tax law in the applicable tax jurisdiction. The Company has significant deferred tax assets related to net operating and capital losses. Most of the Company's exposure related to its deferred tax assets are within legal entities that file a consolidated United States federal income tax return. The Company has projected its ability to utilize its net operating losses and has determined that all of these losses will be utilized prior to their expiration. The Company has also done extensive analysis of its capital losses and has determined that sufficient unrealized capital gains exist within its investment portfolios that would offset any capital loss realized. It is also the Company's intention to hold all unrealized loss securities until maturity or until their market value recovers.

The Company will establish a valuation allowance when management determines, based on available information, that it is more likely than not that deferred income tax assets will not be realized. Significant judgment is required in determining whether valuation allowances should be established as well as the amount of such allowances. When making such determination, consideration is given to, among other things, the following:

- (i) future taxable income exclusive of reversing temporary differences and carryforwards;
- (ii) future reversals of existing taxable temporary differences;
- (iii) taxable income in prior carryback years; and
- (iv) tax planning strategies.

The Company may be required to change its provision for income taxes in certain circumstances. Examples of such circumstances include when the ultimate deductibility of certain items is challenged by taxing authorities or when estimates used in determining valuation allowances on deferred tax assets significantly change or when receipt of new information indicates the need for adjustment in valuation allowances. Additionally, future events such as changes in tax legislation could have an impact on the provision for income tax and the effective tax rate. Any such changes could significantly affect the amounts reported in the condensed consolidated financial statements in the period these changes occur.

Arbitration and Litigation Reserves

The Company at times is a party to various litigation and arbitrations. The Company cannot predict or determine the ultimate outcome of any pending litigation or arbitrations or even provide useful ranges of potential losses. However, it is possible that an adverse outcome on any particular arbitration or litigation situation could have a material adverse effect on the Company's consolidated financial position and/or net income in a particular reporting period.

Further discussion and analysis of the results for 2009 compared to 2008 are presented by segment.

U.S. OPERATIONS

U.S. operations consist of two major sub-segments: Traditional and Non-Traditional. The Traditional sub-segment primarily specializes in mortality-risk reinsurance. The Non-Traditional sub-segment consists of Asset-Intensive and Financial Reinsurance.

Table of Contents**For the three months ended March 31, 2009**

(dollars in thousands)

| | Traditional | Non-Traditional Asset- Intensive | Financial Reinsurance | Total U.S. Operations |
|---|--------------------|---|----------------------------------|--------------------------------------|
| Revenues: | | | | |
| Net premiums | \$786,748 | \$ 1,709 | \$ | \$788,457 |
| Investment income (loss), net of related expenses | 102,561 | 55,827 | (65) | 158,323 |
| Investment related gains (losses), net | (38,228) | (28,572) | 32 | (66,768) |
| Other revenues | 570 | 15,123 | 6,571 | 22,264 |
| Total revenues | 851,651 | 44,087 | 6,538 | 902,276 |
| Benefits and expenses: | | | | |
| Claims and other policy benefits | 695,932 | 1,274 | | 697,206 |
| Interest credited | 15,233 | 21,628 | | 36,861 |
| Policy acquisition costs and other insurance expenses | 91,533 | 45,309 | 338 | 137,180 |
| Other operating expenses | 14,603 | 2,898 | 679 | 18,180 |
| Total benefits and expenses | 817,301 | 71,109 | 1,017 | 889,427 |
| Income (loss) before income taxes | \$ 34,350 | \$(27,022) | \$5,521 | \$ 12,849 |

For the three months ended March 31, 2008

(dollars in thousands)

| | Traditional | Non-Traditional Asset- Intensive | Financial Reinsurance | Total U.S. Operations |
|---|--------------------|---|----------------------------------|--------------------------------------|
| Revenues: | | | | |
| Net premiums | \$725,393 | \$ 1,663 | \$ | \$ 727,056 |
| Investment income, net of related expenses | 97,431 | 25,031 | 40 | 122,502 |
| Investment related losses, net | (2,508) | (149,554) | (1) | (152,063) |
| Other revenues | 60 | 11,495 | 2,744 | 14,299 |
| Total revenues | 820,376 | (111,365) | 2,783 | 711,794 |
| Benefits and expenses: | | | | |
| Claims and other policy benefits | 651,850 | 185 | | 652,035 |
| Interest credited | 14,790 | 58,968 | | 73,758 |
| Policy acquisition costs and other insurance expenses | 86,050 | (131,750) | 198 | (45,502) |
| Other operating expenses | 13,238 | 2,334 | 646 | 16,218 |

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| | | | | |
|-----------------------------------|-----------|-------------|----------|-----------|
| Total benefits and expenses | 765,928 | (70,263) | 844 | 696,509 |
| Income (loss) before income taxes | \$ 54,448 | \$ (41,102) | \$ 1,939 | \$ 15,285 |

Income (loss) before income taxes for the U.S. operations segment decreased by \$2.4 million, or 15.9%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease for the three month period can primarily be attributed to investment related losses associated with investment impairments recognized in the first quarter of 2009 and guaranteed minimum benefits riders associated with the Company's reinsurance of variable annuities, after adjustment for deferred acquisition costs. See the discussion of Investments in the Liquidity and Capital Resources section of Management's Discussion and Analysis for additional information on the impairment losses. Investment related losses, after adjustment for related deferred acquisition costs and excluding guaranteed minimum benefit riders and Issue B36 increased \$44.5 million. Investment related losses associated with guaranteed minimum benefits riders increased \$16.2 million, after adjustment for deferred acquisition costs. Offsetting these decreases in income was a favorable change in Issue B36 of \$31.9 million net of deferred acquisition costs and an increase in net premiums due to growth in total business in force.

Traditional Reinsurance

The U.S. Traditional sub-segment provides life reinsurance to domestic clients for a variety of life products through yearly renewable term, coinsurance and modified coinsurance agreements. These reinsurance arrangements may involve either facultative or automatic agreements. This sub-segment added new business production, measured by face amount of insurance in force, of \$35.5 billion and \$34.7 billion during the first quarter of 2009 and 2008, respectively. Management believes industry consolidation, reduced capital levels in the life insurance industry and

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the established practice of reinsuring mortality risks should continue to provide opportunities for growth, albeit at rates less than historically experienced.

Income before income taxes for the U.S. Traditional sub-segment decreased by \$20.1 million, or 36.9%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease in the first quarter was due to an increase in investment related losses of \$35.7 million. The increase in investment related losses for the first quarter was mostly due to the aforementioned investment impairments recognized in the first quarter of 2009.

Net premiums for the U.S. Traditional sub-segment grew \$61.4 million, or 8.5%, for the three months ended March 31, 2009, as compared to the same period in 2008. This increase in net premiums was driven primarily by the growth of total U.S. Traditional business in force, which totaled \$1.3 trillion of face amount as of March 31, 2009.

This represents a 3.1% increase over the amount in force on March 31, 2008.

Net investment income increased \$5.1 million, or 5.3%, for the three months ended March 31, 2009, as compared to the same period in 2008. This increase can be primarily attributed to growth in the invested asset base. Investment related losses increased \$35.7 million for the three months ended March 31, 2009, as compared to the same period in 2008. The increase in investment related losses for the first quarter was due to the aforementioned investment impairments recognized in the first quarter of 2009.

Investment income and investment related gains and losses are allocated to the various operating segments based on average assets and related capital levels deemed appropriate to support the segment business volumes. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments.

Claims and other policy benefits as a percentage of net premiums (loss ratios) were 88.5% and 89.9% for the first quarter of 2009 and 2008, respectively. While the loss ratio improved year over year, claims were still higher than expected in the first quarter of 2009. Although reasonably predictable over a period of years, death claims can be volatile over shorter periods. Management views recent experience as normal volatility that is inherent in the business.

Interest credited expense increased \$0.4 million, or 3.0%, for the three months ended March 31, 2009, as compared to the same period in 2008. This increase is the result of one treaty that had a slight increase in its asset base with a credited loan rate remaining constant at 5.6% for 2008 and 2009. Interest credited in this case relates to amounts credited on cash value products which also have a significant mortality component.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 11.6% and 11.9% for the first quarter of 2009 and 2008, respectively. Overall, while these ratios are expected to remain in a predictable range, they may fluctuate from period to period due to varying allowance levels within coinsurance-type arrangements. In addition, the amortization pattern of previously capitalized amounts, which are subject to the form of the reinsurance agreement and the underlying insurance policies, may vary. Finally, the mix of first year coinsurance business versus yearly renewable term business can cause the percentage to fluctuate from period to period.

Other operating expenses increased \$1.4 million, or 10.3%, for the three months ended March 31, 2009, as compared to the same period in 2008. Other operating expenses, as a percentage of net premiums were 1.9% and 1.8% for the first quarter ended March 31, 2009 and 2008. The expense ratio can fluctuate from period to period.

Asset-Intensive Reinsurance

The U.S. Asset-Intensive sub-segment assumes investment risk within underlying annuities and corporate-owned life insurance policies. Most of these agreements are coinsurance, coinsurance with funds withheld or modified coinsurance of non-mortality risks whereby the Company recognizes profits or losses primarily from the spread between the investment income earned and the interest credited on the underlying deposit liabilities.

Loss before income taxes for this sub-segment decreased by \$14.1 million, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease for the three month period can be primarily attributed to the favorable change in the value of embedded derivatives under Issue B36 of \$31.9 million, coupled with a favorable change in the present value calculations of embedded derivatives associated with EIAs of \$16.5 million, both after adjustments for related deferred acquisition costs. Offsetting these amounts was an increase in losses

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related to guaranteed minimum benefits of \$16.2 million and an increase in investment related losses of \$8.8 million, both net of related deferred acquisition costs.

In accordance with the provisions of Issue B36, the Company recorded an increase in value of the embedded derivative liability of \$40.4 million for the three months ended March 31 2009, which is reflected within investment related losses, net. The amount represents a non-cash, unrealized change in value, offset in part by a reduction in policy acquisition costs and other insurance expenses associated with an adjustment of related deferred acquisition costs totaling \$39.7 million loss before income taxes. Significant fluctuations may occur as the fair value of the embedded derivatives is tied primarily to the movements in credit spreads. Additionally, the Company uses risk free rates, in accordance with FAS 157, to discount the fair value of estimated future equity option purchases associated with its reinsurance of EIAs (a component of the embedded derivative), which affects the fair value of the embedded derivative liability. In the first quarter of 2009, the Company recorded a decrease in the fair value of the embedded liability of \$8.1 million, which was recorded as a reduction of interest credited, offset by related deferred acquisition costs and retrocession of \$(5.8) million for a net gain before income taxes of \$2.3 million. These fluctuations do not affect current cash flows, crediting rates or spread performance on the underlying treaties. Therefore, Company management believes it is helpful to distinguish between the effects of changes in these embedded derivatives and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income, and interest credited. Additionally, over the expected life of the underlying treaties, management expects the cumulative effect of the impact of changes in risk free rates used in the present value calculations of embedded derivatives associated with EIAs and Issue B36 to be immaterial.

Excluding the impact of changes in risk free rates and credit spreads used in the present value calculations of embedded derivatives associated with EIAs and Issue B36, income before income taxes decreased \$34.3 million for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease in 2009 over prior year can mainly be attributed to the Company's reinsurance of variable annuities with guaranteed living benefits.

Improvement in the financial markets lead to a decrease of \$35.2 million in the fair value of the liability related to guaranteed minimum benefits. The gains associated with the decrease in the fair value of the liability were more than offset by losses on derivatives instruments of \$12.7 million used to hedge the liability and DAC adjustments of \$38.4 million, therefore resulting in a loss year over year. DAC is amortized in line with actual and expected future profits on the business. Therefore, the gain from the hedge program (the difference between the decrease in the fair value of the liability of \$35.2 million and the losses on the derivative instruments used to hedge the liability of \$12.7 million) in the current period resulted in higher DAC amortization.

Total revenues, which are comprised primarily of investment income and investment related losses, net, increased \$155.5 million for the three months ended March 31, 2009, as compared to the same period in 2008. This increase is primarily due to a \$108.1 million reduction in the loss associated with embedded derivatives subject to Issue B36, which are included in investment related losses, net. Excluding the losses associated with embedded derivatives subject to Issue B36, revenue increased \$47.3 million for the first quarter. This increase is primarily due to an increase in investment income related to equity option income on a funds withheld equity-indexed annuity treaty. The increase in investment income related to options is mostly offset by a corresponding increase in interest credited. Additionally, investment related gains associated with guaranteed minimum benefits contributed \$23.7 million to the increase in the first three months.

The average invested asset base supporting this sub-segment grew to \$5.1 billion in the first quarter of 2009 from \$4.8 billion in the first quarter of 2008. The growth in the asset base is driven primarily by new business written on existing equity-indexed and variable annuity treaties. In addition, a new fixed annuity transaction was executed in the second quarter of 2008 and a new guaranteed investment contract was executed in the third quarter of 2008, together adding approximately \$700.0 million to the asset base of this sub-segment. As of March 31, 2009, \$3.4 billion of the invested assets were funds withheld at interest, of which 90.5% is associated with one client.

Total benefits and expenses, which are comprised primarily of interest credited and policy acquisition costs, increased \$141.4 million for the three months ended March 31, 2009, as compared to the same period in 2008. Contributing to these increases was an increase in policy acquisition costs related to embedded derivatives subject to Issue B36 of \$76.2 million coupled with an increase in policy acquisition costs associated with guaranteed minimum benefits of

\$40.0 million. The current market environment has created a situation in which income earned related to guaranteed minimum benefits is more than offset by DAC unlocking, and thus results in reduced income for this sub-segment. These increases were partially offset by a decrease in interest credited of \$37.3 million for the three

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month period. The portion of interest credited related to market value changes in certain equity-indexed annuity products increased year over year and was mostly offset in investment income. This increase was more than offset by a decrease year over year in interest credited related to the change in the fair value of the EIA embedded liability as discussed above.

Financial Reinsurance

The U.S. Financial Reinsurance sub-segment income consists primarily of net fees earned on financial reinsurance transactions. The majority of the financial reinsurance risks are assumed by the U.S. segment and retroceded to other insurance companies or brokered business in which the Company does not participate in the assumption of risk. The fees earned from financial reinsurance contracts are reflected in other revenues, and the fees paid to retrocessionaires are reflected in policy acquisition costs and other insurance expenses. Fees earned on brokered business are reflected in other revenues.

Income before income taxes increased by \$3.6 million, for the three months ended March 31, 2009, as compared to the same period in 2008. The increase in the three month period can be primarily attributed to a one time fee received at inception of a new treaty signed in the first quarter of 2009. At March 31, 2009 and 2008, the amount of reinsurance provided, as measured by pre-tax statutory surplus was \$0.5 billion. The pre-tax statutory surplus amounts indicated include all business assumed or brokered by the Company in the U.S. Fees earned from this business can vary significantly depending on the size of the transactions and the timing of their completion and therefore can fluctuate from period to period.

CANADA OPERATIONS

The Company conducts reinsurance business in Canada through RGA Life Reinsurance Company of Canada (RGA Canada), a wholly-owned subsidiary. RGA Canada assists clients with capital management activity and mortality and morbidity risk management, and is primarily engaged in traditional individual life reinsurance, as well as creditor, critical illness, and group life and health reinsurance. Creditor insurance covers the outstanding balance on personal, mortgage or commercial loans in the event of death, disability or critical illness and is generally shorter in duration than traditional life insurance.

For the three months ended March 31, (dollars in thousands)

| | 2009 | 2008 |
|---|-------------|-------------|
| Revenues: | | |
| Net premiums | \$ 138,056 | \$ 138,992 |
| Investment income, net of related expenses | 30,360 | 36,033 |
| Investment related losses, net | (309) | (4,085) |
| Other revenues | 1,697 | 13 |
| Total revenues | 169,804 | 170,953 |
| Benefits and expenses: | | |
| Claims and other policy benefits | 115,635 | 115,271 |
| Interest credited | 48 | 139 |
| Policy acquisition costs and other insurance expenses | 33,067 | 26,426 |
| Other operating expenses | 4,868 | 5,446 |
| Total benefits and expenses | 153,618 | 147,282 |
| Income before income taxes | \$ 16,186 | \$ 23,671 |

Income before income taxes decreased by \$7.5 million, or 31.6%, for the three months ended March 31 2009, as compared to the same period in 2008. In the first three months of 2009, weakness in the Canadian dollar resulted in a decrease in income before income taxes of \$5.2 million. The remaining decrease was primarily the result of adverse mortality experience compared to the prior year offset by a decrease of \$3.8 million in investment related losses, net. Net premiums decreased by \$0.9 million, or 0.7%, for the three months ended March 31, 2009, as compared to the same period in 2008. A weaker Canadian dollar resulted in a decrease in net premiums of approximately \$32.7 million in the first quarter of 2009 compared to 2008. This decrease was largely offset by new business from both new and existing treaties. In addition, increase in premiums from creditor treaties contributed \$9.9 million in the first quarter of 2009. Creditor and group life and health premiums represented 28.3% of net premiums in the first

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quarter of 2009. Premium levels can be significantly influenced by large transactions, mix of business and reporting practices of ceding companies and therefore may fluctuate from period to period.

Net investment income decreased \$5.7 million, or 15.7%, for the three months ended March 31, 2009, as compared to the same period in 2008. A weaker Canadian dollar resulted in a decrease in net investment income of approximately \$7.5 million in the first quarter of 2009 compared to 2008. Investment income and investment related gains and losses are allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments. The increase in investment income, excluding the impact of foreign exchange, was mainly the result of an increase in the allocated asset base due to growth in the underlying business volume.

Loss ratios for this segment were 83.8% and 82.9% for the first quarter of 2009 and 2008, respectively. The loss ratios on creditor reinsurance business are normally lower than traditional reinsurance, while allowances are normally higher as a percentage of premiums. Excluding creditor business, the loss ratios for this segment were 99.4% and 93.2% for the first quarter of 2009 and 2008, respectively. The higher loss ratio in 2009 is primarily the result of worse mortality experience compared to prior year. Historically, the loss ratio increased primarily as the result of several large permanent level premium in force blocks assumed in 1997 and 1998. These blocks are mature blocks of permanent level premium business in which mortality as a percentage of net premiums is expected to be higher than historical ratios. The nature of permanent level premium policies requires the Company to set up actuarial liabilities and invest the amounts received in excess of early-year mortality costs to fund claims in the later years when premiums, by design, continue to be level as compared to expected increasing mortality or claim costs. Claims and other policy benefits, as a percentage of net premiums and investment income were 68.7% and 65.9% in the first quarter of 2009 and 2008, respectively.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 24.0% and 19.0% for the first quarter of 2009 and 2008, respectively. Policy and acquisition costs and other insurance expenses as a percentage of net premiums for creditor business were 54.4% and 49.3% for the first quarter of 2009 and 2008, respectively.

Excluding foreign exchange and creditor business, policy acquisition costs and other insurance expenses as a percentage of net premiums were 12.8% and 11.7% for the first quarter of 2009 and 2008. Overall, while these ratios are expected to remain in a predictable range, they may fluctuate from period to period due to varying allowance levels, significantly caused by the mix of first year coinsurance business versus yearly renewable term business. In addition, the amortization pattern of previously capitalized amounts, which are subject to the form of the reinsurance agreement and the underlying insurance policies, may vary.

Other operating expenses decreased by \$0.6 million, or 10.6%, for the three months ended March 31, 2009, as compared to the same period in 2008. A weaker Canadian dollar contributed approximately \$0.9 million to the decrease in other operating expenses in the first three months of 2009 compared to 2008. Other operating expenses as a percentage of net premiums were 3.5% and 3.9% for the first quarter of 2009 and 2008, respectively.

EUROPE & SOUTH AFRICA OPERATIONS

The Europe & South Africa segment has operations in France, Germany, India, Italy, Mexico, Poland, Spain, South Africa and the United Kingdom (UK). The segment provides life reinsurance for a variety of products through yearly renewable term and coinsurance agreements, and reinsurance of critical illness coverage. Reinsurance agreements may be either facultative or automatic agreements covering primarily individual risks and in some markets, group risks.

Table of Contents**For the three months ended March 31, (dollars in thousands)**

| | 2009 | 2008 |
|---|-----------------|-----------------|
| Revenues: | | |
| Net premiums | \$ 173,256 | \$ 189,196 |
| Investment income, net of related expenses | 6,749 | 7,551 |
| Investment related gains, net | 422 | 745 |
| Other revenues | 260 | 60 |
| Total revenues | 180,687 | 197,552 |
| Benefits and expenses: | | |
| Claims and other policy benefits | 144,218 | 158,535 |
| Policy acquisition costs and other insurance expenses | 10,817 | 17,230 |
| Other operating expenses | 17,117 | 15,744 |
| Total benefits and expenses | 172,152 | 191,509 |
| Income before income taxes | \$ 8,535 | \$ 6,043 |

Income before income taxes increased by \$2.5 million, or 41.2% for the three months ended March 31, 2009, as compared to the same period in 2008. The increase for the first quarter was primarily due to a decrease in claims and other policy benefits and a decrease in policy acquisition costs and other insurance expenses. Unfavorable foreign currency exchange fluctuations resulted in a decrease to income before income taxes totaling approximately \$4.4 million for the first quarter of 2009 compared to 2008.

Net premiums decreased \$15.9 million, or 8.4%, for the three months ended March 31, 2009, as compared to the same period in 2008. During 2009, there was an unfavorable foreign currency exchange fluctuation, particularly from the British pound and the South African rand weakening against the U.S. dollar when compared to the same period in 2008, which decreased net premiums by approximately \$56.9 million in the first quarter of 2009, as compared to the same period in 2008. The unfavorable foreign currency exchange fluctuation was largely offset by an increase in net premiums that was primarily the result of new business from both new and existing treaties.

A significant portion of the net premiums for the segment, in each period presented, relates to reinsurance of critical illness coverage, primarily in the UK. This coverage provides a benefit in the event of the diagnosis of a pre-defined critical illness. Net premiums earned from this coverage totaled \$46.3 million and \$60.4 million in the first quarter of 2009 and 2008, respectively. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and therefore can fluctuate from period to period.

Net investment income decreased \$0.8 million, or 10.6%, for the three months ended March 31, 2009, as compared to the same period in 2008. This decrease can be primarily attributed to a decrease in the portfolio return. Investment income and investment related gains and losses are allocated to the various operating segments based on average assets and related capital levels deemed appropriate to support the segment business volumes. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments.

Loss ratios for this segment were 83.2% and 83.8% for the first quarter of 2009 and 2008, respectively. The decrease in the loss ratio for the three months ended March 31, 2009 was primarily due to unfavorable claims experience in South Africa during the first quarter 2008. While the loss ratio improved slightly year over year, claim levels in the current quarter were higher than expected. Although reasonably predictable over a period of years, death claims can be volatile over shorter periods. Management views recent experience as normal volatility that is inherent in the business.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 6.2% and 9.1% for the first quarter of 2009 and 2008, respectively. These percentages fluctuate due to timing of client company reporting, variations in the mixture of business being reinsured and the relative maturity of the business. In addition, as the segment grows, renewal premiums, which have lower allowances than first-year premiums, represent a greater percentage of the total net premiums.

Other operating expenses increased \$1.4 million, or 8.7%, for the three months ended March 31, 2009, as compared to the same period in 2008. Other operating expenses as a percentage of net premiums totaled 9.9% and 8.3% for the first quarter of 2009 and 2008, respectively. These increases were due to higher costs associated with maintaining and supporting the segment's increase in business over the past several years and the Company's recent

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expansion into central Europe. The Company believes that sustained growth in net premiums should lessen the burden of start-up expenses and expansion costs over time.

ASIA PACIFIC OPERATIONS

The Asia Pacific segment has operations in Australia, Hong Kong, Japan, Malaysia, Singapore, New Zealand, South Korea, Taiwan and mainland China. The principal types of reinsurance for this segment include life, critical illness, disability income, superannuation, and financial reinsurance. Superannuation is the Australian government mandated compulsory retirement savings program. Superannuation funds accumulate retirement funds for employees, and in addition, offer life and disability insurance coverage. Reinsurance agreements may be either facultative or automatic agreements covering primarily individual risks and in some markets, group risks.

For the three months ended March 31, (dollars in thousands)

| | 2009 | 2008 |
|---|--------------|---------------|
| Revenues: | | |
| Net premiums | \$243,728 | \$240,935 |
| Investment income, net of related expenses | 12,697 | 11,414 |
| Investment related gains (losses), net | (3,567) | 514 |
| Other revenues | 9,729 | 2,552 |
| Total revenues | 262,587 | 255,415 |
| Benefits and expenses: | | |
| Claims and other policy benefits | 212,414 | 193,669 |
| Policy acquisition costs and other insurance expenses | 30,429 | 28,081 |
| Other operating expenses | 16,171 | 15,102 |
| Total benefits and expenses | 259,014 | 236,852 |
| Income before income taxes | \$ 3,573 | \$ 18,563 |

Income before income taxes decreased by \$15.0 million, or 80.8%, for the three months ended March 31, 2009, as compared to the same period in 2008. Unfavorable results from operations throughout the segment, primarily due to increased claims and other policy benefits, contributed to the decrease in income before income taxes for the first quarter of 2009, as compared to the same period in 2008. Unfavorable foreign currency exchange fluctuations resulted in a decrease to income before income taxes totaling approximately \$1.0 million for the first quarter of 2009 compared to 2008.

Net premiums grew \$2.8 million, or 1.2%, for the three months ended March 31, 2009, as compared to the same period in 2008. This premium growth was primarily the result of increases in the volume of business in Japan, Taiwan and Australia. Premiums in Japan increased by \$4.9 million in the first quarter of 2009, as compared to the same period in 2008. Premiums in Taiwan increased by \$1.9 million in the first quarter of 2009, as compared to the same period in 2008. Premiums in Australia increased by \$1.5 million in the first quarter of 2009, as compared to the same period in 2008. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and can fluctuate from period to period.

Foreign currencies in certain significant markets, particularly the Australian dollar, Korean won and Taiwanese dollar, have weakened against the U.S. dollar during 2009 compared to 2008. The overall effect of changes in local Asia Pacific segment currencies was a decrease in net premiums of approximately \$55.2 million for the first quarter of 2009 compared to 2008. The unfavorable foreign currency exchange fluctuation was largely offset by an increase in net premiums that was primarily the result of new business from both new and existing treaties.

A portion of the net premiums for the segment, in each period presented, relates to reinsurance of critical illness coverage. This coverage provides a benefit in the event of the diagnosis of a pre-defined critical illness. Reinsurance of critical illness in the Asia Pacific operations is offered primarily in South Korea, Australia and Hong Kong. Net premiums earned from this coverage totaled \$54.2 million and \$45.9 million in the first quarter of 2009 and 2008, respectively.

Net investment income increased \$1.3 million, or 11.2%, for the three months ended March 31, 2009, as compared to the same period in 2008. This increase can be primarily attributed to growth in the invested asset base. Investment income and investment related gains and losses are allocated to the various operating segments based on average assets and related capital levels deemed appropriate to support the segment business volumes. Investment

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performance varies with the composition of investments and the relative allocation of capital to the operating segments.

Other revenues increased by \$7.2 million, or 281.2%, for the three months ended March 31, 2009, as compared to the same period in 2008. The primary source of other revenues is fees from financial reinsurance treaties in Japan. At March 31, 2009 and 2008, the amount of reinsurance assumed from client companies, as measured by pre-tax statutory surplus, was \$0.6 billion and \$0.7 billion, respectively. Fees earned from this business can vary significantly depending on the size of the transactions and the timing of their completion and therefore can fluctuate from period to period.

Loss ratios for this segment were 87.2% and 80.4% for the first quarter of 2009 and 2008, respectively. The increase in the loss ratio for the first quarter of 2009 compared to 2008 is primarily attributable to high claim levels in Australia and Japan. Although reasonably predictable over a period of years, death claims can be volatile over shorter periods. Management views recent experience as normal volatility that is inherent in the business. Loss ratios will fluctuate due to timing of client company reporting, variations in the mixture of business being reinsured and the relative maturity of the business.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 12.5% and 11.7% for the first quarter of 2009 and 2008, respectively. The ratio of policy acquisition costs and other insurance expenses as a percentage of net premiums should generally decline as the business matures; however, the percentage does fluctuate periodically due to timing of client company reporting and variations in the mixture of business being reinsured.

Other operating expenses increased \$1.1 million, or 7.1%, for the three ended March 31, 2009, as compared to the same period in 2008. Other operating expenses as a percentage of net premiums totaled 6.6% and 6.3% for the first quarter of 2009 and 2008, respectively. The timing of premium flows and the level of costs associated with the entrance into and development of new markets in the growing Asia Pacific segment may cause other operating expenses as a percentage of net premiums to fluctuate over periods of time.

CORPORATE AND OTHER

Corporate and Other revenues include investment income from invested assets not allocated to support segment operations and undeployed proceeds from the Company's capital raising efforts, in addition to unallocated investment related gains and losses. Corporate expenses consist of the offset to capital charges allocated to the operating segments within the policy acquisition costs and other insurance expenses line item, unallocated overhead and executive costs, and interest expense related to debt and the \$225.0 million of 5.75% Company-obligated mandatorily redeemable trust preferred securities. Additionally, Corporate and Other includes results from RGA Technology Partners, Inc., a wholly-owned subsidiary that develops and markets technology solutions for the insurance industry, the Company's Argentine privatized pension business, which is currently in run-off, the investment income and expense associated with the Company's collateral finance facility and an insignificant amount of direct insurance operations in Argentina. Effective January 1, 2009, due to immateriality, the discontinued accident and health operations are included in the results of the Corporate and Other segment.

For the three months ended March 31, (dollars in thousands)

| | 2009 | 2008 |
|--|---------------|---------------|
| Revenues: | | |
| Net premiums | \$ 2,550 | \$ 1,886 |
| Investment income, net of related expenses | 15,067 | 22,026 |
| Investment related losses, net | (2,040) | (371) |
| Other revenues | (91) | 1,012 |
| Total revenues | 15,486 | 24,553 |
| Benefits and expenses: | | |
| Claims and other policy benefits | 271 | 2 |

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| | | |
|---|------------|------------|
| Policy acquisition costs and other insurance expenses | (12,692) | (9,973) |
| Other operating expenses | 10,413 | 10,830 |
| Interest expense | 22,117 | 23,094 |
| Collateral finance facility expense | 2,314 | 7,474 |
| Total benefits and expenses | 22,423 | 31,427 |
| Loss before income taxes | \$ (6,937) | \$ (6,874) |

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Loss before income taxes increased by \$0.1 million, or 0.9%, for the three months ended March 31, 2009, as compared to the same period in 2008. The increase for the first quarter is primarily due to a \$1.7 million increase in investment related losses due to impairments, a \$7.0 million decrease in investment income, offset in large part by a \$5.2 million decrease in collateral finance facility expense, a \$2.7 million decrease in policy acquisition costs and other insurance expenses and a \$1.0 million decrease in interest expense.

Total revenues decreased by \$9.1 million, or 36.9%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease for the first quarter was due to a \$7.0 million decrease in net investment income largely due to lower investment returns on variable investments used to fund the Company's collateral finance facility and a \$1.7 million increase in investment related losses due to impairments.

Total benefits and expenses decreased by \$9.0 million, or 28.7%, for the three months ended March 31, 2009, as compared to the same period in 2008. The decrease for the first quarter was primarily due to a \$5.2 million decrease in collateral finance facility expense due to substantially reduced variable interest rates in the current year. Policy acquisition costs and other insurance expenses also decreased \$2.7 million in the first quarter, primarily due to increased charges to the operating segments for the use of capital and decreased interest expense of \$1.0 million, primarily due to lower interest provisions for income taxes related to FIN 48.

Discontinued Operations

Effective January 1, 2009, due to immateriality, the discontinued accident and health operations are included in the results of the Corporate and Other segment. The discontinued accident and health operations reported a loss, net of taxes, of \$5.1 million for the first quarter of 2008 due to the settlement of a disputed claim in which the Company paid \$5.8 million in excess of the amount held in reserve. The calculation of the claim reserve liability for the entire portfolio of accident and health business requires management to make estimates and assumptions that affect the reported claim reserve levels. As of March 31, 2009, there are no arbitrations or claims disputes associated with the Company's discontinued accident and health operations, and the remaining runoff activity of this business is not expected to be significant.

Liquidity and Capital Resources*Current Market Environment*

During 2008, the capital and credit markets experienced extreme volatility and disruption. Since September 2008 through the end of the first quarter of 2009, the volatility and disruptions intensified significantly. This was driven by, among other things, heightened concerns over conditions in the U.S. housing and mortgage markets, the availability and cost of credit, the health of U.S. and global financial institutions, a decline in business and consumer confidence and increased unemployment. Turmoil in the U.S. and global financial markets resulted in bankruptcies, consolidations and government interventions.

The recent market conditions have adversely affected the Company's results of operations and financial position. During the third quarter of 2008 and the first quarter of 2009, the Company incurred significant investment related losses as a result of impairments. In addition, results of operations in 2008 and 2009 reflected a significant increase in unrealized losses due to an unfavorable change in the value of embedded derivatives which are a direct result of widening credit spreads and changes in the risk-free rates in the U.S. debt markets. Additionally, gross unrealized losses in the Company's fixed maturity and equity securities available-for-sale increased significantly to \$1,552.8 million and \$1,416.4 million at March 31, 2009 and December 31, 2008, respectively.

The Company continues to be in a position to hold its investment securities until recovery, provided it remains comfortable with the credit of the issuer. The Company's operations do not rely on short-term funding or commercial paper, and therefore, to date, it has experienced no liquidity pressure, nor does it anticipate such pressure in the foreseeable future. The Company has selectively reduced its exposure to distressed security issuers through security sales. In addition, the U.S. government, and governments in many foreign markets where the Company operates, have responded to address market imbalances and taken meaningful steps intended to eventually restore confidence.

Although management believes the Company's current capital base is adequate to support its business at current operating levels, it continues to monitor new business opportunities and any associated new capital needs that could arise from the changing financial landscape.

Table of Contents*The Holding Company*

RGA is a holding company whose primary uses of liquidity include, but are not limited to, the immediate capital needs of its operating companies associated with the Company's primary businesses, dividends paid by RGA to its shareholders, interest payments on its indebtedness, and repurchases of RGA common stock under a plan approved by the board of directors. The primary sources of RGA's liquidity include proceeds from its capital raising efforts, interest income on undeployed corporate investments, interest income received on surplus notes with two operating subsidiaries, and dividends from operating subsidiaries. As the Company continues its expansion efforts, RGA will continue to be dependent on these sources of liquidity.

The Company believes that it has sufficient liquidity to fund its cash needs under various scenarios that include the potential risk of the early recapture of a reinsurance treaty by the ceding company and significantly higher than expected death claims. Historically, the Company has generated positive net cash flows from operations. However, in the event of significant unanticipated cash requirements beyond normal liquidity, the Company has multiple liquidity alternatives available based on market conditions and the amount and timing of the liquidity need. These options include borrowings under committed credit facilities, secured borrowings, the ability to issue long-term debt, capital securities or common equity and, if necessary, the sale of invested assets.

Cash Flows

The Company's net cash flows provided by operating activities for the three months ended March 31, 2009 and 2008 were \$352.5 million and \$188.5 million, respectively. Cash flows from operating activities are affected by the timing of premiums received, claims paid, and working capital changes. The \$164.0 million net increase in operating cash flows during the three months of 2009 compared to the same period in 2008 was primarily a result of cash inflows related to premiums and investment income increasing and cash outflows related to claims, acquisition costs, income taxes and other operating expenses decreasing. Cash from premiums and investment income increased \$50.0 million and \$19.3 million, respectively, while operating cash outlays decreased by \$94.7 million for the current three month period. The Company believes the short-term cash requirements of its business operations will be sufficiently met by the positive cash flows generated. Additionally, the Company believes it maintains a high quality fixed maturity portfolio that can be sold, if necessary, to meet the Company's short- and long-term obligations.

Net cash used in investing activities for the three months ended March 31, 2009 and 2008 were \$531.3 million and \$246.3 million, respectively. The sales and purchases of fixed maturity securities are related to the management of the Company's investment portfolios and the investment of excess cash generated by operating and financing activities. Net cash used in financing activities for the three months ended March 31, 2009 and 2008 were \$103.9 million and \$42.5, respectively. The increase in cash used in financing activities was primarily due to a \$53.0 million decrease in the cash collateral received under derivative contracts due to a change in the value of the underlying derivatives.

Debt and Preferred Securities

As of March 31, 2009 and December 31, 2008, the Company had \$917.9 million and \$918.2 million, respectively, in outstanding borrowings under its debt agreements and was in compliance with all covenants under those agreements. The Company maintains three revolving credit facilities. The largest is a syndicated credit facility with an overall capacity of \$750.0 million that expires in September 2012. The Company may borrow cash and may obtain letters of credit in multiple currencies under this facility. As of March 31, 2009, the Company had no cash borrowings outstanding and \$349.7 million in issued, but undrawn, letters of credit under this facility. The Company's other credit facilities consist of a £15.0 million credit facility that expires in May 2010, with an outstanding balance of £15.0 million (\$21.5 million) as of March 31, 2009, and an A\$50.0 million Australian credit facility that expires in March 2011, with no outstanding balance as of March 31, 2009.

As of March 31, 2009, the average interest rate on all long-term and short-term debt outstanding, excluding the Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company (Trust Preferred Securities), was 6.27%. Interest is expensed on the face amount, or \$225 million, of the Trust Preferred Securities at a rate of 5.75%.

Collateral Finance Facility

In June 2006, RGA's subsidiary, Timberlake Financial, L.L.C. (Timberlake Financial), issued \$850.0 million of

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Series A Floating Rate Insured Notes due June 2036 in a private placement. The notes were issued to fund the collateral requirements for statutory reserves required by the U.S. Valuation of Life Policies Model Regulation (commonly referred to as Regulation XXX) on specified term life insurance policies reinsured by RGA Reinsurance Company (RGA Reinsurance). Proceeds from the notes, along with a \$112.8 million direct investment by the Company, have been deposited into a series of trust accounts that collateralize the notes and are not available to satisfy the general obligations of the Company. Interest on the notes will accrue at an annual rate of 1-month LIBOR plus a base rate margin, payable monthly. The payment of interest and principal on the notes is insured by a monoline insurance company through a financial guaranty insurance policy. The notes represent senior, secured indebtedness of Timberlake Financial without legal recourse to RGA or its other subsidiaries. Timberlake Financial will rely primarily upon the receipt of interest and principal payments on a surplus note and dividend payments from its wholly-owned subsidiary, Timberlake Reinsurance Company II (Timberlake Re), a South Carolina captive insurance company, to make payments of interest and principal on the notes. The ability of Timberlake Re to make interest and principal payments on the surplus note and dividend payments to Timberlake Financial is contingent upon South Carolina regulatory approval, the return on Timberlake Re's investment assets and the performance of specified term life insurance policies with guaranteed level premiums retroceded by RGA's subsidiary, RGA Reinsurance, to Timberlake Re.

Asset / Liability Management

The Company actively manages its cash and invested assets using an approach that is intended to balance quality, diversification, asset/liability matching, liquidity and investment return. The goals of the investment process are to optimize after-tax, risk-adjusted investment income and after-tax, risk-adjusted total return while managing the assets and liabilities on a cash flow and duration basis.

The Company has established target asset portfolios for each major insurance product, which represent the investment strategies intended to profitably fund its liabilities within acceptable risk parameters. These strategies include objectives for effective duration, yield curve sensitivity and convexity, liquidity, asset sector concentration and credit quality.

The Company's liquidity position (cash and cash equivalents and short-term investments) was \$641.1 million and \$933.5 million at March 31, 2009 and December 31, 2008, respectively. The decrease in the Company's liquidity position from December 31, 2008 is primarily due to the timing of investment activity. Liquidity needs are determined from valuation analyses conducted by operational units and are driven by product portfolios. Periodic evaluations of demand liabilities and short-term liquid assets are designed to adjust specific portfolios, as well as their durations and maturities, in response to anticipated liquidity needs.

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities. These arrangements are used for purposes of short-term financing. There were no securities subject to these agreements outstanding at March 31, 2009 and December 31, 2008. The Company also occasionally enters into arrangements to purchase securities under agreements to resell the same securities. Amounts outstanding, if any, are reported in cash and cash equivalents. These agreements are primarily used as yield enhancement alternatives to other cash equivalent investments. There were no agreements outstanding at March 31, 2009 and December 31, 2008. Further, the Company occasionally enters into securities lending agreements whereby certain securities are loaned to third parties, primarily major brokerage firms, in order to earn additional yield. The Company requires a minimum of 102% of the fair value of the loaned securities as collateral in the form of either cash or securities held by the Company or a trust. The cash collateral is reported in cash and the offsetting collateral repayment obligation is reported in other liabilities. There were no securities lending agreements outstanding at March 31, 2009 and December 31, 2008.

RGA Reinsurance is a member of the Federal Home Loan Bank of Des Moines (FHLB) and holds \$18.9 million of common stock of the FHLB, which is included in other invested assets on the Company's condensed consolidated balance sheets. RGA Reinsurance occasionally enters into traditional funding agreements with the FHLB, but had no outstanding traditional funding agreements with the FHLB at March 31, 2009 and December 31, 2008.

In addition, RGA Reinsurance has also entered into a funding agreement with the FHLB under a guaranteed investment contract whereby RGA Reinsurance has issued the funding agreement in exchange for cash and for which

the FHLB has been granted a blanket lien on RGA Reinsurance's commercial mortgage-backed securities used to collateralize RGA Reinsurance's obligations under the funding agreement. RGA Reinsurance maintains control over these pledged assets, and may use, commingle, encumber or dispose of any portion of the collateral as

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long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. The funding agreement and the related security agreement represented by this blanket lien provide that upon any event of default by RGA Reinsurance, the FHLB's recovery is limited to the amount of RGA Reinsurance's liability under the outstanding funding agreement. The amount of the Company's liability for the funding agreements with the FHLB under guaranteed investment contracts was \$199.3 million at March 31, 2009 and December 31, 2008, which is included in interest sensitive contract liabilities. The advance on this agreement is collateralized primarily by commercial mortgage-backed securities.

Future Liquidity and Capital Needs

Based on the historic cash flows and the current financial results of the Company, subject to any dividend limitations which may be imposed by various insurance regulations, management believes RGA's cash flows from operating activities, together with undeployed proceeds from its capital raising efforts, including interest and investment income on those proceeds, interest income received on surplus notes with two operating subsidiaries, and its ability to raise funds in the capital markets, will be sufficient to enable RGA to make dividend payments to its shareholders, to make interest payments on its senior indebtedness, Trust Preferred Securities and junior subordinated notes, repurchase RGA common stock under the board of director approved plan and meet its other obligations.

A sustained general economic downturn or a downturn in the equity and other capital markets could adversely affect the market for many annuity and life insurance products. Because the Company obtains substantially all of its revenues through reinsurance arrangements that cover a portfolio of life insurance products, as well as annuities, its business could be harmed if the market for annuities or life insurance were adversely affected for an extended period of time.

Investments

The Company had total cash and invested assets of \$16.4 billion and \$16.5 billion at March 31, 2009 and December 31, 2008, respectively, as illustrated below (dollars in thousands):

| | March 31, 2009 | December 31, 2008 |
|---|-----------------------|--------------------------|
| Fixed maturity securities, available-for-sale | \$ 8,831,920 | \$ 8,531,804 |
| Mortgage loans on real estate | 764,038 | 775,050 |
| Policy loans | 1,081,030 | 1,096,713 |
| Funds withheld at interest | 4,505,054 | 4,520,398 |
| Short-term investments | 54,552 | 58,123 |
| Other invested assets | 582,784 | 628,649 |
| Cash and cash equivalents | 586,542 | 875,403 |
| Total cash and invested assets | \$ 16,405,920 | \$ 16,486,140 |

The following table presents consolidated average invested assets at amortized cost, net investment income and investment yield, excluding funds withheld. Funds withheld assets are primarily associated with the reinsurance of annuity contracts on which the Company earns a spread. Fluctuations in the yield on funds withheld assets are generally offset by a corresponding adjustment to the interest credited on the liabilities (dollars in thousands).

| | March 31, | | |
|--|------------------|---------------|---------------------------------|
| | 2009 | 2008 | Increase/ (Decrease) |
| Average invested assets amortized cost | \$ 12,776,598 | \$ 11,539,433 | 10.7% |
| Net investment income | 174,300 | 170,899 | 2.0% |
| Investment yield (ratio of net investment income to average invested assets) | 5.57% | 6.06% | (49)bps |

Investment yield decreased for the three months ended March 31, 2009, as the decline of certain key indices such as LIBOR, resulted in lower investment returns on the Company's floating rate investments. In addition, recent economic conditions, notably the tightening of credit, has resulted in new mandates to maintain a higher level of liquidity. Thus, the Company invested in highly liquid assets with shorter maturities than what was previously held in the portfolio, which, has also contributed to the decrease in the average yield of the portfolio.

All investments held by RGA and its subsidiaries are monitored for conformance to the qualitative and quantitative limits prescribed by the applicable jurisdiction's insurance laws and regulations. In addition, the operating

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companies' boards of directors periodically review their respective investment portfolios. The Company's investment strategy is to maintain a predominantly investment-grade, fixed maturity portfolio, to provide adequate liquidity for expected reinsurance obligations, and to maximize total return through prudent asset management. The Company's asset/liability duration matching differs between operating segments. Based on Canadian reserve requirements, the Canadian liabilities are matched with long-duration Canadian assets. The duration of the Canadian portfolio exceeds twenty years. The duration for all the Company's portfolios, when consolidated, ranges between eight and ten years. See Note 4 – Investments in the Notes to Consolidated Financial Statements of the 2008 Annual Report for additional information regarding the Company's investments.

The amortized cost, gross unrealized gains and losses, and estimated fair values of investments in fixed maturity securities and equity securities, the percentage that each sector represents by the total fixed maturity securities holdings and by the total equity securities holdings at March 31, 2009 and December 31, 2008 are as follows (dollars in thousands):

| | March 31, 2009 | | | | |
|--|-----------------------|---------------------|----------------------|----------------------------|---------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value | % of Total |
| Available-for-sale: | | | | | |
| U.S. corporate securities | \$3,779,317 | \$ 18,970 | \$ 696,017 | \$3,102,270 | 35.1% |
| Canadian and Canadian provincial governments | 1,498,249 | 326,243 | 17,230 | 1,807,262 | 20.5 |
| Residential mortgage-backed securities | 1,244,713 | 36,791 | 74,215 | 1,207,289 | 13.7 |
| Foreign corporate securities | 1,293,068 | 15,836 | 160,432 | 1,148,472 | 13.0 |
| Asset-backed securities | 511,088 | 4,538 | 130,421 | 385,205 | 4.3 |
| Commercial mortgage-backed securities | 1,087,722 | 4,621 | 370,351 | 721,992 | 8.2 |
| U.S. government and agencies | 3,306 | 465 | | 3,771 | |
| State and political subdivisions | 46,440 | | 11,859 | 34,581 | 0.4 |
| Other foreign government securities | 409,546 | 14,019 | 2,487 | 421,078 | 4.8 |
| Total fixed maturity securities | \$9,873,449 | \$421,483 | \$1,463,012 | \$8,831,920 | 100.0% |
| Non-redeemable preferred stock | \$ 175,594 | \$ 94 | \$ 86,463 | \$ 89,225 | 70.7% |
| Common stock | 40,200 | 75 | 3,344 | 36,931 | 29.3 |
| Total equity securities | \$ 215,794 | \$ 169 | \$ 89,807 | \$ 126,156 | 100.0% |

| | December 31, 2008 | | | | |
|--|--------------------------|---------------------|----------------------|----------------------------|---------------|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Estimated Fair Value | % of Total |
| Available-for-sale: | | | | | |
| U.S. corporate securities | \$3,577,116 | \$ 34,262 | \$ 598,745 | \$3,012,633 | 35.3% |
| Canadian and Canadian provincial governments | 1,500,511 | 397,899 | 7,171 | 1,891,239 | 22.2 |
| Residential mortgage-backed securities | 1,231,123 | 24,838 | 106,776 | 1,149,185 | 13.5 |

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| | | | | | |
|--|--------------------|------------------|--------------------|--------------------|---------------|
| Foreign corporate securities | 1,112,018 | 14,335 | 152,920 | 973,433 | 11.4 |
| Asset-backed securities | 484,577 | 2,098 | 147,297 | 339,378 | 4.0 |
| Commercial mortgage-backed securities | 1,085,062 | 2,258 | 326,730 | 760,590 | 8.9 |
| U.S. government and agencies | 7,555 | 876 | | 8,431 | 0.1 |
| State and political subdivisions | 46,537 | | 7,883 | 38,654 | 0.4 |
| Other foreign government securities | 338,349 | 20,062 | 150 | 358,261 | 4.2 |
| Total fixed maturity securities | \$9,382,848 | \$496,628 | \$1,347,672 | \$8,531,804 | 100.0% |
| Non-redeemable preferred stock | \$ 187,510 | \$ 49 | \$ 64,160 | \$ 123,399 | 77.4% |
| Common stock | 40,582 | | 4,607 | 35,975 | 22.6 |
| Total equity securities | \$ 228,092 | \$ 49 | \$ 68,767 | \$ 159,374 | 100.0% |

The Company's fixed maturity securities are invested primarily in commercial and industrial bonds, public utilities, U.S. and Canadian government securities, as well as mortgage- and asset-backed securities. As of March 31, 2009 and December 31, 2008, approximately 96.0% and 96.7%, respectively, of the Company's consolidated investment

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portfolio of fixed maturity securities was investment grade. Important factors in the selection of investments include diversification, quality, yield, total rate of return potential and call protection. The relative importance of these factors is determined by market conditions and the underlying product or portfolio characteristics. Cash equivalents are invested in high-grade money market instruments. The largest asset class in which fixed maturities were invested was in corporate securities, including commercial, industrial, finance and utility bonds, which represented approximately 48.1% of fixed maturity securities as of March 31, 2009, compared to 46.7% at December 31, 2008. The table below shows the major industry types and weighted average credit ratings, which comprise the U.S. and foreign corporate fixed maturity holdings at (dollars in thousands):

March 31, 2009

| | Amortized Cost | Estimated Fair Value | % of Total | Average Credit Ratings |
|-------------|-------------------|-------------------------|------------|------------------------------|
| Finance | \$1,402,093 | \$ 982,155 | 23.1% | A |
| Industrial | 1,736,425 | 1,537,898 | 36.2 | BBB+ |
| Foreign (1) | 1,293,068 | 1,148,472 | 27.0 | A |
| Utility | 602,973 | 551,523 | 13.0 | BBB+ |
| Other | 37,826 | 30,694 | 0.7 | AA- |
| Total | \$5,072,385 | \$4,250,742 | 100.0% | A- |

December 31, 2008

| | Amortized Cost | Estimated Fair Value | % of Total | Average Credit Ratings |
|-------------|-------------------|-------------------------|------------|------------------------------|
| Finance | \$1,475,205 | \$1,155,906 | 29.0% | A |
| Industrial | 1,520,330 | 1,339,200 | 33.6 | BBB+ |
| Foreign (1) | 1,112,018 | 973,433 | 24.4 | A |
| Utility | 542,737 | 480,809 | 12.1 | BBB+ |
| Other | 38,844 | 36,718 | 0.9 | AA- |
| Total | \$4,689,134 | \$3,986,066 | 100.0% | A- |

(1) Includes U.S. dollar-denominated debt obligations of foreign obligors and other foreign investments.

The National Association of Insurance Commissioners (NAIC) assigns securities quality ratings and uniform valuations called NAIC Designations which are used by insurers when preparing their annual statements. The NAIC assigns designations to publicly traded as well as privately placed securities. The designations assigned by the NAIC range from class 1 to class 6, with designations in classes 1 and 2 generally considered investment grade (BBB or

higher rating agency designation). NAIC designations in classes 3 through 6 are generally considered below investment grade (BB or lower rating agency designation).

As of March 31, 2009 and December 31, 2008, respectively, the Company classified approximately 17.9% and 17.1% of its fixed maturity securities in the Level 3 category in accordance with SFAS 157 (refer to Note 4 Fair Value Disclosures in the Notes to Condensed Consolidated Financial Statements for additional information). These securities primarily consist of private placement corporate securities with an inactive trading market. Additionally, the Company has included asset-backed securities with subprime exposure in the Level 3 category due to the current market uncertainty associated with these securities and the Company's utilization of information from third parties.

The quality of the Company's available-for-sale fixed maturity securities portfolio, as measured at fair value and by the percentage of fixed maturity securities invested in various ratings categories, relative to the entire available-for-sale fixed maturity security portfolio, at March 31, 2009 and December 31, 2008 was as follows (dollars in thousands):

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| NAIC Designation | Rating Agency Designation | March 31, 2009 | | | December 31, 2008 | | |
|---------------------|------------------------------|-------------------|-------------------------|---------------|-------------------|-------------------------|---------------|
| | | Amortized Cost | Estimated Fair Value | % of Total | Amortized Cost | Estimated Fair Value | % of Total |
| 1 | AAA/AA/A | \$ 7,045,700 | \$ 6,597,484 | 74.7% | \$ 7,001,968 | \$ 6,607,730 | 77.4% |
| 2 | BBB | 2,284,836 | 1,877,063 | 21.3 | 1,991,276 | 1,649,513 | 19.3 |
| 3 | BB | 386,137 | 260,276 | 2.9 | 268,276 | 195,088 | 2.3 |
| 4 | B | 88,213 | 53,946 | 0.6 | 77,830 | 50,064 | 0.6 |
| 5 | CCC and lower | 61,502 | 36,804 | 0.4 | 33,945 | 22,538 | 0.3 |
| 6 | In or near default | 7,061 | 6,347 | 0.1 | 9,553 | 6,871 | 0.1 |
| | Total | \$ 9,873,449 | \$ 8,831,920 | 100.0% | \$ 9,382,848 | \$ 8,531,804 | 100.0% |

The Company's fixed maturity portfolio includes structured securities. The following table shows the types of structured securities the Company held at (dollars in thousands):

| | March 31, 2009 | | December 31, 2008 | |
|--|-------------------|-------------------------|-------------------|-------------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| Residential mortgage-backed securities: | | | | |
| Agency | \$ 796,869 | \$ 829,447 | \$ 851,507 | \$ 868,479 |
| Non-agency | 447,844 | 377,842 | 379,616 | 280,706 |
| Total residential mortgage-backed securities | 1,244,713 | 1,207,289 | 1,231,123 | 1,149,185 |
| Commercial mortgage-backed securities | 1,087,722 | 721,992 | 1,085,062 | 760,590 |
| Asset-backed securities | 511,088 | 385,205 | 484,577 | 339,378 |
| Total | \$2,843,523 | \$2,314,486 | \$2,800,762 | \$2,249,153 |

The residential mortgage backed securities include agency-issued pass-through securities, collateralized mortgage obligations, a majority of which are guaranteed or otherwise supported by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, or the Government National Mortgage Association. As of March 31, 2009 and December 31, 2008, the weighted average credit rating was AA+. The principal risks inherent in holding mortgage-backed securities are prepayment and extension risks, which will affect the timing of when cash will be received and are dependent on the level of mortgage interest rates. Prepayment risk is the unexpected increase in principal payments, primarily as a result of owner refinancing. Extension risk relates to the unexpected slowdown in principal payments. In addition, mortgage-backed securities face default risk should the borrower be unable to pay the contractual interest or principal on their obligation. The Company monitors its mortgage-backed securities to mitigate exposure to the cash flow uncertainties associated with these risks.

As of March 31, 2009 and December 31, 2008, the Company had exposure to commercial mortgage-backed securities with amortized costs totaling \$1,596.7 million and \$1,573.4 million, and estimated fair values of \$1,107.9 million and \$1,143.3 million, respectively. Those amounts include exposure to commercial mortgage-backed securities held directly in the Company's investment portfolios within fixed maturity securities, as well as securities held by ceding companies that support the Company's funds withheld at interest investment. The securities are highly rated with weighted average S&P credit ratings of approximately AA+ at March 31, 2009 and December 31, 2008. Approximately 75.5% and 76.3% were classified in the AAA category at March 31, 2009 and December 31, 2008, respectively. The Company did not record any other-than-temporary impairments in its direct investments in

commercial mortgage-backed securities during the first quarter of 2009 or 2008, respectively. The following tables summarize the securities by rating and underwriting year at March 31, 2009 and December 31, 2008 (dollars in thousands):

Table of Contents**March 31, 2009**

| Underwriting Year | AAA | | AA | | A | |
|-------------------|--------------------|------------------|------------------|-----------------|------------------|-----------------|
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$ 236,597 | \$241,379 | \$ 24,642 | \$19,591 | \$ 23,571 | \$14,142 |
| 2004 | 50,560 | 45,563 | 2,352 | 1,124 | 11,528 | 4,296 |
| 2005 | 210,372 | 135,564 | 2,533 | 755 | 54,179 | 29,328 |
| 2006 | 292,923 | 210,546 | 21,888 | 10,352 | 32,905 | 21,502 |
| 2007 | 370,613 | 241,694 | 50,753 | 12,593 | 59,212 | 19,074 |
| 2008 | 38,522 | 36,068 | 19,108 | 8,919 | 16,570 | 8,943 |
| 2009 | 5,228 | 5,255 | | | | |
| Total | \$1,204,815 | \$916,069 | \$121,276 | \$53,334 | \$197,965 | \$97,285 |

| Underwriting Year | BBB | | Below Investment Grade | | Total | |
|-------------------|-----------------|-----------------|------------------------|-----------------|--------------------|--------------------|
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$24,124 | \$13,836 | \$ | \$ | \$ 308,934 | \$ 288,948 |
| 2004 | | | | | 64,440 | 50,983 |
| 2005 | 3,690 | 1,465 | | | 270,774 | 167,112 |
| 2006 | 13,824 | 7,768 | 18,130 | 10,379 | 379,670 | 260,547 |
| 2007 | | | | | 480,578 | 273,361 |
| 2008 | 12,842 | 7,777 | | | 87,042 | 61,707 |
| 2009 | | | | | 5,228 | 5,255 |
| Total | \$54,480 | \$30,846 | \$18,130 | \$10,379 | \$1,596,666 | \$1,107,913 |

December 31, 2008

| Underwriting Year | AAA | | AA | | A | |
|-------------------|--------------------|------------------|------------------|-----------------|------------------|------------------|
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$ 250,720 | \$254,690 | \$ 24,276 | \$17,518 | \$ 28,432 | \$ 16,744 |
| 2004 | 50,245 | 46,737 | 2,147 | 999 | 10,603 | 3,835 |
| 2005 | 200,140 | 136,101 | 2,530 | 682 | 54,173 | 30,079 |
| 2006 | 306,478 | 234,575 | 16,219 | 6,074 | 45,346 | 31,379 |
| 2007 | 362,226 | 256,163 | 50,648 | 14,343 | 59,013 | 20,636 |
| 2008 | 30,017 | 28,501 | 23,387 | 10,698 | 18,342 | 11,186 |
| Total | \$1,199,826 | \$956,767 | \$119,207 | \$50,314 | \$215,909 | \$113,859 |

| Underwriting Year | BBB | | Below Investment Grade | | Total | |
|-------------------|----------------|----------------------|------------------------|----------------------|----------------|----------------------|
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| 2003 & Prior | \$18,144 | \$11,938 | \$ | \$ | \$ 321,572 | \$ 300,890 |
| 2004 | | | | | 62,995 | 51,571 |
| 2005 | 3,679 | 776 | | | 260,522 | 167,638 |
| 2006 | 15,283 | 8,709 | 1,305 | 941 | 384,631 | 281,678 |
| 2007 | | | | | 471,887 | 291,142 |
| 2008 | | | | | 71,746 | 50,385 |
| Total | \$37,106 | \$21,423 | \$1,305 | \$941 | \$1,573,353 | \$1,143,304 |

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Asset-backed securities include credit card and automobile receivables, subprime and Alt-A securities, home equity loans, manufactured housing bonds and collateralized debt obligations. The Company's asset-backed securities are diversified by issuer and contain both floating and fixed rate securities and had a weighted average credit rating of AA at March 31, 2009 and December 31, 2008. The Company owns floating rate securities that represent approximately 19.2% and 20.0% of the total fixed maturity securities at March 31, 2009 and December 31, 2008, respectively. These investments have a higher degree of income variability than the other fixed income holdings in the portfolio due to the floating rate nature of the interest payments. The Company holds these investments to match specific floating rate liabilities primarily reflected in the condensed consolidated balance sheets as collateral finance facility. In addition to the risks associated with floating rate securities, principal risks in holding asset-backed securities are structural, credit and capital market risks. Structural risks include the securities' priority in the issuer's capital structure, the adequacy of and ability to realize proceeds from collateral, and the potential for prepayments. Credit risks include consumer or corporate credits such as credit card holders, equipment lessees, and corporate obligors. Capital market risks include general level of interest rates and the liquidity for these securities in the marketplace.

As of March 31, 2009 and December 31, 2008, the Company held investments in securities with subprime mortgage exposure with amortized costs totaling \$202.5 million and \$230.1 million, and estimated fair values of \$126.6 million and \$147.8 million, respectively. Those amounts include exposure to subprime mortgages through securities held directly in the Company's investment portfolios within asset-backed securities, as well as securities backing the Company's funds withheld at interest investment. The securities are highly rated with weighted average S&P credit ratings of approximately A at March 31, 2009 and AA- at December 31, 2008. Additionally, the Company has largely avoided directly investing in securities originated since the second half of 2005, which management believes was a period of lessened underwriting quality. During the three months ended March 31, 2009, the Company recorded \$13.4 million of other-than-temporary write-downs in its subprime portfolio due primarily to the increased likelihood that some or all of the remaining scheduled principal and interest payments on select securities will not be received. The Company did not record any other-than-temporary write-downs in its subprime portfolio during the three months ended March 31, 2008. The following tables summarize the securities by rating and underwriting year at March 31, 2009 and December 31, 2008 (dollars in thousands):

| Underwriting Year | March 31, 2009 | | | | | |
|-------------------|----------------|----------------------|----------------|----------------------|----------------|----------------------|
| | AAA | | AA | | A | |
| | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value | Amortized Cost | Estimated Fair Value |
| 2003 & Prior | \$10,616 | \$ 7,543 | \$ 1,102 | \$ 570 | \$ 1,748 | \$ 696 |
| 2004 | | | 14,945 | 9,884 | 32,593 | 25,223 |
| 2005 | 25,386 | 19,843 | 32,779 | 23,779 | 13,972 | 7,730 |
| 2006 | | | | | 3,370 | 1,638 |
| 2007 | | | | | | |
| 2008 | | | | | | |
| 2009 | | | | | | |
| Total | \$36,002 | \$27,386 | \$48,826 | \$34,233 | \$51,683 | \$35,287 |

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| Underwriting Year | March 31, 2009 | | | | | |
|-------------------|-----------------------|-----------------|------------------------|-----------------|------------------|------------------|
| | BBB | | Below Investment Grade | | Total | |
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$ 5,623 | \$ 3,230 | \$ 798 | \$ 80 | \$ 19,887 | \$ 12,119 |
| 2004 | | | 3,371 | 3,367 | 50,909 | 38,474 |
| 2005 | 18,362 | 9,239 | 18,086 | 1,696 | 108,585 | 62,287 |
| 2006 | 4,500 | 2,081 | 579 | 575 | 8,449 | 4,294 |
| 2007 | 888 | 318 | 13,819 | 9,141 | 14,707 | 9,459 |
| 2008 | | | | | | |
| 2009 | | | | | | |
| Total | \$29,373 | \$14,868 | \$36,653 | \$14,859 | \$202,537 | \$126,633 |

| Underwriting Year | December 31, 2008 | | | | | |
|-------------------|--------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | AAA | | AA | | A | |
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$11,007 | \$ 9,116 | \$ 6,509 | \$ 4,320 | \$ 1,813 | \$ 1,227 |
| 2004 | | | 21,220 | 13,437 | 33,728 | 26,228 |
| 2005 | 37,134 | 27,793 | 36,424 | 26,471 | 6,514 | 2,582 |
| 2006 | 135 | 134 | 4,500 | 2,076 | 4,998 | 1,991 |
| 2007 | | | 888 | 283 | | |
| 2008 | | | | | | |
| Total | \$48,276 | \$37,043 | \$69,541 | \$46,587 | \$47,053 | \$32,028 |

| Underwriting Year | March 31, 2009 | | | | | |
|-------------------|-----------------------|-----------------|------------------------|-----------------|------------------|------------------|
| | BBB | | Below Investment Grade | | Total | |
| | Amortized | Estimated | Amortized | Estimated | Amortized | Estimated |
| | Cost | Fair Value | Cost | Fair Value | Cost | Fair Value |
| 2003 & Prior | \$ 413 | \$ 77 | \$ 807 | \$ 106 | \$ 20,549 | \$ 14,846 |
| 2004 | | | 7,900 | 5,727 | 62,848 | 45,392 |
| 2005 | 11,908 | 6,529 | 17,905 | 5,739 | 109,885 | 69,114 |
| 2006 | 3,442 | 2,618 | 3,287 | 449 | 16,362 | 7,268 |
| 2007 | | | 19,588 | 10,880 | 20,476 | 11,163 |
| 2008 | | | | | | |
| Total | \$15,763 | \$ 9,224 | \$49,487 | \$22,901 | \$230,120 | \$147,783 |

Alternative residential mortgage loans (Alt-A) are a classification of mortgage loans where the risk profile of the borrower falls between prime and sub-prime. At March 31, 2009 and December 31, 2008, the Company s Alt-A residential mortgage-backed securities exposure was \$201.9 million and \$197.7 million, respectively, with an unrealized loss of \$28.7 million and \$39.9 million, respectively. 77.3% of the Alt-A securities were rated BBB or better as of March 31, 2009. This amount includes securities directly held by the Company and securities backing the Company s funds withheld at interest investment. For the three months ended March 31, 2009, the Company recorded other-than-temporary impairments of \$5.6 million in its Alt-A portfolio due primarily to the increased likelihood that some or all of the remaining scheduled principal and interest payments on select securities will not be received. The Company did not record any other-than-temporary write-downs in its Alt-A portfolio during the three months ended March 31, 2008.

The Company s fixed maturity and funds withheld portfolios include approximately \$511.8 million in estimated fair

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value of securities that are insured by various financial guarantors, or less than five percent of consolidated investments. The securities are diversified between municipal bonds and asset-backed securities with well diversified collateral pools. The Company invests in insured collateralized debt obligation (CDO) structures backing subprime investments of approximately \$0.1 million at March 31, 2009. The insured securities are primarily investment grade, at issuance, without the benefit of the insurance provided by the financial guarantor and therefore the Company does not expect to incur significant realized losses as a result of the recent financial difficulties encountered by several of the financial guarantors. In addition to the insured securities, the Company held investment-grade securities issued by four of the financial guarantors totaling \$13.4 million in amortized cost.

The Company does not invest in the common equity securities of Fannie Mae and Freddie Mac, both government sponsored entities; however, as of March 31, 2009, the Company holds in its general portfolio a book value of \$50.7 million amortized cost in direct exposure in the form of senior unsecured and preferred securities. Additionally, as of March 31, 2009, the portfolios held by the Company's ceding companies that support its funds withheld asset contain about \$351.6 million in amortized cost of direct unsecured holdings and no equity exposure. As of March 31, 2009, indirect exposure in the form of secured, structured mortgaged securities issued by Fannie Mae and Freddie Mac totals about \$1.0 billion in amortized cost across the Company's general and funds withheld portfolios. Including the funds withheld portfolios, the Company's direct holdings in the form of preferred securities total a book value of \$0.7 million. As a result of the U.S government intervention and cessation of dividend payments, the Company recorded an other-than-temporary impairment of its preferred holdings of Fannie Mae and Freddie Mac totaling \$12.2 million in 2008. The Company did not record any further other-than-temporary impairments on its preferred holdings of Fannie Mae and Freddie Mac in 2009.

The Company monitors its fixed maturity securities and equity securities to determine impairments in value and evaluates factors such as financial condition of the issuer, payment performance, the length of time and the extent to which the market value has been below amortized cost, compliance with covenants, general market conditions and industry sector, current intent and ability to hold securities and various other subjective factors. Based on management's judgment, securities determined to have an other-than-temporary impairment in value are written down to fair value. The Company recorded \$39.8 million in other-than-temporary write-downs on fixed maturity securities and equity securities for the three months ended March 31, 2009. The write-downs are due primarily to the continued turmoil in the U.S. and global financial markets which has resulted in bankruptcies, consolidations and government interventions. The Company recorded \$5.2 million in other-than-temporary write-downs on fixed maturity securities for the three months ended March 31, 2008. The table below summarizes impairment write-downs for the three-month period ended March 31, 2009 (dollars in thousands).

| Asset Class | Impairment |
|--|------------|
| Subprime / Alt-A / Other structured securities | \$ 20,609 |
| Below investment grade corporate securities | 13,785 |
| Equity securities | 5,431 |
| Total | \$ 39,825 |

During the three months ended March 31, 2009 and 2008, the Company sold fixed maturity securities and equity securities with fair values of \$108.4 million and \$141.3 million at losses of \$22.0 million and \$8.9 million, respectively, or at 83.1% and 94.1% of book value, respectively. Generally, such losses are insignificant in relation to the cost basis of the investment and are largely due to changes in interest rates from the time the security was purchased. The securities are classified as available-for-sale in order to meet the Company's operational and other cash flow requirements. The Company does not engage in short-term buying and selling of securities to generate gains or losses.

At March 31, 2009 and December 31, 2008, the Company had \$1,552.8 million and \$1,416.4 million, respectively, of gross unrealized losses related to its fixed maturity and equity securities. These securities are concentrated, calculated as a percentage of gross unrealized losses, as follows:

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| | March 31, 2009 | December 31, 2008 |
|--|-------------------------------|----------------------------------|
| Sector: | | |
| U.S. corporate securities | 51% | 46% |
| Canadian and Canada provincial governments | 1 | 1 |
| Residential mortgage-backed securities | 5 | 7 |
| Foreign corporate securities | 10 | 12 |
| Asset-backed securities | 8 | 10 |
| Commercial mortgage-backed securities | 24 | 23 |
| State and political subdivisions | 1 | 1 |
| Total | 100% | 100% |
| Industry: | | |
| Finance | 39% | 33% |
| Asset-backed | 8 | 10 |
| Industrial | 17 | 19 |
| Mortgage-backed | 29 | 31 |
| Government | 2 | 1 |
| Utility | 4 | 6 |
| Other | 1 | |
| Total | 100% | 100% |

The following table presents the total gross unrealized losses for 1,794 and 1,716 fixed maturity securities and equity securities as of March 31, 2009 and December 31, 2008, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

| | March 31, 2009 | | | December 31, 2008 | | |
|--|----------------------------|-------------------------------|------------|----------------------------|-------------------------------|------------|
| | Number of Securities | Gross Unrealized Losses | % of Total | Number of Securities | Gross Unrealized Losses | % of Total |
| Less than 20% | 1,075 | \$ 321,366 | 20.7% | 980 | \$ 324,390 | 22.9% |
| 20% or more for less than six months | 280 | 417,560 | 26.9 | 561 | 796,747 | 56.3 |
| 20% or more for six months or greater | 439 | 813,893 | 52.4 | 175 | 295,302 | 20.8 |
| Total | 1,794 | \$1,552,819 | 100.0% | 1,716 | \$1,416,439 | 100.0% |

The investment securities in an unrealized loss position as of March 31, 2009 consisted of 1,794 securities with unrealized losses of \$1,552.8 million. Of these unrealized losses, 86.4% were investment grade and 20.7% were less than 20% below cost. The amount of the unrealized loss on these securities was primarily attributable to increases in interest rates, including a widening of credit default spreads. The increase in the number of securities at a loss greater than 20% or more for six months or greater reflects the continued effects of adverse economic conditions.

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

The following tables present the estimated fair values and gross unrealized losses for the 1,794 and 1,716 fixed maturity securities and equity securities that have estimated fair values below amortized cost as of March 31, 2009 and December 31, 2008, respectively. These investments are presented by class and grade of security, as well as the length of time the related market value has remained below amortized cost.

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| (dollars in thousands) | As of March 31, 2009 | | | | | |
|--|-----------------------------|-------------------------------|---|-------------------------------|-------------------------|-------------------------------|
| | Less than 12 months | | Equal to or greater than 12 months | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Investment grade securities: | | | | | | |
| U.S. corporate securities | \$ 1,137,224 | \$ 172,194 | \$ 1,141,332 | \$ 399,942 | \$ 2,278,556 | \$ 572,136 |
| Canadian and Canadian provincial governments | 242,153 | 8,484 | 106,505 | 8,746 | 348,658 | 17,230 |
| Residential mortgage-backed securities | 105,818 | 21,388 | 275,684 | 37,384 | 381,502 | 58,772 |
| Foreign corporate securities | 486,332 | 53,748 | 219,760 | 89,413 | 706,092 | 143,161 |
| Asset-backed securities | 90,759 | 20,779 | 189,007 | 86,683 | 279,766 | 107,462 |
| Commercial mortgage-backed securities | 419,538 | 212,518 | 234,307 | 156,252 | 653,845 | 368,770 |
| State and political subdivisions | 5,945 | 547 | 25,637 | 6,288 | 31,582 | 6,835 |
| Other foreign government securities | 97,393 | 2,195 | 3,524 | 292 | 100,917 | 2,487 |
| Investment grade securities | 2,585,162 | 491,853 | 2,195,756 | 785,000 | 4,780,918 | 1,276,853 |
| Non-investment grade securities: | | | | | | |
| U.S. corporate securities | 128,276 | 36,070 | 120,981 | 87,811 | 249,257 | 123,881 |
| Asset-backed securities | 7,853 | 5,788 | 10,407 | 17,171 | 18,260 | 22,959 |
| Foreign corporate securities | 20,208 | 7,090 | 12,383 | 10,181 | 32,591 | 17,271 |
| Residential mortgage-backed securities | 16,312 | 4,411 | 11,301 | 11,032 | 27,613 | 15,443 |
| Commercial mortgage-backed securities | | | 213 | 1,581 | 213 | 1,581 |
| State and political subdivisions | | | 3,000 | 5,024 | 3,000 | 5,024 |

| | | | | | | |
|--|-------------|-----------|-------------|-----------|-------------|-------------|
| Non-investment grade securities | 172,649 | 53,359 | 158,285 | 132,800 | 330,934 | 186,159 |
| Total fixed maturity securities | \$2,757,811 | \$545,212 | \$2,354,041 | \$917,800 | \$5,111,852 | \$1,463,012 |
| Equity securities | \$ 49,880 | \$ 30,666 | \$ 48,636 | \$ 59,141 | \$ 98,516 | \$ 89,807 |
| Total number of securities in an unrealized loss position | 929 | | 865 | | 1,794 | |

| (dollars in thousands) | As of December 31, 2008 | | | | | |
|--|--------------------------------|-------------------------|---|-------------------------|----------------------|-------------------------|
| | Less than 12 months | | Equal to or greater than 12 months | | Total | |
| | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Investment grade securities: | | | | | | |
| U.S. corporate securities | \$1,407,547 | \$240,299 | \$ 810,115 | \$281,947 | \$2,217,662 | \$ 522,246 |
| Canadian and Canadian provincial governments | 114,754 | 2,751 | 89,956 | 4,420 | 204,710 | 7,171 |
| Residential mortgage-backed securities | 190,525 | 58,026 | 213,310 | 39,794 | 403,835 | 97,820 |
| Foreign corporate securities | 508,102 | 82,490 | 140,073 | 59,816 | 648,175 | 142,306 |
| Asset-backed securities | 118,608 | 40,139 | 173,505 | 99,147 | 292,113 | 139,286 |
| Commercial mortgage-backed securities | 523,475 | 200,567 | 188,638 | 126,163 | 712,113 | 326,730 |
| State and political subdivisions | 20,403 | 1,947 | 18,250 | 5,936 | 38,653 | 7,883 |
| Other foreign government securities | 16,419 | 33 | 4,125 | 117 | 20,544 | 150 |
| Investment grade securities | 2,899,833 | 626,252 | 1,637,972 | 617,340 | 4,537,805 | 1,243,592 |

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| Continued | As of December 31, 2008 | | | | | |
|--|-------------------------|-------------------------|------------------------------------|-------------------------|----------------------|-------------------------|
| | Less than 12 months | | Equal to or greater than 12 months | | Total | |
| (dollars in thousands) | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses | Estimated Fair Value | Gross Unrealized Losses |
| Non-investment grade securities: | | | | | | |
| U.S. corporate securities | 140,426 | 36,615 | 60,378 | 39,884 | 200,804 | 76,499 |
| Asset-backed securities | 3,465 | 2,060 | 11,156 | 5,951 | 14,621 | 8,011 |
| Foreign corporate securities | 24,637 | 7,227 | 2,032 | 3,387 | 26,669 | 10,614 |
| Residential mortgage-backed securities | 8,089 | 5,944 | 4,496 | 3,012 | 12,585 | 8,956 |
| Non-investment grade securities | 176,617 | 51,846 | 78,062 | 52,234 | 254,679 | 104,080 |
| Total fixed maturity securities | \$3,076,450 | \$678,098 | \$1,716,034 | \$669,574 | \$4,792,484 | \$1,347,672 |
| Equity securities | \$ 61,180 | \$ 26,923 | \$ 61,249 | \$ 41,844 | \$ 122,429 | \$ 68,767 |
| Total number of securities in an unrealized loss position | 1,039 | | 677 | | 1,716 | |

As of March 31, 2009, the Company has the ability and intent to hold these investment securities until the recovery of the fair value up to the current cost of the investment, which may be maturity. However, from time to time when facts and circumstances arise, the Company may sell securities in the ordinary course of managing its portfolio to meet diversification, credit quality, yield enhancement, asset-liability management and liquidity requirements.

Mortgage loans represented approximately 4.7% of the Company's cash and invested assets as of March 31, 2009 and December 31, 2008, respectively. The Company's mortgage loan portfolio consists principally of investments in U.S.-based commercial offices, light industrial properties and retail locations. The mortgage loan portfolio is diversified by geographic region and property type.

Valuation allowances on mortgage loans are established based upon losses expected by management to be realized in connection with future dispositions or settlement of mortgage loans, including foreclosures. The valuation allowances are established after management considers, among other things, the value of underlying collateral and payment capabilities of debtors. Any subsequent adjustments to the valuation allowances will be treated as investment gains or losses. Information regarding the Company's loan valuation allowances for mortgage loans as of March 31, 2009 is as follows (dollars in thousands):

**Three Months
Ended**

| | March 31, 2009 | |
|------------------------------|-----------------------|-------|
| Balance, beginning of period | \$ | 526 |
| Additions | | 1,288 |
| Deductions | | (401) |
| Balance, end of period | \$ | 1,413 |

Information regarding the portion of the Company's mortgage loans that were impaired as of March 31, 2009 and December 31, 2008 is as follows (dollars in thousands):

| | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| Impaired loans with valuation allowances | \$ 12,338 | \$ 3,853 |
| Impaired loans without valuation allowances | 2,097 | 18,125 |
| Subtotal | 14,435 | 21,978 |
| Less: Valuation allowances on impaired loans | 1,413 | 526 |
| Impaired loans | \$ 13,022 | \$ 21,452 |

The Company's average investment in impaired loans was \$3.6 million and \$3.7 million for the three months ended March 31, 2009 and 2008, respectively. Interest income on impaired loans was \$0.2 million and \$1.3 million for the three months ended March 31, 2009 and 2008, respectively.

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Policy loans comprised approximately 6.6% and 6.7% of the Company's cash and invested assets as of March 31, 2009 and December 31, 2008, respectively, substantially all of which are associated with one client. These policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

Funds withheld at interest comprised approximately 27.5% and 27.4% of the Company's cash and invested assets as of March 31, 2009 and December 31, 2008, respectively. For agreements written on a modified coinsurance basis and certain agreements written on a coinsurance basis, assets equal to the net statutory reserves are withheld and legally owned and managed by the ceding company, and are reflected as funds withheld at interest on the Company's condensed consolidated balance sheet. In the event of a ceding company's insolvency, the Company would need to assert a claim on the assets supporting its reserve liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest accrues to these assets at rates defined by the treaty terms. The Company is subject to the investment performance on the withheld assets, although it does not directly control them. These assets are primarily fixed maturity investment securities and pose risks similar to the fixed maturity securities the Company owns. The underlying portfolios also include options related to equity-indexed annuity products. The market value changes associated with these investments have caused some volatility in reported investment income. This is largely offset by a corresponding change in interest credited, with minimal impact on income before taxes. To mitigate risk, the Company helps set the investment guidelines followed by the ceding company and monitors compliance. Ceding companies with funds withheld at interest had an average rating of A at March 31, 2009 and A+ at December 31, 2008. Certain ceding companies maintain segregated portfolios for the benefit of the Company.

Other invested assets represented approximately 3.5% and 3.8% of the Company's cash and invested assets as of March 31, 2009 and December 31, 2008, respectively. Other invested assets include equity securities, non-redeemable preferred stocks, limited partnership interests, structured loans and derivative contracts. Carrying values of these assets as of March 31, 2009 and December 31, 2008 are as follows (dollars in thousands):

| | March 31, 2009 | December 31, 2008 |
|------------------------------------|---------------------------|------------------------------|
| Equity securities | \$ 36,931 | \$ 35,975 |
| Non-redeemable preferred stock | 89,225 | 123,399 |
| Limited partnerships | 142,118 | 140,077 |
| Structured loans | 109,418 | 101,380 |
| Derivatives | 173,086 | 206,341 |
| Other | 32,006 | 21,477 |
| Total other invested assets | \$582,784 | \$ 628,649 |

The Company recorded \$5.4 million in other-than-temporary write-downs on equity securities in the first three months of 2009. The Company did not record any other-than-temporary write-downs on its other invested assets in the first three months of 2008. The Company may be exposed to credit-related losses in the event of non-performance 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 less collateral held by the Company. The credit exposure of the Company's derivative transactions is represented by the fair value of contracts with a net positive fair value position at the reporting date. At March 31, 2009, the Company had credit exposure of \$173.1 million related to its derivative contracts of which \$106.8 million were collateralized with cash collateral from the counterparty.

Table of Contents**Contractual Obligations**

From December 31, 2008 to March 31, 2009, the value of the Company's obligation for payables for collateral received under derivative contracts decreased by \$53.0 million due to a change in the value of the underlying derivatives. There were no other material changes in the Company's contractual obligations from those reported in the 2008 Annual Report.

Mortality Risk Management

In the event that mortality or morbidity experience develops in excess of expectations, some reinsurance treaties allow for increases to future premium rates. Other treaties include experience refund provisions, which may also help reduce RGA's mortality risk. In the normal course of business, the Company seeks to limit its exposure to loss on any single insured and to recover a portion of claims paid by ceding reinsurance to other insurance enterprises or retrocessionaires under excess coverage and coinsurance contracts. In the U.S., the Company retains a maximum of \$8.0 million of coverage per individual life. In certain limited situations, due to the acquisition of in force blocks of business, the Company has retained more than \$8.0 million per individual policy. In total, there are 19 such cases of over-retained policies, for amounts averaging \$2.4 million over the Company's normal retention limit. The largest amount over-retained on any one life is \$10.1 million. The Company enters into agreements with other reinsurers to help mitigate the risk related to the over-retained policies. For other countries, particularly those with higher risk factors or smaller books of business, the Company systematically reduces its retention. The Company has a number of retrocession arrangements whereby certain business in force is retroceded on an automatic or facultative basis.

The Company maintains a catastrophe insurance program (Program) that renews on March 7th of each year. The current Program began September 7, 2008, and covers events involving 10 or more insured deaths from a single occurrence. The Company retains the first \$10 million in claims, the Program covers the next \$50 million in claims, and the Company retains all claims in excess of \$60 million. The Program covers reinsurance programs worldwide and includes losses due to acts of terrorism, including terrorism losses due to nuclear, chemical and/or biological events. The Program excludes losses from earthquakes occurring in California and also excludes losses from pandemics. The Program is insured by eleven insurance companies and Lloyd's Syndicates, with no single entity providing more than \$10 million of coverage.

Counterparty Risk Reinsurance

In the normal course of business, the Company seeks to limit its exposure to reinsurance contracts by ceding a portion of the reinsurance to other insurance companies or reinsurers. Should a counterparty not be able to fulfill its obligation to the Company under a reinsurance agreement, the impact could be material to the Company's financial condition and results of operations.

Generally, RGA's insurance subsidiaries retrocede amounts in excess of their retention to RGA Reinsurance, RGA Reinsurance Company (Barbados) Ltd., RGA Americas Reinsurance Company, Ltd., RGA Worldwide Reinsurance Company, Ltd. or RGA Atlantic Reinsurance Company, Ltd. External retrocessions are arranged through the Company's retrocession pools for amounts in excess of its retention. As of March 31, 2009, all retrocession pool members in this excess retention pool reviewed by the A.M. Best Company were rated A-, the fourth highest rating out of fifteen possible ratings, or better. For a majority of the retrocessionaires that are not rated, letters of credit or trust assets have been given as additional security in favor of RGA Reinsurance. In addition, the Company performs annual financial and in force reviews of its retrocessionaires to evaluate financial stability and performance.

The Company has never experienced a material default in connection with retrocession arrangements, nor has it experienced any material difficulty in collecting claims recoverable from retrocessionaires; however, no assurance can be given as to the future performance of such retrocessionaires or as to the recoverability of any such claims.

The Company relies upon its clients to provide timely, accurate information. The Company may experience volatility in its earnings as a result of erroneous or untimely reporting from its clients. The Company works closely with its clients and monitors this risk in an effort to minimize its exposure.

Market Risk

Market risk is the risk of loss that may occur when fluctuations in interest and currency exchange rates and equity and commodity prices change the value of a financial instrument. Since both derivative and nonderivative financial

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instruments have market risk, the Company's risk management extends beyond derivatives to encompass all financial instruments held. The Company is primarily exposed to interest rate risk, including credit spreads, and foreign currency risk.

Interest rate risk arises from many of the Company's primary activities, as the Company invests substantial funds in interest-sensitive assets and also has certain interest-sensitive contract liabilities. The Company manages interest rate risk and credit risk to maximize the return on the Company's capital effectively and to preserve the value created by its business operations. As such, certain management monitoring processes are designed to minimize the impact of sudden and sustained changes in interest rates on fair value, cash flows, and interest income.

The Company is subject to foreign currency translation, transaction, and net income exposure. The Company manages its exposure to currency principally by matching invested assets with the underlying reinsurance liabilities to the extent possible. As of March 31, 2009, the Company had in place a net investment hedge of a portion of its investment in Canada operations. Translation differences resulting from translating foreign subsidiary balances to U.S. dollars are reflected in stockholders' equity on the condensed consolidated balance sheets. The Company generally does not hedge the foreign currency exposure of its subsidiaries transacting business in currencies other than their functional currency (transaction exposure). The majority of the Company's foreign currency transactions are denominated in Canadian dollars, British pounds, Australian dollars, Japanese yen, Korean won, euros and the South African rand.

The Company reinsures variable annuities including those with guaranteed minimum benefits and guaranteed minimum death benefits (GMDB), guaranteed minimum income benefits (GMIB), guaranteed minimum accumulation benefits (GMAB) and guaranteed minimum withdrawal benefits (GMWB). The table below provides a summary of variable annuity account values and the fair value of the guaranteed benefits as of March 31, 2009 and December 31, 2008.

| (dollars in millions) | March 31, 2009 | December 31, 2008 |
|--|---------------------------|------------------------------|
| No guaranteed minimum benefits | \$1,041.3 | \$ 1,063.1 |
| GMDB only | 58.3 | 53.5 |
| GMIB only | 4.3 | 3.9 |
| GMAB only | 47.5 | 43.7 |
| GMWB only | 1,179.7 | 795.0 |
| GMDB / WB | 315.6 | 287.1 |
| Other | 26.0 | 24.3 |
| Total variable annuity account values | \$2,672.7 | \$ 2,270.6 |

| | | |
|--|----------|----------|
| Fair value of guaranteed living benefits | \$ 241.2 | \$ 276.4 |
|--|----------|----------|

There has been no significant change in the Company's quantitative or qualitative aspects of market risk during the quarter ended March 31, 2009 from that disclosed in the 2008 Annual Report.

New Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP FAS 107-1 and APB 28-1). FSP FAS 107-1 and APB 28-1 expands existing disclosures regarding fair value of financial instruments required in annual reports to interim periods. The disclosures required by FSP FAS 107-1 and APB 28-1 are effective for interim reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 107-1 and APB 28-1 on its condensed consolidated financial statements.

In April 2009, the FASB issued FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for Asset or Liability Have Significantly Decreased and Identifying Transactions That are Not Orderly, (FSP FAS 157-4). FSP FAS 157-4 provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume

and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 is effective prospectively for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 157-4 on its condensed consolidated financial statements.

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In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, (FSP FAS 115-2 and FAS 124-2). FSP FAS 115-2 and FAS 124-2 amends other-than-temporary impairment guidance in GAAP for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 are effective for interim and annual reporting periods ending after June 15, 2009. The Company is currently evaluating the impact of FSP FAS 115-2 and FAS 124-2 on its condensed consolidated financial statements.

In January 2009, the FASB issued FSP Emerging Issues Task Force (EITF) Issue 99-20-1, *Amendments to the Impairment Guidance of EITF Issue No. 99-20 (EITF 99-20-1)*. EITF 99-20-1 provides guidance on determining other-than-temporary impairments on securities subject to EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests That Continue to Be Held by a Transferor in Securitized Financial Assets*. The primary effect of EITF 99-20-1 was to remove the requirement that a holder attempt to determine the underlying cash flows on an asset-backed security based on the assumptions that a market participant would make in determining the current fair value of the instrument. Instead, the focus has been placed on determining the estimated cash flows as determined by the holder for all sources including its own comprehensive credit analysis. The provisions of EITF 99-20-1 were required to be applied prospectively for interim periods and fiscal years ending after December 15, 2008. The Company's adoption of EITF 99-20-1 did not have a significant impact on how the Company values its structured investment securities.

In December 2008, the FASB issued FSP No. FAS 132(r)-1, *Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(r)-1)*. FSP 132(r)-1 provides guidance for disclosure of the types of assets and associated risks in retirement plans. The new disclosures are designed to provide additional insight into the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period, significant concentrations of risk within plan assets and how investment decisions are made, including factors necessary to understanding investment policies and strategies. The disclosures about plan assets required by FSP 132(r)-1 is effective for financial statements with fiscal years ending after December 15, 2009. The Company is currently evaluating the impact of FSP 132(r)-1 on its condensed consolidated financial statements.

In October 2008, the FASB issued FSP No. FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active (FSP 157-3)*. FSP 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance on October 10, 2008, including prior periods for which financial statements had not been issued. The Company did not consider it necessary to change any valuation techniques as a result of FSP 157-3. The Company also adopted FSP No. FAS 157-2,

Effective Date of FASB Statement No. 157 (FSP 157-2) which delayed the effective date of SFAS 157 for certain nonfinancial assets and liabilities that are recorded at fair value on a nonrecurring basis. The effective date was delayed until January 1, 2009 and impacts balance sheet items including nonfinancial assets and liabilities in a business combination and the impairment testing of goodwill and long-lived assets. The adoption of FSP 157-2 did not have a material impact on the Company's condensed consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities An Amendment of FASB Statement No. 133 (SFAS 161)*. SFAS 161 requires enhanced qualitative disclosures about objectives and strategies for using derivatives, quantitative disclosures about fair value amounts of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative agreements. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company adopted SFAS 161 in the first quarter of 2009.

In February 2008, the FASB issued FSP No. FAS 140-3, *Accounting for Transfers of Financial Assets and Repurchase Financing Transactions (FSP 140-3)*. FSP 140-3 provides guidance for evaluating whether to account for a transfer of a financial asset and repurchase financing as a single transaction or as two separate transactions. FSP 140-3 is effective prospectively for financial statements issued for fiscal years beginning after November 15, 2008. The adoption of FSP 140-3 did not have a material impact on the Company's condensed consolidated financial

statements.

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In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations – A Replacement of FASB Statement No. 141 (SFAS 141(r)) and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements – An Amendment of ARB No. 51 (SFAS 160). SFAS 141(r) establishes principles and requirements for how an acquirer recognizes and measures certain items in a business combination, as well as disclosures about the nature and financial effects of a business combination. SFAS 160 establishes accounting and reporting standards surrounding noncontrolling interest, or minority interests, which are the portions of equity in a subsidiary not attributable, directly or indirectly, to a parent. The pronouncements are effective for fiscal years beginning on or after December 15, 2008 and apply prospectively to business combinations. Presentation and disclosure requirements related to noncontrolling interests must be retrospectively applied. The adoption of SFAS 141(r) and SFAS 160 did not have a material impact on the Company's condensed consolidated financial statements.

ITEM 3. Quantitative and Qualitative Disclosures About Market Risk

See Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations – Market Risk which is included herein.

ITEM 4. Controls and Procedures

The Chief Executive Officer and the Chief Financial Officer have evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as defined in Exchange Act Rule 13a-15(e) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that these disclosure controls and procedures were effective.

There was no change in the Company's internal control over financial reporting as defined in Exchange Act Rule 13a-15(f) during the quarter ended March 31, 2009, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION**ITEM 1. Legal Proceedings**

The Company is subject to litigation in the normal course of its business. The Company currently has no material litigation. However, if such material litigation did arise, it is possible that an adverse outcome on any particular arbitration or litigation situation could have a material adverse effect on the Company's consolidated financial position and/or net income in a particular reporting period.

ITEM 1A. Risk Factors

There have been no material changes from the risk factors previously disclosed in the Company's 2008 Annual Report.

ITEM 2. Unregistered Sales of Equity Securities and Use of Proceeds**Issuer Purchases of Equity Securities**

The following table summarizes the Company's repurchase activity of its common stock during the first quarter ended March 31, 2009:

| | Total Number of Shares Purchased (1) | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Number of Shares that May Yet Be Purchased Under the Plans |
|--------------------------------------|--|------------------------------------|---|--|
| January 1, 2009 – January 31, 2009 | 2,280 | \$ 42.82 | | |
| February 1, 2009 – February 28, 2009 | 42,976 | \$ 35.11 | | |

(1)

In January 2009
the Company
net settled
issuing 6,548
shares from
treasury and
repurchasing
from recipients
2,280 shares in
settlement of
income tax
withholding
requirements
incurred by the
recipients of an
equity incentive
award. In
February 2009
the Company
net settled
issuing 164,630
shares from
treasury and

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repurchasing
from recipients
42,976 shares in
settlement of
income tax
withholding
requirements
incurred by the
recipients of an
equity incentive
award.

Under a board of directors approved plan, the Company may purchase at its discretion up to \$50 million of its common stock on the open market. As of March 31, 2009, the Company had purchased 225,500 shares of treasury stock under this program at an aggregate price of \$6.6 million. All purchases were made during 2002. The Company generally uses treasury shares to support the future exercise of options granted under its stock option plans.

ITEM 6. Exhibits

See index to exhibits.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Reinsurance Group of America, Incorporated

By: /s/ A. Greig Woodring May 5, 2009
A. Greig Woodring
President & Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jack B. Lay May 5, 2009
Jack B. Lay
Senior Executive Vice President &
Chief Financial Officer
(Principal Financial and Accounting
Officer)

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INDEX TO EXHIBITS

| Exhibit Number | Description |
|----------------|---|
| 3.1 | Amended and Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 of Current Report on Form 8-K filed November 25, 2008. |
| 3.2 | Amended and Restated Bylaws, incorporated by reference to Exhibit 3.2 of Current Report on Form 8-K filed November 25, 2008. |
| 31.1 | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Chief Financial Officer pursuant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Chief Executive Officer pursuant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Chief Financial Officer pursuant pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002. |