

REINSURANCE GROUP OF AMERICA INC

Form 10-Q

November 04, 2011

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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 September 30, 2011

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**  
(State or other jurisdiction)  
of incorporation or organization)

**43-1627032**  
(IRS employer  
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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or 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

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 October 31, 2011, 73,267,641 shares of the registrant's common stock were outstanding.

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**REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES**

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**Table of Contents****REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)**

|   | September 30,<br>2011                     | December 31,<br>2010 |
|---|---|----------------------|
|   | (Dollars in thousands, except share data) |                      |
| <b>Assets</b>   |   |                      |
| Fixed maturity securities:  |   |                      |
| Available-for-sale at fair value (amortized cost of \$13,926,899 and \$13,345,022 at September 30, 2011 and December 31, 2010, respectively)                                | \$ 15,557,032                             | \$ 14,304,597        |
| Mortgage loans on real estate (net of allowances of \$10,062 and \$6,239 at September 30, 2011 and December 31, 2010, respectively)   | 934,694                                   | 885,811              |
| Policy loans  | 1,228,890                                 | 1,228,418            |
| Funds withheld at interest  | 5,445,886                                 | 5,421,952            |
| Short-term investments  | 81,747                                    | 118,387              |
| Other invested assets   | 1,020,043                                 | 707,403              |
| <b>Total investments</b>  | <b>24,268,292</b>                         | <b>22,666,568</b>    |
| Cash and cash equivalents   | 802,651                                   | 463,661              |
| Accrued investment income   | 190,298                                   | 127,874              |
| Premiums receivable and other reinsurance balances  | 1,060,631                                 | 1,037,679            |
| Reinsurance ceded receivables   | 727,290                                   | 769,699              |
| Deferred policy acquisition costs   | 3,787,257                                 | 3,726,443            |
| Other assets  | 347,035                                   | 289,984              |
| <b>Total assets</b>   | <b>\$ 31,183,454</b>                      | <b>\$ 29,081,908</b> |
| <b>Liabilities and Stockholders Equity</b>  |   |                      |
| Future policy benefits  | \$ 9,445,222                              | \$ 9,274,789         |
| Interest-sensitive contract liabilities   | 8,378,159                                 | 7,774,481            |
| Other policy claims and benefits  | 2,826,297                                 | 2,597,941            |
| Other reinsurance balances  | 136,298                                   | 133,590              |
| Deferred income taxes   | 1,662,806                                 | 1,396,747            |
| Other liabilities   | 776,239                                   | 637,923              |
| Short-term debt   | 199,997                                   | 199,985              |
| Long-term debt  | 1,414,546                                 | 1,016,425            |
| Collateral finance facility   | 681,004                                   | 850,039              |
| Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company                              |   | 159,421              |
| <b>Total liabilities</b>  | <b>25,520,568</b>                         | <b>24,041,341</b>    |
| <b>Commitments and contingent liabilities (See Note 8)</b>  |   |                      |
| <b>Stockholders Equity:</b>   |   |                      |
| 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; shares issued: 79,137,758 and 73,363,523 at September 30, 2011 and December 31, 2010, respectively) | 791                                       | 734                  |
| Warrants  |   | 66,912               |
| Additional paid-in-capital  | 1,719,683                                 | 1,478,398            |
| Retained earnings   | 2,989,231                                 | 2,587,403            |

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|   |               |               |
|---|---------------|---------------|
| Treasury stock, at cost; 5,870,872 and 328 shares at September 30, 2011 and December 31, 2010, respectively | (352,106)     | (295)         |
| Accumulated other comprehensive income  | 1,305,287     | 907,415       |
| Total stockholders' equity  | 5,662,886     | 5,040,567     |
| Total liabilities and stockholders' equity  | \$ 31,183,454 | \$ 29,081,908 |

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



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

|  | Nine months ended September 30, |                    |
|--|---------------------------------|--------------------|
|  | 2011                            | 2010               |
|  | (Dollars in thousands)          |                    |
| <b>Cash Flows from Operating Activities:</b>   |                                 |                    |
| Net income   | \$ 441,089                      | \$ 377,690         |
| Adjustments to reconcile net income to net cash provided by operating activities:        |                                 |                    |
| Change in operating assets and liabilities:  |                                 |                    |
| Accrued investment income  | (64,464)                        | (68,755)           |
| Premiums receivable and other reinsurance balances                                       | (86,339)                        | (98,274)           |
| Deferred policy acquisition costs  | (104,267)                       | (45,525)           |
| Reinsurance ceded receivable balances  | 42,409                          | (74,410)           |
| Future policy benefits, other policy claims and benefits, and other reinsurance balances | 669,174                         | 1,385,629          |
| Deferred income taxes  | 68,059                          | 14,579             |
| Other assets and other liabilities, net  | (46,320)                        | 38,453             |
| Amortization of net investment premiums, discounts and other                             | (100,328)                       | (104,878)          |
| Investment related gains, net  | (11,408)                        | (137,397)          |
| Gain on repurchase of collateral finance facility securities                             | (55,840)                        |                    |
| Excess tax benefits from share-based payment arrangement                                 | (4,418)                         | (1,379)            |
| Other, net   | 86,630                          | 44,546             |
| <b>Net cash provided by operating activities</b>   | <b>833,977</b>                  | <b>1,330,279</b>   |
| <b>Cash Flows from Investing Activities:</b>   |                                 |                    |
| Sales of fixed maturity securities available-for-sale                                    | 2,338,405                       | 2,533,344          |
| Maturities of fixed maturity securities available-for-sale                               | 195,582                         | 107,648            |
| Purchases of fixed maturity securities available-for-sale                                | (3,104,714)                     | (3,664,819)        |
| Cash invested in mortgage loans  | (117,697)                       | (97,947)           |
| Cash invested in policy loans  | (8,928)                         | (38,996)           |
| Cash invested in funds withheld at interest  | (23,784)                        | (90,282)           |
| Principal payments on mortgage loans on real estate                                      | 60,764                          | 18,923             |
| Principal payments on policy loans   | 8,456                           | 2,412              |
| Change in short-term investments and other invested assets                               | (86,895)                        | 20,334             |
| <b>Net cash used in investing activities</b>   | <b>(738,811)</b>                | <b>(1,209,383)</b> |
| <b>Cash Flows from Financing Activities:</b>   |                                 |                    |
| Dividends to stockholders  | (31,039)                        | (26,340)           |
| Repurchase of collateral finance facility securities                                     | (111,831)                       |                    |
| Net proceeds from long-term debt issuance  | 394,388                         |                    |
| Proceeds from redemption and remarketing of trust preferred securities                   | 154,588                         |                    |
| Maturity of trust preferred securities   | (159,473)                       |                    |
| Purchases of treasury stock  | (380,345)                       | (718)              |
| Excess tax benefits from share-based payment arrangement                                 | 4,418                           | 1,379              |
| Exercise of stock options, net   | 8,680                           | 8,804              |
| Change in cash collateral for derivative positions                                       | 163,250                         | 121,054            |
| Deposits on universal life and other investment type policies and contracts              | 328,903                         | 130,510            |
| Withdrawals on universal life and other investment type policies and contracts           | (119,180)                       | (247,856)          |
| <b>Net cash provided by (used in) financing activities</b>                               | <b>252,359</b>                  | <b>(13,167)</b>    |
| Effect of exchange rate changes on cash  | (8,535)                         | 14,319             |

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|  |            |            |
|--|------------|------------|
| Change in cash and cash equivalents  | 338,990    | 122,048    |
| Cash and cash equivalents, beginning of period                                     | 463,661    | 512,027    |
| Cash and cash equivalents, end of period   | \$ 802,651 | \$ 634,075 |
| Supplementary information:   |            |            |
| Cash paid for interest   | \$ 57,821  | \$ 61,327  |
| Cash paid for income taxes, net of refunds   | \$ 110,075 | \$ 41,368  |
| See accompanying notes to condensed consolidated financial statements (unaudited). |            |            |



**Table of Contents****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. Results for the three and nine months ended September 30, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011. There were no subsequent events that would require disclosure or adjustments to the accompanying condensed consolidated financial statements through the date the financial statements were issued. These unaudited condensed consolidated financial statements include the accounts of RGA and its subsidiaries and should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2010 Annual Report on Form 10-K ( 2010 Annual Report ) filed with the Securities and Exchange Commission on February 28, 2011.

The Company has reclassified the presentation of certain prior-period information to conform to the current presentation. Such reclassifications include separately disclosing the deposits and the withdrawals on universal life and other investment type policies and contracts in the condensed consolidated statements of cash flows. All intercompany accounts and transactions have been eliminated.

**2. Earnings Per Share**

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

|   | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2011                                | 2010       | 2011                               | 2010       |
| <b>Earnings:</b>  |                                     |            |                                    |            |
| Net income (numerator for basic and diluted calculations)               | \$ 147,385                          | \$ 128,232 | \$ 441,089                         | \$ 377,690 |
| <b>Shares:</b>  |                                     |            |                                    |            |
| Weighted average outstanding shares (denominator for basic calculation) | 73,856                              | 73,162     | 73,680                             | 73,117     |
| Equivalent shares from outstanding stock options <sup>(1)</sup>         | 398                                 | 1,258      | 527                                | 1,457      |
| Denominator for diluted calculation                                     | 74,254                              | 74,420     | 74,207                             | 74,574     |
| <b>Earnings per share:</b>  |                                     |            |                                    |            |
| Basic   | \$ 2.00                             | \$ 1.75    | \$ 5.99                            | \$ 5.17    |
| Diluted   | \$ 1.98                             | \$ 1.72    | \$ 5.94                            | \$ 5.06    |

(1) Year-to-date amounts are the weighted average of the individual quarterly amounts.

The calculation of common equivalent shares does not include the impact of options 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 September 30, 2011, approximately 1.1 million stock options and approximately 0.8 million performance contingent shares were excluded from the calculation. For the three months ended September 30, 2010, approximately 1.7 million stock options and approximately 0.7 million performance contingent shares were excluded from the calculation.



**Table of Contents****3. Comprehensive Income**

The following table presents the components of the Company's comprehensive income (dollars in thousands):

|  | Three months ended    |                       | Nine months ended     |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | September 30,<br>2011 | September 30,<br>2010 | September 30,<br>2011 | September 30,<br>2010 |
| Net income   | \$ 147,385            | \$ 128,232            | \$ 441,089            | \$ 377,690            |
| Other comprehensive income (loss), net of income tax:  |                       |                       |                       |                       |
| Unrealized investment gains, net of reclassification adjustment for gains included in net income | 354,709               | 362,408               | 470,473               | 729,749               |
| Reclassification adjustment for other-than-temporary impairments                                 | (2,008)               | (17)                  | (2,198)               | (1,450)               |
| Currency translation adjustments   | (112,810)             | 68,701                | (71,683)              | 31,808                |
| Unrealized pension and postretirement benefit adjustment   | 708                   | 325                   | 1,280                 | 443                   |
| <b>Comprehensive income</b>  | <b>\$ 387,984</b>     | <b>\$ 559,649</b>     | <b>\$ 838,961</b>     | <b>\$ 1,138,240</b>   |

The balance of and changes in each component of accumulated other comprehensive income (loss) for the nine months ended September 30, 2011 are as follows (dollars in thousands):

|                                       | Accumulated Other Comprehensive Income (Loss), Net of Income Tax |   |   |                     |
|---------------------------------------|--|---|---|---------------------|
|                                       | Accumulated<br>Currency<br>Translation<br>Adjustments            | Unrealized<br>Appreciation<br>of Securities | Pension and<br>Postretirement<br>Benefits | Total               |
| Balance, December 31, 2010            | \$ 270,526   | \$ 651,449                                  | \$ (14,560)                               | \$ 907,415          |
| Change in component during the period | (71,683)   | 468,275                                     | 1,280                                     | 397,872             |
| <b>Balance, September 30, 2011</b>    | <b>\$ 198,843</b>  | <b>\$ 1,119,724</b>                         | <b>\$ (13,280)</b>                        | <b>\$ 1,305,287</b> |

**4. Investments**

The Company had total cash and invested assets of \$25.1 billion and \$23.1 billion at September 30, 2011 and December 31, 2010, respectively, as illustrated below (dollars in thousands):

|   | September 30, 2011   | December 31, 2010    |
|---|----------------------|----------------------|
| Fixed maturity securities, available-for-sale | \$ 15,557,032        | \$ 14,304,597        |
| Mortgage loans on real estate                 | 934,694              | 885,811              |
| Policy loans                                  | 1,228,890            | 1,228,418            |
| Funds withheld at interest                    | 5,445,886            | 5,421,952            |
| Short-term investments                        | 81,747               | 118,387              |
| Other invested assets                         | 1,020,043            | 707,403              |
| Cash and cash equivalents                     | 802,651              | 463,661              |
| <b>Total cash and invested assets</b>         | <b>\$ 25,070,943</b> | <b>\$ 23,130,229</b> |

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All investments held by the Company are monitored for conformance to the qualitative and quantitative limits prescribed by the applicable jurisdiction's insurance laws and regulations. In addition, the operating companies' boards of directors periodically review their respective investment portfolios. The Company's investment strategy is to maintain a predominantly investment-grade, fixed maturity securities portfolio, which will provide adequate liquidity for expected reinsurance obligations and 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 average duration for all portfolios, when consolidated, ranges between eight and ten years.

The Company participates in a securities borrowing program whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from a third party. The Company is required to maintain a minimum of 100% of the market value of the borrowed securities as collateral. The Company had borrowed securities with an amortized cost of \$150.0 million and a market value of \$149.1 million as of September 30, 2011. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction. There were no securities borrowed as of December 31, 2010.

**Table of Contents***Investment Income, Net of Related Expenses*

Major categories of investment income, net of related expenses consist of the following (dollars in thousands):

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2011                                | 2010       | 2011                               | 2010       |
| Fixed maturity securities available-for-sale | \$ 190,990                          | \$ 179,130 | \$ 566,581                         | \$ 532,259 |
| Mortgage loans on real estate                | 14,474                              | 13,406     | 41,801                             | 37,567     |
| Policy loans                                 | 16,454                              | 18,271     | 49,549                             | 56,150     |
| Funds withheld at interest                   | 41,267                              | 69,677     | 306,028                            | 245,249    |
| Short-term investments                       | 393                                 | 1,142      | 2,201                              | 3,520      |
| Other invested assets                        | 11,470                              | 11,926     | 31,680                             | 26,694     |
| Investment revenue                           | 275,048                             | 293,552    | 997,840                            | 901,439    |
| Investment expense                           | (6,838)                             | (6,048)    | (21,154)                           | (18,006)   |
| Investment income, net of related expenses   | \$ 268,210                          | \$ 287,504 | \$ 976,686                         | \$ 883,433 |

*Investment Related Gains (Losses), Net*

Investment related gains (losses), net consist of the following (dollars in thousands):

|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2011                                | 2010        | 2011                               | 2010        |
| Fixed maturity and equity securities available for sale:                                 |                                     |             |                                    |             |
| Other-than-temporary impairment losses on fixed maturities                               | \$ (11,911)                         | \$ (4,904)  | \$ (19,049)                        | \$ (15,823) |
| Portion of loss recognized in accumulated other comprehensive income<br>(before taxes)   | 3,089                               | 26          | 3,381                              | 2,231       |
| Net other-than-temporary impairment losses on fixed maturities<br>recognized in earnings | (8,822)                             | (4,878)     | (15,668)                           | (13,592)    |
| Impairment losses on equity securities   |                                     |             | (3,680)                            | (32)        |
| Gain on investment activity  | 34,840                              | 39,371      | 92,423                             | 74,833      |
| Loss on investment activity  | (7,182)                             | (7,773)     | (20,749)                           | (21,967)    |
| Other impairment losses and change in mortgage loan provision                            | (2,370)                             | (5,087)     | (4,980)                            | (7,482)     |
| Derivatives and other, net   | (156,066)                           | (38,413)    | (35,938)                           | 105,637     |
| Net gains (losses)   | \$ (139,600)                        | \$ (16,780) | \$ 11,408                          | \$ 137,397  |

The net other-than-temporary impairment losses on fixed maturity securities recognized in earnings of \$8.8 million and \$15.7 million in the third quarter and first nine months of 2011, respectively, are primarily due to a decline in value of structured securities with exposure to mortgages and corporate bankruptcies. The impairment losses on equity securities of \$3.7 million in the first nine months of 2011 are primarily due to the financial condition of European financial institutions. The impaired equity securities are hybrid securities that contain equity-like features. The derivative losses for the first three and nine months ended September 30, 2011 are primarily due to an increase in the fair value of embedded derivative liabilities associated with modified coinsurance and funds withheld treaties and guaranteed minimum benefit riders.

During the three months ended September 30, 2011 and 2010, the Company sold fixed maturity securities and equity securities with fair values of \$57.2 million and \$97.6 million at gross losses of \$7.2 million and \$7.8 million, respectively, or at 88.9% and 92.6% of amortized cost, respectively. During the nine months ended September 30, 2011 and 2010, the Company sold fixed maturity securities and equity securities with

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fair values of \$388.9 million and \$497.0 million at gross losses of \$20.7 million and \$22.0 million, respectively, or at 94.9% and 95.8% of amortized cost, respectively. The Company generally does not engage in short-term buying and selling of securities.

### *Other-Than-Temporary Impairments*

The Company identifies fixed maturity and equity securities that could potentially have credit impairments that are other-than-temporary by monitoring market events that could impact issuers' credit ratings, business climates, management changes, litigation, government actions and other similar factors. The Company also monitors late payments, pricing levels, rating agency actions, key financial ratios, financial statements, revenue forecasts and cash flow projections as indicators of credit issues.

The Company reviews all securities to determine whether an other-than-temporary decline in value exists and whether losses should be recognized. The Company considers relevant facts and circumstances in evaluating whether a credit or interest

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rate-related impairment of a security is other-than-temporary. Relevant facts and circumstances considered include: (1) the extent and length of time the fair value has been below cost; (2) the reasons for the decline in fair value; (3) the issuer's financial position and access to capital and (4) for fixed maturity securities, the Company's intent to sell a security or whether it is more likely than not it will be required to sell the security before the recovery of its amortized cost which, in some cases, may extend to maturity and for equity securities, the Company's ability and intent to hold the security for a period of time that allows for the recovery in value. To the extent the Company determines that a security is deemed to be other-than-temporarily impaired, an impairment loss is recognized.

Impairment losses on equity securities are recognized in net income. Recognition of impairment losses on fixed maturity securities is dependent on the facts and circumstances related to a specific security. If the Company intends to sell a security or it is more likely than not that it would be required to sell a security before the recovery of its amortized cost, it recognizes an other-than-temporary impairment in net income for the difference between amortized cost and fair value. If the Company does not expect to recover the amortized cost basis, it does not plan to sell the security and if it is not more likely than not that it would be required to sell a security before the recovery of its amortized cost, the recognition of the other-than-temporary impairment is bifurcated. The Company recognizes the credit loss portion in net income and the non-credit loss portion in accumulated other comprehensive income ( AOCI ).

The Company estimates the amount of the credit loss component of a fixed maturity security impairment as the difference between amortized cost and the present value of the expected cash flows of the security. The present value is determined using the best estimate cash flows discounted at the effective interest rate implicit to the security at the date of purchase or the current yield to accrete an asset-backed or floating-rate security. The techniques and assumptions for establishing the best estimate cash flows vary depending on the type of security. The asset-backed securities' cash flow estimates are based on security-specific facts and circumstances that may include collateral characteristics, expectations of delinquency and default rates, loss severity and prepayment speeds and structural support, including subordination and guarantees. The corporate fixed maturity security cash flow estimates are derived from scenario-based outcomes of expected corporate restructurings or the disposition of assets using security specific facts and circumstances including timing, security interests and loss severity.

In periods after an other-than-temporary impairment loss is recognized on a fixed maturity security, the Company will report the impaired security as if it had been purchased on the date it was impaired and will continue to estimate the present value of the estimated cash flows of the security. Accordingly, the discount (or reduced premium) based on the new cost basis is accreted into net investment income over the remaining term of the fixed maturity security in a prospective manner based on the amount and timing of estimated future cash flows.

The following tables set forth the amount of credit loss impairments on fixed maturity securities held by the Company as of the dates indicated, for which a portion of the other-than-temporary impairment ( OTTI ) loss was recognized in AOCI, and the corresponding changes in such amounts (dollars in thousands):

|   | Three months ended September 30, |           |
|---|----------------------------------|-----------|
|   | 2011                             | 2010      |
| Balance, beginning of period  | \$ 52,484                        | \$ 53,348 |
| Initial impairments - credit loss OTTI recognized on securities not previously impaired       | 5,259                            | 2,296     |
| Additional impairments - credit loss OTTI recognized on securities previously impaired        | 2,432                            | 2,571     |
| Credit loss impairments previously recognized on securities which were sold during the period | (752)                            | (10,360)  |
| Balance, end of period  | \$ 59,423                        | \$ 47,855 |

|   | Nine months ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2011                            | 2010      |
| Balance, beginning of period  | \$ 47,291                       | \$ 47,905 |
| Initial impairments - credit loss OTTI recognized on securities not previously impaired | 6,731                           | 5,020     |
|   | 6,871                           | 7,975     |

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|   |           |           |
|---|-----------|-----------|
| Additional impairments - credit loss OTTI recognized on securities previously impaired        |           |           |
| Credit loss impairments previously recognized on securities which were sold during the period | (1,470)   | (13,045)  |
| Balance, end of period  | \$ 59,423 | \$ 47,855 |

### *Fixed Maturity and Equity Securities Available-for-Sale*

The following tables provide information relating to investments in fixed maturity securities and equity securities by sector as of September 30, 2011 and December 31, 2010 (dollars in thousands):



**Table of Contents****September 30, 2011:**

|  | Amortized<br>Cost    | Unrealized<br>Gains | Unrealized<br>Losses | Estimated Fair<br>Value | % of Total     | Other-than-<br>temporary<br>impairments<br>in AOC |
|--|----------------------|---------------------|----------------------|-------------------------|----------------|---|
| <b>Available-for-sale:</b>                   |                      |                     |                      |                         |                |   |
| Corporate securities                         | \$ 7,277,255         | \$ 642,734          | \$ 139,062           | \$ 7,780,927            | 50.0 %         | \$  |
| Canadian and Canadian provincial governments | 2,371,738            | 1,021,793           | 17                   | 3,393,514               | 21.8           |   |
| Residential mortgage-backed securities       | 1,238,863            | 84,856              | 15,945               | 1,307,774               | 8.4            | (740)   |
| Asset-backed securities                      | 412,468              | 12,638              | 52,149               | 372,957                 | 2.4            | (5,602)   |
| Commercial mortgage-backed securities        | 1,330,302            | 79,539              | 82,847               | 1,326,994               | 8.5            | (11,638)  |
| U.S. government and agencies                 | 224,704              | 33,444              | 65                   | 258,083                 | 1.7            |   |
| State and political subdivisions             | 182,570              | 23,061              | 2,297                | 203,334                 | 1.3            |   |
| Other foreign government securities          | 888,999              | 25,943              | 1,493                | 913,449                 | 5.9            |   |
| <b>Total fixed maturity securities</b>       | <b>\$ 13,926,899</b> | <b>\$ 1,924,008</b> | <b>\$ 293,875</b>    | <b>\$ 15,557,032</b>    | <b>100.0 %</b> | <b>\$ (17,980)</b>                                |
| <b>Non-redeemable preferred stock</b>        | <b>\$ 97,391</b>     | <b>\$ 3,599</b>     | <b>\$ 7,399</b>      | <b>\$ 93,591</b>        | <b>73.9 %</b>  |   |
| <b>Other equity securities</b>               | <b>33,604</b>        | <b>963</b>          | <b>1,566</b>         | <b>33,001</b>           | <b>26.1</b>    |   |
| <b>Total equity securities</b>               | <b>\$ 130,995</b>    | <b>\$ 4,562</b>     | <b>\$ 8,965</b>      | <b>\$ 126,592</b>       | <b>100.0 %</b> |   |

**December 31, 2010:**

|  | Amortized<br>Cost    | Unrealized<br>Gains | Unrealized<br>Losses | Estimated Fair<br>Value | % of Total     | Other-than-<br>temporary<br>impairments<br>in AOCI |
|--|----------------------|---------------------|----------------------|-------------------------|----------------|--|
| <b>Available-for-sale:</b>                   |                      |                     |                      |                         |                |  |
| Corporate securities                         | \$ 6,826,937         | \$ 436,384          | \$ 107,816           | \$ 7,155,505            | 50.0 %         | \$   |
| Canadian and Canadian provincial governments | 2,354,418            | 672,951             | 3,886                | 3,023,483               | 21.1           |  |
| Residential mortgage-backed securities       | 1,443,892            | 55,765              | 26,580               | 1,473,077               | 10.3           | (1,650)  |
| Asset-backed securities                      | 440,752              | 12,001              | 61,544               | 391,209                 | 2.7            | (4,963)  |
| Commercial mortgage-backed securities        | 1,353,279            | 81,839              | 97,265               | 1,337,853               | 9.4            | (10,010)   |
| U.S. government and agencies                 | 199,129              | 7,795               | 708                  | 206,216                 | 1.4            |  |
| State and political subdivisions             | 170,479              | 2,098               | 8,117                | 164,460                 | 1.2            |  |
| Other foreign government securities          | 556,136              | 4,304               | 7,646                | 552,794                 | 3.9            |  |
| <b>Total fixed maturity securities</b>       | <b>\$ 13,345,022</b> | <b>\$ 1,273,137</b> | <b>\$ 313,562</b>    | <b>\$ 14,304,597</b>    | <b>100.0 %</b> | <b>\$ (16,623)</b>                                 |
| <b>Non-redeemable preferred stock</b>        | <b>\$ 100,718</b>    | <b>\$ 4,130</b>     | <b>\$ 5,298</b>      | <b>\$ 99,550</b>        | <b>71.0 %</b>  |  |
| <b>Other equity securities</b>               | <b>34,832</b>        | <b>6,100</b>        | <b>271</b>           | <b>40,661</b>           | <b>29.0</b>    |  |
| <b>Total equity securities</b>               | <b>\$ 135,550</b>    | <b>\$ 10,230</b>    | <b>\$ 5,569</b>      | <b>\$ 140,211</b>       | <b>100.0 %</b> |  |

The tables above exclude fixed maturity securities posted by the Company as collateral to counterparties with an amortized cost of \$19.1 million and \$46.9 million, and an estimated fair value of \$21.3 million and \$48.2 million, as of September 30, 2011 and December 31, 2010 respectively, which are included in other invested assets in the condensed consolidated balance sheets.

As of September 30, 2011, the Company held securities with a fair value of \$1,053.2 million that were issued by the Canadian province of Ontario and \$957.8 million in one entity that were guaranteed by the Canadian province of Quebec, both of which exceeded 10% of condensed consolidated stockholders' equity. As of December 31, 2010, the Company held securities with a fair value of \$959.5 million that were issued by the Canadian province of Ontario and \$871.6 million in one entity that were guaranteed by the Canadian province of Quebec, both of which exceeded 10% of condensed consolidated stockholders' equity.

The amortized cost and estimated fair value of fixed maturity securities available-for-sale at September 30, 2011 are shown by contractual maturity in the table below. Actual maturities can differ from contractual maturities because borrowers may have the right to call or prepay

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obligations with or without call or prepayment penalties. At September 30, 2011, the contractual maturities of investments in fixed maturity securities were as follows (dollars in thousands):

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|                                       | Amortized<br>Cost    | Fair<br>Value        |
|---------------------------------------|----------------------|----------------------|
| <b>Available-for-sale:</b>            |                      |                      |
| Due in one year or less               | \$ 179,995           | \$ 184,762           |
| Due after one year through five years | 2,388,699            | 2,464,651            |
| Due after five year through ten years | 3,649,747            | 3,946,992            |
| Due after ten years                   | 4,726,825            | 5,952,902            |
| Asset and mortgage-backed securities  | 2,981,633            | 3,007,725            |
| <b>Total</b>                          | <b>\$ 13,926,899</b> | <b>\$ 15,557,032</b> |

The table below includes industry types and weighted average credit ratings of the Company's corporate fixed maturity holdings as of September 30, 2011 and December 31, 2010 (dollars in thousands):

**September 30, 2011:**

|              | Amortized Cost      | Estimated<br>Fair Value | % of Total     | Average Credit<br>Ratings |
|--------------|---------------------|-------------------------|----------------|---------------------------|
| Finance      | \$ 2,730,488        | \$ 2,766,683            | 35.6 %         | A                         |
| Industrial   | 3,410,481           | 3,745,251               | 48.1           | BBB+                      |
| Utility      | 1,128,226           | 1,260,178               | 16.2           | BBB+                      |
| Other        | 8,060               | 8,815                   | 0.1            | AA                        |
| <b>Total</b> | <b>\$ 7,277,255</b> | <b>\$ 7,780,927</b>     | <b>100.0 %</b> | <b>A</b>                  |

**December 31, 2010:**

|              | Amortized Cost      | Estimated<br>Fair Value | % of Total     | Average Credit<br>Ratings |
|--------------|---------------------|-------------------------|----------------|---------------------------|
| Finance      | \$ 2,782,936        | \$ 2,833,022            | 39.6 %         | A                         |
| Industrial   | 3,121,326           | 3,341,104               | 46.7           | BBB+                      |
| Utility      | 908,737             | 967,017                 | 13.5           | BBB+                      |
| Other        | 13,938              | 14,362                  | 0.2            | AA+                       |
| <b>Total</b> | <b>\$ 6,826,937</b> | <b>\$ 7,155,505</b>     | <b>100.0 %</b> | <b>A</b>                  |

The following table presents the total gross unrealized losses for fixed maturity and equity securities as of September 30, 2011 and December 31, 2010, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

|                                       | September 30, 2011      |                               |                | December 31, 2010       |                               |                |
|---------------------------------------|-------------------------|-------------------------------|----------------|-------------------------|-------------------------------|----------------|
|                                       | Number of<br>Securities | Gross<br>Unrealized<br>Losses | % of Total     | Number of<br>Securities | Gross<br>Unrealized<br>Losses | % of Total     |
| Less than 20%                         | 908                     | \$ 144,445                    | 47.7 %         | 908                     | \$ 146,404                    | 45.9 %         |
| 20% or more for less than six months  | 49                      | 53,176                        | 17.6           | 14                      | 18,114                        | 5.7            |
| 20% or more for six months or greater | 54                      | 105,219                       | 34.7           | 106                     | 154,613                       | 48.4           |
| <b>Total</b>                          | <b>1,011</b>            | <b>\$ 302,840</b>             | <b>100.0 %</b> | <b>1,028</b>            | <b>\$ 319,131</b>             | <b>100.0 %</b> |

As of September 30, 2011 and December 31, 2010, respectively, 67.6% and 66.1% of these gross unrealized losses were associated with investment grade securities. The unrealized losses on these securities decreased as credit spreads have widened and interest rates have declined since December 31, 2010.

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The Company's determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company's credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. The Company continues to consider valuation declines as a potential indicator of credit deterioration. The Company believes that due to fluctuating market conditions and an extended period of economic uncertainty, the extent and duration of a decline in value have become less indicative of when there has been credit deterioration with respect to an issuer.

The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for fixed maturity securities and equity securities that have estimated fair values below amortized cost as of September 30, 2011 and December 31, 2010, respectively (dollars in thousands). 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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| <b>September 30, 2011:</b>                                       | Less than 12 months     |                               | 12 months or greater    |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| <b>Investment grade securities:</b>                              |                         |                               |                         |                               |                         |                               |
| Corporate securities   | \$ 928,293              | \$ 43,765                     | \$ 304,544              | \$ 70,847                     | \$ 1,232,837            | \$ 114,612                    |
| Canadian and Canadian provincial governments                     | 1,982                   | 17                            |                         |                               | 1,982                   | 17                            |
| Residential mortgage-backed securities                           | 117,719                 | 3,135                         | 57,179                  | 10,396                        | 174,898                 | 13,531                        |
| Asset-backed securities  | 63,953                  | 1,558                         | 80,006                  | 30,065                        | 143,959                 | 31,623                        |
| Commercial mortgage-backed securities                            | 156,938                 | 10,681                        | 68,236                  | 23,134                        | 225,174                 | 33,815                        |
| U.S. government and agencies                                     | 1,164                   | 62                            |                         | 3                             | 1,164                   | 65                            |
| State and political subdivisions                                 | 13,811                  | 967                           | 12,476                  | 1,067                         | 26,287                  | 2,034                         |
| Other foreign government securities                              | 85,992                  | 657                           | 30,493                  | 836                           | 116,485                 | 1,493                         |
| <b>Total investment grade securities</b>                         | <b>1,369,852</b>        | <b>60,842</b>                 | <b>552,934</b>          | <b>136,348</b>                | <b>1,922,786</b>        | <b>197,190</b>                |
| <b>Non-investment grade securities:</b>                          |                         |                               |                         |                               |                         |                               |
| Corporate securities   | 271,597                 | 15,453                        | 72,395                  | 8,997                         | 343,992                 | 24,450                        |
| Residential mortgage-backed securities                           | 13,809                  | 1,149                         | 10,824                  | 1,265                         | 24,633                  | 2,414                         |
| Asset-backed securities  | 2,542                   | 719                           | 21,943                  | 19,807                        | 24,485                  | 20,526                        |
| Commercial mortgage-backed securities                            | 32,657                  | 6,571                         | 69,674                  | 42,461                        | 102,331                 | 49,032                        |
| State and political subdivisions                                 | 3,965                   | 263                           |                         |                               | 3,965                   | 263                           |
| <b>Total non-investment grade securities</b>                     | <b>324,570</b>          | <b>24,155</b>                 | <b>174,836</b>          | <b>72,530</b>                 | <b>499,406</b>          | <b>96,685</b>                 |
| <b>Total fixed maturity securities</b>                           | <b>\$ 1,694,422</b>     | <b>\$ 84,997</b>              | <b>\$ 727,770</b>       | <b>\$ 208,878</b>             | <b>\$ 2,422,192</b>     | <b>\$ 293,875</b>             |
| <b>Non-redeemable preferred stock</b>                            | <b>\$ 20,705</b>        | <b>\$ 2,565</b>               | <b>\$ 18,453</b>        | <b>\$ 4,834</b>               | <b>\$ 39,158</b>        | <b>\$ 7,399</b>               |
| <b>Other equity securities</b>                                   | <b>2,184</b>            | <b>806</b>                    | <b>6,081</b>            | <b>760</b>                    | <b>8,265</b>            | <b>1,566</b>                  |
| <b>Total equity securities</b>                                   | <b>\$ 22,889</b>        | <b>\$ 3,371</b>               | <b>\$ 24,534</b>        | <b>\$ 5,594</b>               | <b>\$ 47,423</b>        | <b>\$ 8,965</b>               |
| <b>Total number of securities in an unrealized loss position</b> | <b>606</b>              |                               | <b>405</b>              |                               | <b>1,011</b>            |                               |

| <b>December 31, 2010:</b>                    | Less than 12 months     |                               | 12 months or greater    |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| <b>Investment grade securities:</b>          |                         |                               |                         |                               |                         |                               |
| Corporate securities                         | \$ 1,170,016            | \$ 34,097                     | \$ 368,128              | \$ 61,945                     | \$ 1,538,144            | \$ 96,042                     |
| Canadian and Canadian provincial governments | 118,585                 | 3,886                         |                         |                               | 118,585                 | 3,886                         |
| Residential mortgage-backed securities       | 195,406                 | 4,986                         | 105,601                 | 13,607                        | 301,007                 | 18,593                        |
| Asset-backed securities                      | 23,065                  | 570                           | 131,172                 | 38,451                        | 154,237                 | 39,021                        |
| Commercial mortgage-backed securities        | 132,526                 | 4,143                         | 109,158                 | 29,059                        | 241,684                 | 33,202                        |
| U.S. government and agencies                 | 11,839                  | 708                           |                         |                               | 11,839                  | 708                           |
| State and political subdivisions             | 68,229                  | 2,890                         | 31,426                  | 5,227                         | 99,655                  | 8,117                         |
| Other foreign government securities          | 322,363                 | 3,142                         | 43,796                  | 4,504                         | 366,159                 | 7,646                         |
| <b>Total investment grade securities</b>     | <b>2,042,029</b>        | <b>54,422</b>                 | <b>789,281</b>          | <b>152,793</b>                | <b>2,831,310</b>        | <b>207,215</b>                |
| <b>Non-investment grade securities:</b>      |                         |                               |                         |                               |                         |                               |
| Corporate securities                         | 58,420                  | 1,832                         | 91,205                  | 9,942                         | 149,625                 | 11,774                        |
| Residential mortgage-backed securities       | 1,162                   | 605                           | 38,206                  | 7,382                         | 39,368                  | 7,987                         |

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|   |              |           |              |            |              |            |
|---|--------------|-----------|--------------|------------|--------------|------------|
| Asset-backed securities                                   |              |           | 23,356       | 22,523     | 23,356       | 22,523     |
| Commercial mortgage-backed securities                     |              |           | 89,170       | 64,063     | 89,170       | 64,063     |
| Total non-investment grade securities                     | 59,582       | 2,437     | 241,937      | 103,910    | 301,519      | 106,347    |
| Total fixed maturity securities                           | \$ 2,101,611 | \$ 56,859 | \$ 1,031,218 | \$ 256,703 | \$ 3,132,829 | \$ 313,562 |
| Non-redeemable preferred stock                            | \$ 15,987    | \$ 834    | \$ 28,549    | \$ 4,464   | \$ 44,536    | \$ 5,298   |
| Other equity securities                                   | 6,877        | 271       | 318          |            | 7,195        | 271        |
| Total equity securities                                   | \$ 22,864    | \$ 1,105  | \$ 28,867    | \$ 4,464   | \$ 51,731    | \$ 5,569   |
| Total number of securities in an unrealized loss position | 520          |           | 508          |            | 1,028        |            |

As of September 30, 2011, the Company does not intend to sell these fixed maturity securities and does not believe it is more likely than not that it will be required to sell these fixed maturity securities before the recovery of the fair value up to the current amortized cost of the investment, which may be maturity. However, unforeseen facts and circumstances may cause

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the Company to sell fixed maturity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality, asset-liability management and liquidity guidelines.

As of September 30, 2011, the Company has the ability and intent to hold the equity securities until the recovery of the fair value up to the current cost of the investment. However, unforeseen facts and circumstances may cause the Company to sell equity securities in the ordinary course of managing its portfolio to meet certain diversification, credit quality and liquidity guidelines.

*Mortgage Loans*

Mortgage loans represented approximately 3.7% and 3.8% of the Company's cash and invested assets as of September 30, 2011 and December 31, 2010, respectively. The Company makes mortgage loans on income producing properties, such as apartments, retail and office buildings, light warehouses and light industrial facilities. Loan-to-value ratios at the time of loan approval are 75% or less. The Company acquired \$95.3 million of mortgage loans during the nine months ended September 30, 2011.

The Company has an internal credit risk grading process for the commercial mortgage loans it holds. The internal risk rating model is used to estimate the probability of default and the likelihood of loss upon default. The rating scale ranges from high investment grade to in or near default with high investment grade being the highest quality and least likely to default and lose principal. Likewise, a rating of in or near default indicates the lowest quality and the most likely to default or lose principal. All loans are assigned a rating at origination and ratings are updated at least annually. Lower rated loans appear on the Company's watch list and are re-evaluated more frequently. The debt service coverage ratio and the loan to value ratio are the most heavily weighted factors in determining the loan rating. Other factors involved in determining the final rating are loan amortization, tenant rollover, location and market stability, and borrower's financial condition and experience. Information regarding the Company's credit quality indicators for its recorded investment in mortgage loans gross of valuation allowances as of September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

| Internal credit risk grade: | September 30, 2011 | December 31, 2010 |
|-----------------------------|--------------------|-------------------|
| High investment grade       | \$ 231,537         | \$ 205,127        |
| Investment grade            | 531,689            | 585,818           |
| Average                     | 96,193             | 38,152            |
| Watch list                  | 61,042             | 44,208            |
| In or near default          | 24,295             | 18,745            |
| Total                       | \$ 944,756         | \$ 892,050        |

The age analysis of the Company's past due recorded investment in mortgage loans gross of valuation allowances as of September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

|                      | September 30, 2011 | December 31, 2010 |
|----------------------|--------------------|-------------------|
| 31-60 days past due  | \$ 18,943          | \$                |
| 61-90 days past due  |                    |                   |
| Greater than 90 days | 17,419             | 15,555            |
| Total past due       | 36,362             | 15,555            |
| Current              | 908,394            | 876,495           |
| Total                | \$ 944,756         | \$ 892,050        |

The following table presents the recorded investment in mortgage loans, by method of evaluation of credit loss, and the related valuation allowances, by type of credit loss, at (dollars in thousands):

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|   | September 30, 2011 | December 31, 2010 |
|---|--------------------|-------------------|
| <b>Mortgage loans:</b>                            |                    |                   |
| Evaluated individually for credit losses          | \$ 36,195          | \$ 35,646         |
| Evaluated collectively for credit losses          | 908,561            | 856,404           |
| <br>Mortgage loans, gross of valuation allowances | <br>944,756        | <br>892,050       |
| <b>Valuation allowances:</b>                      |                    |                   |
| Specific for credit losses                        | 6,623              | 6,239             |
| Non-specifically identified credit losses         | 3,439              |                   |
| <br>Total valuation allowances                    | <br>10,062         | <br>6,239         |
| <br>Mortgage loans, net of valuation allowances   | <br>\$ 934,694     | <br>\$ 885,811    |



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Non-specific valuation allowances are established for mortgage loans based on an internal credit quality rating where a property-specific or market-specific risk has not been identified, but for which the Company expects to incur a credit loss. These evaluations are based upon several loan portfolio segment-specific factors, including the Company's experience for loan losses, defaults and loss severity, loss expectations for loans with similar risk characteristics and industry statistics. These evaluations are revised as conditions change and new information becomes available.

Information regarding the Company's loan valuation allowances for mortgage loans as of September 30, 2011 and 2010 are as follows (dollars in thousands):

|                              | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|------------------------------|-------------------------------------|-----------|------------------------------------|-----------|
|                              | 2011                                | 2010      | 2011                               | 2010      |
| Balance, beginning of period | \$ 7,692                            | \$ 8,179  | \$ 6,239                           | \$ 5,784  |
| Charge-offs                  |                                     |           | (1,157)                            |           |
| Provision                    | 2,370                               | 5,089     | 4,980                              | 7,484     |
| Balance, end of period       | \$ 10,062                           | \$ 13,268 | \$ 10,062                          | \$ 13,268 |

Information regarding the portion of the Company's mortgage loans that were impaired as of September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

|  | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Related<br>Allowance | Carrying<br>Value |
|--|--------------------------------|------------------------|----------------------|-------------------|
| <b>September 30, 2011:</b>                                   |                                |                        |                      |                   |
| Impaired mortgage loans with no valuation allowance recorded | \$ 2,572                       | \$ 2,572               | \$                   | \$ 2,572          |
| Impaired mortgage loans with valuation allowance recorded    | 33,623                         | 33,623                 | 6,623                | 27,000            |
| Total impaired mortgage loans                                | \$ 36,195                      | \$ 36,195              | \$ 6,623             | \$ 29,572         |
| <b>December 31, 2010:</b>                                    |                                |                        |                      |                   |
| Impaired mortgage loans with no valuation allowance recorded | \$ 16,901                      | \$ 16,901              | \$                   | \$ 16,901         |
| Impaired mortgage loans with valuation allowance recorded    | 18,745                         | 18,745                 | 6,239                | 12,506            |
| Total impaired mortgage loans                                | \$ 35,646                      | \$ 35,646              | \$ 6,239             | \$ 29,407         |

The Company's average investment in impaired mortgage loans and the related interest income are reflected in the table below for the periods indicated (dollars in thousands):

|  | Three Months Ended   |  |  |  |
|--|--|--|--|--|
|  | September 30, 2011<br>Average<br>Investment <sup>(1)</sup> | September 30, 2011<br>Interest<br>Income | September 30, 2010<br>Average<br>Investment <sup>(1)</sup> | September 30, 2010<br>Interest<br>Income |
| Impaired mortgage loans with no valuation allowance recorded | \$ 4,706   | \$ 32                                    | \$ 19,253  | \$ 159                                   |
| Impaired mortgage loans with valuation allowance recorded    | 31,351   | 202                                      | 26,994   | 253                                      |
| Total  | \$ 36,057  | \$ 234                                   | \$ 46,247  | \$ 412                                   |

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|  | Nine Months Ended                    |                    |                                      |                    |
|--|--------------------------------------|--------------------|--------------------------------------|--------------------|
|  | September 30, 2011                   |                    | September 30, 2010                   |                    |
|  | Average<br>Investment <sup>(1)</sup> | Interest<br>Income | Average<br>Investment <sup>(1)</sup> | Interest<br>Income |
| Impaired mortgage loans with no valuation allowance recorded | \$ 11,228                            | \$ 102             | \$ 18,607                            | \$ 418             |
| Impaired mortgage loans with valuation allowance recorded    | 25,046                               | 678                | 20,980                               | 253                |
| <b>Total</b>   | <b>\$ 36,274</b>                     | <b>\$ 780</b>      | <b>\$ 39,587</b>                     | <b>\$ 671</b>      |

(1) Average recorded investment represents the average loan balances as of the beginning of period and all subsequent quarterly end of period balances.

The Company did not acquire any impaired mortgage loans during the nine months ended September 30, 2011. The Company had \$17.4 million and \$15.6 million of mortgage loans, gross of valuation allowances, that were on nonaccrual status at September 30, 2011 and December 31, 2010, respectively.

**Table of Contents****5. Derivative Instruments**

The following table presents the notional amounts and fair value of derivative instruments as of September 30, 2011 and December 31, 2010 (dollars in thousands):

|  | September 30, 2011  |                           |                     | December 31, 2010   |                           |                     |
|--|---------------------|---------------------------|---------------------|---------------------|---------------------------|---------------------|
|  | Notional Amount     | Carrying Value/Fair Value |                     | Notional Amount     | Carrying Value/Fair Value |                     |
|  |                     | Assets                    | Liabilities         |                     | Assets                    | Liabilities         |
| <b>Derivatives not designated as hedging instruments:</b>          |                     |                           |                     |                     |                           |                     |
| Interest rate swaps <sup>(1)</sup>                                 | \$ 3,067,039        | \$ 172,848                | \$ 27,201           | \$ 2,302,853        | \$ 20,042                 | \$ 17,132           |
| Financial futures <sup>(1)</sup>                                   | 185,462             |                           |                     | 210,295             |                           |                     |
| Foreign currency forwards <sup>(1)</sup>                           | 24,400              | 3,983                     |                     | 39,700              | 5,924                     |                     |
| Consumer Price index ( CPI ) swaps                                 | 113,625             | 794                       |                     | 120,340             | 1,491                     |                     |
| Credit default swaps <sup>(1)</sup>                                | 675,500             | 1,406                     | 17,397              | 392,500             | 2,429                     | 131                 |
| Equity options <sup>(1)</sup>                                      | 439,312             | 99,633                    |                     | 33,041              | 5,043                     |                     |
| Embedded derivatives in:   |                     |                           |                     |                     |                           |                     |
| Modified coinsurance or funds withheld arrangements <sup>(2)</sup> |                     |                           | 275,734             |                     |                           | 274,220             |
| Indexed annuity products <sup>(3)</sup>                            |                     | 81,544                    | 735,634             |                     | 75,431                    | 668,951             |
| Variable annuity products <sup>(3)</sup>                           |                     |                           | 305,979             |                     |                           | 52,534              |
| <b>Total non-hedging derivatives</b>                               | <b>4,505,338</b>    | <b>360,208</b>            | <b>1,361,945</b>    | <b>3,098,729</b>    | <b>110,360</b>            | <b>1,012,968</b>    |
| <b>Derivatives designated as hedging instruments:</b>              |                     |                           |                     |                     |                           |                     |
| Interest rate swaps <sup>(1)</sup>                                 | 21,783              |                           | 2,639               | 21,783              |                           | 1,718               |
| Foreign currency swaps <sup>(1)</sup>                              | 621,578             | 5,292                     | 9,552               | 615,323             |                           | 45,749              |
| <b>Total hedging derivatives</b>                                   | <b>643,361</b>      | <b>5,292</b>              | <b>12,191</b>       | <b>637,106</b>      |                           | <b>47,467</b>       |
| <b>Total derivatives</b>   | <b>\$ 5,148,699</b> | <b>\$ 365,500</b>         | <b>\$ 1,374,136</b> | <b>\$ 3,735,835</b> | <b>\$ 110,360</b>         | <b>\$ 1,060,435</b> |

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

**Accounting for Derivative Instruments and Hedging Activities**

The Company does not enter into derivative instruments for speculative purposes. As discussed below under *Non-qualifying Derivatives and Derivatives for Purposes Other Than Hedging*, the Company uses various derivative instruments for risk management purposes that either do not qualify or have not been qualified 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. As of September 30, 2011 and December 31, 2010, the Company held interest rate swaps that were designated and qualified as fair value hedges of interest rate risk. As of September 30, 2011 and December 31, 2010, the Company held foreign currency swaps that were designated and qualified as fair value hedges of a portion of its net investment in its foreign operations. As of September 30, 2011 and December 31, 2010, 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 2010 annual report on Form 10-K for a detailed discussion of the accounting treatment for derivative instruments, including embedded derivatives. Derivative instruments are carried at fair value and generally require an insignificant amount of cash at inception of the contracts.

**Fair Value Hedges**

The Company designates and accounts for certain interest rate swaps that convert fixed rate investments to floating rate investments as fair value hedges when they meet the requirements of the general accounting principles for *Derivatives and Hedging*. The gain or loss on the hedged item

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attributable to the hedged benchmark interest rate and the offsetting gain or loss on the related interest rate swaps, both recognized in investment related gains/losses, for the three and nine months ended September 30, 2011 and 2010 were (dollars in thousands):

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| Type of Fair Value Hedge                              | Hedged Item                 | Gains (Losses) Recognized for Derivatives | Gains (Losses) Recognized for Hedged Items | Ineffectiveness Recognized in Investment Related Gains (Losses) |
|---|-----------------------------|---|--|---|
| <b>For the three months ended September 30, 2011:</b> |                             |   |  |   |
| Interest rate swaps                                   | Fixed rate fixed maturities | \$ (655)                                  | \$ 913                                     | \$ 258  |
| <b>For the three months ended September 30, 2010:</b> |                             |   |  |   |
| Interest rate swaps                                   | Fixed rate fixed maturities | \$ (683)                                  | \$ 922                                     | \$ 239  |
| <b>For the nine months ended September 30, 2011:</b>  |                             |   |  |   |
| Interest rate swaps                                   | Fixed rate fixed maturities | \$ (921)                                  | \$ 1,509                                   | \$ 588  |
| <b>For the nine months ended September 30, 2010:</b>  |                             |   |  |   |
| Interest rate swaps                                   | Fixed rate fixed maturities | \$ (1,883)                                | \$ 2,422                                   | \$ 539  |

A regression analysis is used, both at the inception of the hedge and on an ongoing basis, to determine whether each derivative used in a hedge transaction is highly effective in offsetting changes in the hedged item. All components of each derivative's gain or loss were included in the assessment of hedge effectiveness.

**Hedges of Net Investments in Foreign Operations**

The Company uses foreign currency swaps to hedge a portion of its net investment in certain foreign operations against adverse movements in exchange rates. Ineffectiveness on the foreign currency swap is based upon the change in forward rates. The following table illustrates the Company's net investments in foreign operations ( NIFO ) hedges for the three and nine months ended September 30, 2011 and 2010 (dollars in thousands):

| Type of NIFO Hedge <sup>(1) (2)</sup> | Derivative Gains (Losses) Deferred in AOCI |             |                           |             |
|---------------------------------------|--|-------------|---------------------------|-------------|
|                                       | For the three months ended                 |             | For the nine months ended |             |
|                                       | 2011                                       | 2010        | 2011                      | 2010        |
| Foreign currency swaps                | \$ 50,974                                  | \$ (21,957) | \$ 25,954                 | \$ (13,191) |

- (1) There were no sales or substantial liquidations of net investments in foreign operations that would have required the reclassification of gains or losses from accumulated other comprehensive income (loss) into investment income during the periods presented.
- (2) There was no ineffectiveness recognized for the Company's hedges of net investments in foreign operations.

The cumulative foreign currency translation gain (loss) recorded in AOCI related to the Company's NIFO hedges was \$25.2 million and \$(0.8) million at September 30, 2011 and December 31, 2010, respectively.

**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 or have not been qualified 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 September 30, 2011 and 2010, the Company recognized investment related gains of \$200.8 million and \$11.6 million, respectively, and \$203.4 million and \$129.6 million for the nine months ended September 30, 2011 and 2010, respectively, related to derivatives (not including embedded derivatives) that do not qualify or have not been qualified 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). With an interest rate swap, the Company agrees with another party to exchange, at specified intervals, the difference between fixed-rate and floating-rate interest amounts tied to an agreed-upon notional principal amount. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments at each due date.

*Financial Futures*

Exchange-traded equity futures are used primarily to economically hedge liabilities embedded in certain variable annuity products. With 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 relevant stock indices, and to post variation margin on a daily basis in an amount equal to the difference between 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.

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### *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. With 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 may also use foreign currency swaps to economically 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. With 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 where value is directly affected by changes in a designated benchmark consumer price index. With a CPI swap transaction, the Company agrees with another party to exchange the actual amount of inflation realized over a specified period of time for a fixed amount of inflation determined at inception. These transactions are executed pursuant to master agreements that provide for a single net payment or individual gross payments to be made by the counterparty at each due date. Most of these swaps will require a single payment to be made by one counterparty at the maturity date of the swap.

### *Credit Default Swaps*

The Company invests in credit default swaps to diversify its credit risk exposure in certain portfolios. These credit default swaps are over-the-counter instruments in which the Company receives payments at specified intervals to insure credit risk on a portfolio of U.S. investment-grade securities. Generally, if a credit event, as defined by the contract, occurs, the contract will require the swap to be settled gross by the delivery of par quantities or value of the referenced investment securities equal to the specified swap notional amount in exchange for the payment of cash amounts by the Company equal to the par value of the investment security surrendered. The Company's maximum amount at risk, assuming the value of the underlying referenced securities is zero, was \$640.0 million and \$375.0 million at September 30, 2011 and December 31, 2010, respectively.

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

Credit default swaps are also used by the Company to synthetically replicate investment risks and returns which are not readily available in the investments markets. These transactions are a combination of a derivative and an investment instrument such as a U.S. corporate security.

### *Equity Options*

Equity index options are used by the Company primarily to hedge minimum guarantees embedded in certain variable annuity products. To hedge against adverse changes in equity indices volatility, the Company enters into contracts to sell the equity index options within a limited time at a contracted price. The contracts are net settled in cash based on differentials in the indices at the time of exercise and the strike price.

### *Embedded Derivatives*

The Company has certain embedded derivatives which are required to be separated from their host contracts and reported as derivatives. 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 related gains (losses) for the three and nine months ended September 30, 2011 and 2010 are reflected in the following table (dollars in thousands):





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|  | Three months ended<br>September 30, |             | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2011                                | 2010        | 2011                               | 2010        |
| Embedded derivatives in modified coinsurance or funds withheld arrangements and variable annuity contracts included in investment related gains (losses) | \$ (362,813)                        | \$ (54,885) | \$ (254,960)                       | \$ (33,501) |
| After the associated amortization of DAC and taxes, the related amounts included in net income   | (47,666)                            | (17,604)    | (23,308)                           | (4,197)     |
| Amounts related to embedded derivatives in equity-indexed annuities included in benefits and expenses  | 14,360                              | (24,105)    | (58,987)                           | (27,326)    |
| After the associated amortization of DAC and taxes, the related amounts included in net income   | 23,002                              | 864         | (26,840)                           | (4,320)     |

*Non-hedging Derivatives*

A summary of the effect of non-hedging derivatives, including embedded derivatives, on the Company's income statement for the three and nine months ended September 30, 2011 and 2010 is as follows (dollars in thousands):

| Type of Non-hedging Derivative                      | Income Statement Location of Gain (Loss)              | Gain (Loss) for the Three Months Ended September 30, |             |
|---|---|--|-------------|
|   |   | 2011   | 2010        |
| Interest rate swaps                                 | Investment related gains (losses), net                | \$ 142,907   | \$ 49,825   |
| Financial futures                                   | Investment related gains (losses), net                | 36,217   | (42,270)    |
| Foreign currency forwards                           | Investment related gains (losses), net                | 1,374  | 1,543       |
| CPI swaps   | Investment related gains (losses), net                | (219)  | (508)       |
| Credit default swaps                                | Investment related gains (losses), net                | (10,018)   | 3,730       |
| Equity options                                      | Investment related gains (losses), net                | 30,530   | (731)       |
| Embedded derivatives in:                            |   |  |             |
| Modified coinsurance or funds withheld arrangements | Investment related gains (losses), net                | (102,574)  | (38,653)    |
| Indexed annuity products                            | Policy acquisition costs and other insurance expenses | (3,172)  | 1,806       |
| Indexed annuity products                            | Interest credited                                     | 17,531   | (25,911)    |
| Variable annuity products                           | Investment related gains (losses), net                | (260,239)  | (16,232)    |
| Total non-hedging derivatives                       |   | \$ (147,663)   | \$ (67,401) |

| Type of Non-hedging Derivative                      | Income Statement Location of Gain (Loss)              | Gain (Loss) for the Nine Months Ended September 30, |            |
|---|---|---|------------|
|   |   | 2011  | 2010       |
| Interest rate swaps                                 | Investment related gains (losses), net                | \$ 157,520  | \$ 148,280 |
| Financial futures                                   | Investment related gains (losses), net                | 21,920  | (21,192)   |
| Foreign currency forwards                           | Investment related gains (losses), net                | 1,114   | 2,161      |
| CPI swaps   | Investment related gains (losses), net                | 1,096   | 524        |
| Credit default swaps                                | Investment related gains (losses), net                | (8,138)   | 446        |
| Equity options                                      | Investment related gains (losses), net                | 29,880  | (604)      |
| Embedded derivatives in:                            |   |   |            |
| Modified coinsurance or funds withheld arrangements | Investment related gains (losses), net                | (1,514)   | 116,494    |
| Indexed annuity products                            | Policy acquisition costs and other insurance expenses | 8,947   | 2,968      |
| Indexed annuity products                            | Interest credited                                     | (67,935)  | (30,293)   |

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|                               |  |              |           |
|-------------------------------|--|--------------|-----------|
| Variable annuity products     | Investment related gains (losses), net | (253,445)    | (149,995) |
| Total non-hedging derivatives |  | \$ (110,555) | \$ 68,789 |

### Credit Risk

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. As 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.

The Company enters into various collateral arrangements, which require both the posting and accepting of collateral in connection with its derivative instruments. Collateral agreements contain attachment thresholds that may vary depending on the posting party's ratings. Additionally, a decline in the Company's or the counterparty's credit ratings to specified levels could result in potential settlement of the derivative positions under the Company's agreements with its counterparties. The Company also has exchange-traded futures, which require the maintenance of a margin account.

The Company's credit exposure related to derivative contracts is generally limited to the fair value at the reporting date plus or minus any collateral posted or held by the Company. Information regarding the Company's credit exposure related to its

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over-the-counter derivative contracts and margin account for exchange-traded futures at September 30, 2011 and December 31, 2010 are reflected in the following table (dollars in thousands):

|   | September 30,<br>2011 | December 31,<br>2010 |
|---|-----------------------|----------------------|
| Estimated fair value of derivatives in net asset (liability) position | \$ 227,167            | \$ (29,801)          |
| Securities pledged to counterparties as collateral <sup>(1)</sup>     | 16,833                | 48,223               |
| Cash pledged from counterparties as collateral <sup>(2)</sup>         | (173,550)             | (10,300)             |
| Securities pledged from counterparties as collateral <sup>(3)</sup>   | (54,608)              | (1,781)              |
| <b>Net credit exposure</b>  | <b>\$ 15,842</b>      | <b>\$ 6,341</b>      |
| <br>Margin account related to exchange-traded futures <sup>(2)</sup>  | <br>\$ 17,840         | <br>\$ 16,285        |

(1) Consists of U.S. Treasury securities, included in other invested assets.

(2) Included in cash and cash equivalents.

(3) Consists of U.S. Treasury securities.

**6. Fair Value of Financial Instruments**

Fair values of financial instruments have been determined by using available market information and the valuation techniques described below. Considerable judgment is often required in interpreting market data to develop estimates of fair value. Accordingly, the estimates presented herein may not necessarily be indicative of amounts that could be realized in a current market exchange. The use of different assumptions or valuation techniques may have a material effect on the estimated fair value amounts. The following table presents the carrying amounts and estimated fair values of the Company's financial instruments at September 30, 2011 and December 31, 2010 (dollars in thousands):

|   | September 30, 2011 |                      | December 31, 2010 |                      |
|---|--------------------|----------------------|-------------------|----------------------|
|   | Carrying Value     | Estimated Fair Value | Carrying Value    | Estimated Fair Value |
| <b>Assets:</b>  |                    |                      |                   |                      |
| Fixed maturity securities                                     | \$ 15,557,032      | \$ 15,557,032        | \$ 14,304,597     | \$ 14,304,597        |
| Mortgage loans on real estate                                 | 934,694            | 1,020,796            | 885,811           | 933,513              |
| Policy loans  | 1,228,890          | 1,228,890            | 1,228,418         | 1,228,418            |
| Funds withheld at interest                                    | 5,445,886          | 5,988,389            | 5,421,952         | 5,838,064            |
| Short-term investments  | 81,747             | 81,747               | 118,387           | 118,387              |
| Other invested assets   | 976,369            | 968,539              | 683,307           | 681,242              |
| Cash and cash equivalents                                     | 802,651            | 802,651              | 463,661           | 463,661              |
| Accrued investment income                                     | 190,298            | 190,298              | 127,874           | 127,874              |
| Reinsurance ceded receivables                                 | 87,340             | 43,309               | 95,557            | 91,893               |
| <b>Liabilities:</b>   |                    |                      |                   |                      |
| Interest-sensitive contract liabilities                       | \$ 6,169,761       | \$ 5,961,690         | \$ 5,856,945      | \$ 5,866,088         |
| Long-term and short-term debt                                 | 1,614,543          | 1,665,456            | 1,216,410         | 1,226,517            |
| Collateral finance facility                                   | 681,004            | 408,300              | 850,039           | 514,250              |
| Company-obligated mandatorily redeemable preferred securities |                    |                      | 159,421           | 221,341              |

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 Company 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 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

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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 approximate 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 condensed consolidated balance sheets based primarily on quoted market prices. Limited partnership interests included in other invested assets consist of those investments accounted for

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using the cost method. The remaining carrying value recognized in the condensed consolidated balance sheets represents investments in limited partnership interests accounted for using the equity method, which do not meet the definition of financial instruments for which fair value is required to be disclosed. The fair value of limited partnerships is based on net asset values. The carrying value for accrued investment income approximates fair value.

The carrying and fair values of interest-sensitive contract liabilities reflected in the table above 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. See Note 14 Financing Activities and Stock Transactions, for information regarding the Company's company-obligated mandatorily redeemable preferred securities.

General accounting principles for *Fair Value Measurements and Disclosures* define fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. In accordance with these principles, 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 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 above are consistent with generally accepted valuation techniques. 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 technique(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 techniques utilized in determining fair value to ensure that the valuation approaches utilized are appropriate and consistently applied, and that the various assumptions are reasonable. As indicated above, 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 techniques, 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, the Company utilizes when available, fair values based on quoted prices in active markets that are regularly and readily obtainable. Generally, these are very liquid investments and the valuation does not require management judgment. When quoted prices in active markets are not available, fair value is based on the market valuation techniques described above, primarily a combination of the market approach, including matrix pricing and the income approach. For corporate and government securities, the assumptions and inputs used by management in applying these techniques include, but are not limited to: using standard market observable inputs which are derived from, or corroborated by, market observable data including market yield curve, duration, call provisions, observable prices and spreads for similar publicly traded or privately traded issues that incorporate the credit quality and industry sector of the



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issuer. For structured securities that include residential mortgage-backed securities, commercial mortgage-backed securities and asset-backed securities, valuation is based primarily on matrix pricing or other similar techniques using standard market inputs including spreads for actively traded securities, spreads off benchmark yields, expected prepayment speeds and volumes, current and forecasted loss severity, rating, weighted average coupon, weighted average maturity, average delinquency rates, geographic region, debt-service coverage ratios and issuance-specific information including, but not limited to: collateral type, payment terms of the underlying assets, payment priority within the tranche, structure of the security, deal performance and vintage of loans.

When observable inputs are not available, the market standard valuation techniques for determining the estimated fair value of certain types of securities that trade infrequently, and therefore have little or no price transparency, rely on inputs that are significant to the estimated fair value that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation, and cannot be supported by reference to market activity. Even though unobservable, these inputs are based on assumptions deemed appropriate given the circumstances and are believed to be consistent with what other market participants would use when pricing such securities.

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

For the quarters ended September 30, 2011 and 2010, the application of market standard valuation techniques applied to similar assets and liabilities has been consistent.

General accounting principles for *Fair Value Measurements and Disclosures* also establish a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. 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 techniques and assumptions with significant inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Such observable inputs include benchmarking prices for similar assets in active, liquid markets, quoted prices in markets that are not active and observable yields and spreads in the market. The Company's Level 2 assets and liabilities include investment securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose values are determined using market standard valuation techniques. This category primarily includes corporate securities, Canadian and Canadian provincial government securities, and residential and commercial mortgage-backed securities, among others. Level 2 valuations are generally obtained from third party pricing services for identical or comparable assets or liabilities or through the use of valuation methodologies using observable market inputs. Prices from services are validated through analytical reviews and assessment of current market activity.

**Level 3** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the related assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using market standard valuation techniques described above. When observable inputs are not available, the market standard techniques for determining the estimated fair value of certain securities that trade infrequently, and therefore have little transparency, rely on inputs that are significant to the estimated fair value and that are not observable in the market or cannot be derived principally from or corroborated by observable market data. These unobservable inputs can be based in large part on management judgment or estimation and cannot be supported by reference to market activity. Even though unobservable, management believes these inputs are based on assumptions deemed appropriate given the circumstances and consistent with what other market participants would use when pricing similar assets and liabilities. For the Company's invested assets, this category generally includes 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. Prices are determined using valuation methodologies such as discounted cash flow models and other similar techniques. Non-binding broker quotes, which are utilized when pricing service information is not available, are reviewed for reasonableness based on the Company's understanding of the market, and are generally considered Level 3. Under certain circumstances, based on its observations of transactions in active markets, the Company may conclude the prices received from

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independent third party pricing services or brokers are not reasonable or reflective of market activity. In those instances, the Company would apply internally developed valuation techniques to the related assets or liabilities. Additionally, the Company's embedded derivatives, all of which are associated with



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reinsurance treaties, are classified in Level 3 since their values include significant unobservable inputs associated with actuarial assumptions regarding policyholder behavior.

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 September 30, 2011 and December 31, 2010 are summarized below (dollars in thousands):

| September 30, 2011:  | Total                | Fair Value Measurements Using: |                      |                     |
|--|----------------------|--------------------------------|----------------------|---------------------|
|  |                      | Level 1                        | Level 2              | Level 3             |
| <b>Assets:</b>   |                      |                                |                      |                     |
| Fixed maturity securities available-for-sale:                |                      |                                |                      |                     |
| Corporate securities   | \$ 7,780,927         | \$ 11,335                      | \$ 6,811,773         | \$ 957,819          |
| Canadian and Canadian provincial governments                 | 3,393,514            |                                | 3,393,514            |                     |
| Residential mortgage-backed securities                       | 1,307,774            |                                | 1,240,864            | 66,910              |
| Asset-backed securities                                      | 372,957              |                                | 210,414              | 162,543             |
| Commercial mortgage-backed securities                        | 1,326,994            |                                | 1,214,015            | 112,979             |
| U.S. government and agencies securities                      | 258,083              | 237,844                        | 20,239               |                     |
| State and political subdivision securities                   | 203,334              | 12,760                         | 181,184              | 9,390               |
| Other foreign government securities                          | 913,449              | 221,851                        | 691,598              |                     |
| <b>Total fixed maturity securities available-for-sale</b>    | <b>15,557,032</b>    | <b>483,790</b>                 | <b>13,763,601</b>    | <b>1,309,641</b>    |
| Funds withheld at interest embedded derivatives              | (275,734)            |                                |                      | (275,734)           |
| Cash equivalents   | 548,744              | 548,744                        |                      |                     |
| Short-term investments                                       | 32,920               | 27,276                         | 5,644                |                     |
| <b>Other invested assets:</b>                                |                      |                                |                      |                     |
| Non-redeemable preferred stock                               | 93,591               | 74,844                         | 18,747               |                     |
| Other equity securities                                      | 33,001               | 3,518                          | 18,920               | 10,563              |
| <b>Derivatives:</b>  |                      |                                |                      |                     |
| Interest rate swaps  | 145,647              |                                | 145,647              |                     |
| Foreign currency forwards                                    | 3,983                |                                | 3,983                |                     |
| CPI swaps  | 794                  |                                | 794                  |                     |
| Credit default swaps   | (5,725)              |                                | (5,725)              |                     |
| Equity options   | 99,633               |                                | 99,633               |                     |
| Foreign currency swaps                                       | 3,988                |                                | 3,988                |                     |
| Collateral   | 21,288               | 16,833                         | 4,455                |                     |
| <b>Total other invested assets</b>                           | <b>396,200</b>       | <b>95,195</b>                  | <b>290,442</b>       | <b>10,563</b>       |
| Reinsurance ceded receivable embedded derivatives            | 81,544               |                                |                      | 81,544              |
| <b>Total</b>   | <b>\$ 16,340,706</b> | <b>\$ 1,155,005</b>            | <b>\$ 14,059,687</b> | <b>\$ 1,126,014</b> |
| <b>Liabilities:</b>  |                      |                                |                      |                     |
| Interest sensitive contract liabilities embedded derivatives | \$ 1,041,613         | \$                             | \$                   | \$ 1,041,613        |
| <b>Other liabilities:</b>                                    |                      |                                |                      |                     |
| <b>Derivatives:</b>  |                      |                                |                      |                     |
| Interest rate swaps  | 2,639                |                                | 2,639                |                     |
| Credit default swaps   | 10,266               |                                | 10,266               |                     |
| Foreign currency swaps                                       | 8,248                |                                | 8,248                |                     |
| <b>Total other liabilities</b>                               | <b>21,153</b>        |                                | <b>21,153</b>        |                     |

|       |              |    |           |              |
|-------|--------------|----|-----------|--------------|
| Total | \$ 1,062,766 | \$ | \$ 21,153 | \$ 1,041,613 |
|-------|--------------|----|-----------|--------------|

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| December 31, 2010:   | Total                | Fair Value Measurements Using: |                      |                     |
|--|----------------------|--------------------------------|----------------------|---------------------|
|  |                      | Level 1                        | Level 2              | Level 3             |
| <b>Assets:</b>   |                      |                                |                      |                     |
| Fixed maturity securities available-for-sale:                |                      |                                |                      |                     |
| Corporate securities   | \$ 7,155,505         | \$ 16,182                      | \$ 6,266,987         | \$ 872,336          |
| Canadian and Canadian provincial governments                 | 3,023,483            |                                | 3,023,483            |                     |
| Residential mortgage-backed securities                       | 1,473,077            |                                | 1,289,786            | 183,291             |
| Asset-backed securities                                      | 391,209              |                                | 162,651              | 228,558             |
| Commercial mortgage-backed securities                        | 1,337,853            |                                | 1,190,297            | 147,556             |
| U.S. government and agencies securities                      | 206,216              | 166,861                        | 39,355               |                     |
| State and political subdivision securities                   | 164,460              | 6,865                          | 150,612              | 6,983               |
| Other foreign government securities                          | 552,794              | 4,037                          | 542,178              | 6,579               |
| <b>Total fixed maturity securities available-for-sale</b>    | <b>14,304,597</b>    | <b>193,945</b>                 | <b>12,665,349</b>    | <b>1,445,303</b>    |
| Funds withheld at interest embedded derivatives              | (274,220)            |                                |                      | (274,220)           |
| Cash equivalents <sup>(1)</sup>                              | 253,746              | 253,746                        |                      |                     |
| Short-term investments                                       | 7,310                | 5,257                          | 2,053                |                     |
| <b>Other invested assets:</b>                                |                      |                                |                      |                     |
| Non-redeemable preferred stock                               | 99,550               | 72,393                         | 26,737               | 420                 |
| Other equity securities                                      | 40,661               | 5,126                          | 19,119               | 16,416              |
| <b>Derivatives:</b>  |                      |                                |                      |                     |
| Interest rate swaps  | 20,042               |                                | 20,042               |                     |
| Foreign currency forwards                                    | 5,924                |                                | 5,924                |                     |
| CPI swaps  | 1,491                |                                | 1,491                |                     |
| Credit default swaps   | 2,429                |                                | 2,429                |                     |
| Equity options   | 5,043                |                                | 5,043                |                     |
| Collateral   | 48,223               | 48,223                         |                      |                     |
| <b>Total other invested assets</b>                           | <b>223,363</b>       | <b>125,742</b>                 | <b>80,785</b>        | <b>16,836</b>       |
| Reinsurance ceded receivable embedded derivatives            | 75,431               |                                |                      | 75,431              |
| <b>Total</b>   | <b>\$ 14,590,227</b> | <b>\$ 578,690</b>              | <b>\$ 12,748,187</b> | <b>\$ 1,263,350</b> |
| <b>Liabilities:</b>  |                      |                                |                      |                     |
| Interest sensitive contract liabilities embedded derivatives | \$ 721,485           | \$                             | \$                   | \$ 721,485          |
| <b>Other liabilities:</b>                                    |                      |                                |                      |                     |
| <b>Derivatives:<sup>(2)</sup></b>                            |                      |                                |                      |                     |
| Interest rate swaps  | 18,850               |                                | 18,850               |                     |
| Credit default swaps   | 131                  |                                | 131                  |                     |
| Foreign currency swaps                                       | 45,749               |                                | 45,749               |                     |
| <b>Total other liabilities</b>                               | <b>64,730</b>        |                                | <b>64,730</b>        |                     |
| <b>Total</b>   | <b>\$ 786,215</b>    | <b>\$</b>                      | <b>\$ 64,730</b>     | <b>\$ 721,485</b>   |

(1) Information as of December 31, 2010 was recast to reflect the disclosure of fair value information for certain cash equivalents during 2011.

(2) Balances have been adjusted due to typographical errors in the 2010 Annual Report.

**Fixed Maturity Securities** The fair values of the Company's public fixed maturity securities, which include corporate and structured securities, are generally based on prices obtained from independent pricing services. Prices from pricing services are sourced from multiple vendors, and a vendor hierarchy is maintained by asset type based on historical pricing experience and vendor expertise. The Company generally receives prices from multiple pricing services for each security, but ultimately uses the price from the pricing service highest in the vendor hierarchy based on the respective asset type. To validate reasonability, prices are periodically reviewed by internal asset managers through comparison with directly observed recent market trades and internal estimates of current fair value, developed using market observable inputs and economic indicators. Consistent with the fair value hierarchy described above, securities with validated quotes from pricing services are generally reflected

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within Level 2, as they are primarily based on observable pricing for similar assets and/or other market observable inputs. If the pricing information received from third party pricing services is not reflective of market activity or other inputs observable in the market, the Company may challenge the price through a formal process with the pricing service.

If the Company ultimately concludes that pricing information received from the independent pricing service is not reflective of market activity, non-binding broker quotes are used, if available. If the Company concludes the values from both pricing services and brokers are not reflective of market activity, it may override the information from the pricing service or broker with an internally developed valuation; however, this occurs infrequently. Internally developed valuations or non-binding broker quotes are also used to determine fair value in circumstances where vendor pricing is not available. These estimates may use significant unobservable inputs, which reflect the Company's assumptions about the inputs market participants would use in pricing the asset. Circumstances where observable market data are not available may include events such as market illiquidity and credit events related to the security. Pricing service overrides, internally developed valuations and non-

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binding broker quotes are generally based on significant unobservable inputs and are often reflected as Level 3 in the valuation hierarchy.

The fair values of private placement securities are primarily determined using a discounted cash flow model. In certain cases these models primarily use observable inputs with a discount rate based upon the average of spread surveys collected from private market intermediaries who are active in both primary and secondary transactions, taking into account, among other factors, the credit quality and industry sector of the issuer and the reduced liquidity associated with private placements. Generally, these securities have been reflected within Level 2. For certain private fixed maturities, the discounted cash flow model may also incorporate significant unobservable inputs, which reflect the Company's own assumptions about the inputs market participants would use in pricing the security. To the extent management determines that such unobservable inputs are not significant to the price of a security, a Level 2 classification is made. Otherwise, a Level 3 classification is used.

*Embedded Derivatives* 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 technique, 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 technique 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 industry standard valuation techniques. However, the valuation also requires certain significant inputs based on actuarial assumptions, which are generally not observable and accordingly, the valuation is considered Level 3 in the fair value hierarchy.

*Cash Equivalents and Short-Term Investments* Cash equivalents and short-term investments include money market instruments, commercial paper and other highly liquid debt instruments. Money market instruments are generally valued using unadjusted quoted prices in active markets that are accessible for identical assets and are primarily classified as Level 1. The fair value of certain other short-term investments, such as floating rate notes and bonds with original maturities less than twelve months, are based upon other market observable data and are typically classified as Level 2. Various time deposits carried as cash equivalents or short-term investments are not measured at estimated fair value and therefore are excluded from the tables presented.

*Equity Securities* Equity securities consist principally of preferred stock of publicly and privately traded companies. The fair values of most publicly traded equity securities are based on quoted market prices in active markets for identical assets and are classified within Level 1 in the fair value hierarchy. Estimated fair values for most privately traded equity securities are determined using valuation models that require a substantial level of judgment. In determining the fair value of certain privately traded equity securities the models may also use unobservable inputs, which reflect the Company's assumptions about the inputs market participants would use in pricing. Most privately traded equity securities are classified within Level 3. The fair values of preferred equity securities are based on prices obtained from independent pricing services and these securities are generally classified within Level 2 in the fair value hierarchy. The fair value of other equity securities, included in Level 2, represent the Company's common stock investment in the Federal Home Loan Bank of Des Moines.

*Derivative Assets and Derivative Liabilities* Level 1 measurement includes assets and liabilities comprised of exchange-traded derivatives. Valuation is based on unadjusted quoted prices in active markets that are readily and regularly available. Level 2 measurement includes all types of derivative instruments utilized by the Company with the exception of exchange-traded derivatives. These derivatives are principally valued using an income approach. Valuations of interest rate contracts, non-option-based, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, and repurchase rates. Valuations of foreign currency contracts, non-option-based, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, LIBOR basis curves, currency spot rates, and cross currency basis curves. Valuations of credit contracts, non-option-based, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, credit curves, and recovery rates. Valuations of equity market contracts, non-option-based, are based on present value techniques, which utilize significant inputs that may include the swap yield curve, spot equity index levels, and dividend yield curves. Valuations of equity market contracts, option-based, are based on option pricing models, which utilize significant inputs that may include the swap

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yield curve, spot equity index levels, dividend yield curves, and equity volatility. The Company does not currently have derivatives included in Level 3 measurement.

As of September 30, 2011 and December 31, 2010, respectively, the Company classified approximately 8.4% and 10.1% of its fixed maturity securities in the Level 3 category. These securities primarily consist of private placement corporate securities with inactive trading markets. Additionally, the Company has included asset-backed securities with sub-prime exposure and mortgage-backed securities with below investment grade ratings in the Level 3 category due to market uncertainty associated with these securities and the Company's utilization of information.

The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2011, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2011 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2011 (dollars in thousands):

**For the three months ended September 30, 2011:**

|   | Fixed maturity securities - available-for-sale |  |                         |                                       |
|---|--|--|-------------------------|---------------------------------------|
|   | Corporate securities                           | Residential mortgage-backed securities | Asset-backed securities | Commercial mortgage-backed securities |
| Fair value, beginning of period                       | \$ 977,560                                     | \$ 103,430                             | \$ 188,773              | \$ 150,765                            |
| Total gains/losses (realized/unrealized)              |  |  |                         |                                       |
| Included in earnings, net:                            |  |  |                         |                                       |
| Investment income, net of related expenses            | 38   | 181                                    | 271                     | 505                                   |
| Investment related gains (losses), net                | 591  | (1,059)                                | (6,760)                 | (6,548)                               |
| Claims & other policy benefits                        |  |  |                         |                                       |
| Interest credited                                     |  |  |                         |                                       |
| Policy acquisition costs and other insurance expenses |  |  |                         |                                       |
| Included in other comprehensive income                | 7,725  | 44                                     | (1,827)                 | (14,717)                              |
| Purchases <sup>(1)</sup>                              | 59,905   | 454                                    | 7,449                   |                                       |
| Sales <sup>(1)</sup>                                  | (14,415)                                       |  | (5,547)                 |                                       |
| Settlements <sup>(1)</sup>                            | (23,677)                                       | (1,447)                                | (3,172)                 |                                       |
| Transfers into Level 3 <sup>(2)</sup>                 | 15,947   | 2,248                                  | 10,773                  |                                       |
| Transfers out of Level 3 <sup>(2)</sup>               | (65,855)                                       | (36,941)                               | (27,417)                | (17,026)                              |
| Fair value, end of period                             | \$ 957,819                                     | \$ 66,910                              | \$ 162,543              | \$ 112,979                            |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

|   | Corporate securities | Residential mortgage-backed securities | Asset-backed securities | Commercial mortgage-backed securities |
|---|----------------------|--|-------------------------|---------------------------------------|
| Included in earnings, net:                            |                      |  |                         |                                       |
| Investment income, net of related expenses            | \$ 32                | \$ 181                                 | \$ 246                  | \$ 504                                |
| Investment related gains (losses), net                | (708)                | (131)                                  | (1,052)                 | (6,548)                               |
| Claims & other policy benefits                        |                      |  |                         |                                       |
| Interest credited                                     |                      |  |                         |                                       |
| Policy acquisition costs and other insurance expenses |                      |  |                         |                                       |

**For the three months ended September 30, 2011 (continued):**

|  | Fixed maturity securities - available-for-sale |                                     |  |
|--|--|-------------------------------------|--|
|  | State and political subdivision securities     | Other foreign government securities | Funds withheld at interest-embedded derivative |
| Fair value, beginning of period            | \$ 22,932                                      | \$ 4,074                            | \$ (173,160)                                   |
| Total gains/losses (realized/unrealized)   |  |                                     |  |
| Included in earnings, net:                 |  |                                     |  |
| Investment income, net of related expenses | (5)  |                                     |  |

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|   |          |         |              |
|---|----------|---------|--------------|
| Investment related gains (losses), net                | (4)      |         | (102,574)    |
| Claims & other policy benefits                        |          |         |              |
| Interest credited                                     |          |         |              |
| Policy acquisition costs and other insurance expenses |          |         |              |
| Included in other comprehensive income                | 225      |         |              |
| Purchases <sup>(1)</sup>                              |          |         |              |
| Sales <sup>(1)</sup>                                  |          |         |              |
| Settlements <sup>(1)</sup>                            | (22)     |         |              |
| Transfers into Level 3 <sup>(2)</sup>                 |          |         |              |
| Transfers out of Level 3 <sup>(2)</sup>               | (13,736) | (4,074) |              |
| Fair value, end of period                             | \$ 9,390 | \$      | \$ (275,734) |

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| For the three months ended September 30, 2011 (continued):   | Fixed maturity securities - available-for-sale |                                     |  |
|--|--|-------------------------------------|--|
|  | State and political subdivision securities     | Other foreign government securities | Funds withheld at interest-embedded derivative |
| Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period |  |                                     |  |
| Included in earnings, net:   |  |                                     |  |
| Investment income, net of related expenses   | \$ (5)   | \$                                  | \$   |
| Investment related gains (losses), net   |  |                                     | (102,575)                                      |
| Claims & other policy benefits   |  |                                     |  |
| Interest credited  |  |                                     |  |
| Policy acquisition costs and other insurance expenses  |  |                                     |  |

| For the three months ended September 30, 2011 (continued): | Reinsurance                                    |                                      |   |
|--|--|--------------------------------------|---|
|  | Other invested assets- other equity securities | ceded receivable-embedded derivative | Interest sensitive contract liabilities embedded derivative |
| Fair value, beginning of period                            | \$ 11,001                                      | \$ 86,029                            | \$ (804,171)  |
| Total gains/losses (realized/unrealized)                   |  |                                      |   |
| Included in earnings, net:                                 |  |                                      |   |
| Investment income, net of related expenses                 |  |                                      |   |
| Investment related gains (losses), net                     |  |                                      | (260,239)   |
| Claims & other policy benefits                             |  |                                      | (1,600)   |
| Interest credited  |  |                                      | 19,598  |
| Policy acquisition costs and other insurance expenses      |  | (3,443)                              |   |
| Included in other comprehensive income                     | 195  |                                      |   |
| Purchases <sup>(1)</sup>                                   |  | 2,081                                | (16,063)  |
| Sales <sup>(1)</sup>                                       | (633)  |                                      |   |
| Settlements <sup>(1)</sup>                                 |  | (3,123)                              | 20,862  |
| Transfers into Level 3 <sup>(2)</sup>                      |  |                                      |   |
| Transfers out of Level 3 <sup>(2)</sup>                    |  |                                      |   |
| Fair value, end of period                                  | \$ 10,563                                      | \$ 81,544                            | \$ (1,041,613)  |

|  |    |       |           |
|--|----|-------|-----------|
| Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period |    |       |           |
| Included in earnings, net:   |    |       |           |
| Investment income, net of related expenses   | \$ | \$    | \$        |
| Investment related gains (losses), net   |    |       | (262,552) |
| Claims & other policy benefits   |    |       | (1,135)   |
| Interest credited  |    |       | (1,265)   |
| Policy acquisition costs and other insurance expenses  |    | (592) |           |

- (1) The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances during the period.
- (2) The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market



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data for these securities or, in accordance with company policy, when the ratings of certain asset classes fall below investment grade. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable. Transfers between Level 1 and Level 2 were not significant.

**Table of Contents****For the nine months ended September 30, 2011:**

|   | Fixed maturity securities - available-for-sale |  |                         |                                       |
|---|--|--|-------------------------|---------------------------------------|
|   | Corporate securities                           | Residential mortgage-backed securities | Asset-backed securities | Commercial mortgage-backed securities |
| Fair value, beginning of period                       | \$ 872,336                                     | \$ 183,291                             | \$ 228,558              | \$ 147,556                            |
| Total gains/losses (realized/unrealized)              |  |  |                         |                                       |
| Included in earnings, net:                            |  |  |                         |                                       |
| Investment income, net of related expenses            | 200  | 674                                    | 1,175                   | 1,673                                 |
| Investment related gains (losses), net                | 1,332  | (1,460)                                | (9,588)                 | (9,280)                               |
| Claims & other policy benefits                        |  |  |                         |                                       |
| Interest credited                                     |  |  |                         |                                       |
| Policy acquisition costs and other insurance expenses |  |  |                         |                                       |
| Included in other comprehensive income                | 17,178   | 4,528                                  | 5,586                   | 12,599                                |
| Purchases <sup>(1)</sup>                              | 257,713  | 6,236                                  | 37,328                  | 7,684                                 |
| Sales <sup>(1)</sup>                                  | (35,648)                                       | (20,701)                               | (27,844)                |                                       |
| Settlements <sup>(1)</sup>                            | (99,407)                                       | (13,812)                               | (20,013)                | (3,410)                               |
| Transfers into Level 3 <sup>(2)</sup>                 | 76,627   | 7,250                                  | 32,274                  | 66,854                                |
| Transfers out of Level 3 <sup>(2)</sup>               | (132,512)                                      | (99,096)                               | (84,933)                | (110,697)                             |
| Fair value, end of period                             | \$ 957,819                                     | \$ 66,910                              | \$ 162,543              | \$ 112,979                            |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

Included in earnings, net:

|   |         |        |          |          |
|---|---------|--------|----------|----------|
| Investment income, net of related expenses            | \$ 162  | \$ 655 | \$ 1,084 | \$ 1,660 |
| Investment related gains (losses), net                | (1,223) | (175)  | (4,603)  | (9,292)  |
| Claims & other policy benefits                        |         |        |          |          |
| Interest credited                                     |         |        |          |          |
| Policy acquisition costs and other insurance expenses |         |        |          |          |

**For the nine months ended September 30, 2011 (continued):**

|   | Fixed maturity securities - available-for-sale |                                     |  |
|---|--|-------------------------------------|--|
|   | State and political subdivision securities     | Other foreign government securities | Funds withheld at interest-embedded derivative |
| Fair value, beginning of period                       | \$ 6,983                                       | \$ 6,579                            | \$ (274,220)                                   |
| Total gains/losses (realized/unrealized)              |  |                                     |  |
| Included in earnings, net:                            |  |                                     |  |
| Investment income, net of related expenses            | 365  | 1                                   |  |
| Investment related gains (losses), net                | (11)   |                                     | (1,514)  |
| Claims & other policy benefits                        |  |                                     |  |
| Interest credited                                     |  |                                     |  |
| Policy acquisition costs and other insurance expenses |  |                                     |  |
| Included in other comprehensive income                | 3,839  | 4                                   |  |
| Purchases <sup>(1)</sup>                              | 871  |                                     |  |
| Sales <sup>(1)</sup>                                  |  |                                     |  |
| Settlements <sup>(1)</sup>                            | (65)   |                                     |  |
| Transfers into Level 3 <sup>(2)</sup>                 | 48,469   | 21                                  |  |
| Transfers out of Level 3 <sup>(2)</sup>               | (51,061)                                       | (6,605)                             |  |
| Fair value, end of period                             | \$ 9,390                                       | \$                                  | \$ (275,734)                                   |

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Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

Included in earnings, net:

|   |    |     |    |      |         |
|---|----|-----|----|------|---------|
| Investment income, net of related expenses            | \$ | 365 | \$ | (36) | \$      |
| Investment related gains (losses), net                |    |     |    |      | (1,514) |
| Claims & other policy benefits                        |    |     |    |      |         |
| Interest credited                                     |    |     |    |      |         |
| Policy acquisition costs and other insurance expenses |    |     |    |      |         |

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| For the nine months ended September 30, 2011 (continued): | Other invested<br>assets-<br>non-<br>redeemable<br>preferred<br>stock | Other invested<br>assets-<br>other<br>equity<br>securities | Reinsurance<br>ceded receivable-<br>embedded<br>derivative | Interest sensitive<br>contract liabilities<br>embedded<br>derivative |
|---|---|--|--|--|
| Fair value, beginning of period                           | \$ 420  | \$ 16,416  | \$ 75,431  | \$ (721,485)   |
| Total gains/losses (realized/unrealized)                  |   |  |  |  |
| Included in earnings, net:                                |   |  |  |  |
| Investment income, net of related expenses                |   |  |  |  |
| Investment related gains (losses), net                    |   | 3,504  |  | (253,445)  |
| Claims & other policy benefits                            |   |  |  | (1,283)  |
| Interest credited   |   |  |  | (66,519)   |
| Policy acquisition costs and other insurance expenses     |   |  | 8,869  |  |
| Included in other comprehensive income                    |   | (4,792)  |  |  |
| Purchases <sup>(1)</sup>                                  |   |  | 6,345  | (57,283)   |
| Sales <sup>(1)</sup>                                      | (420)   | (4,565)  |  |  |
| Settlements <sup>(1)</sup>                                |   |  | (9,101)  | 58,402   |
| Transfers into Level 3 <sup>(2)</sup>                     |   |  |  |  |
| Transfers out of Level 3 <sup>(2)</sup>                   |   |  |  |  |
| Fair value, end of period                                 | \$  | \$ 10,563  | \$ 81,544  | \$ (1,041,613)   |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

| Included in earnings, net:                            | \$ | \$ | \$     | \$        |
|---|----|----|--------|-----------|
| Investment income, net of related expenses            |    |    |        |           |
| Investment related gains (losses), net                |    |    |        | (255,758) |
| Claims & other policy benefits                        |    |    |        | (1,151)   |
| Interest credited                                     |    |    |        | (124,920) |
| Policy acquisition costs and other insurance expenses |    |    | 17,892 |           |

- (1) The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances during the period.
- (2) The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market data for these securities or, in accordance with company policy, when the ratings of certain asset classes fall below investment grade. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable. Transfers between Level 1 and Level 2 were not significant.

The tables below provide a summary of the changes in fair value of Level 3 assets and liabilities for the three and nine months ended September 30, 2010, as well as the portion of gains or losses included in income for the three and nine months ended September 30, 2010 attributable to unrealized gains or losses related to those assets and liabilities still held at September 30, 2010 (dollars in thousands):

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| For the three months ended September 30, 2010:        | Fixed maturity securities - available-for-sale |  |                         |                                       |
|---|--|--|-------------------------|---------------------------------------|
|   | Corporate securities                           | Residential mortgage-backed securities | Asset-backed securities | Commercial mortgage-backed securities |
| Fair value, beginning of period                       | \$ 888,969                                     | \$ 212,781                             | \$ 229,433              | \$ 150,706                            |
| Total gains/losses (realized/unrealized)              |  |  |                         |                                       |
| Included in earnings, net:                            |  |  |                         |                                       |
| Investment income, net of related expenses            | 132  | 603                                    | 610                     | 966                                   |
| Investment related gains (losses), net                | 350  | (956)                                  | (5,691)                 | (2,571)                               |
| Claims & other policy benefits                        |  |  |                         |                                       |
| Interest credited                                     |  |  |                         |                                       |
| Policy acquisition costs and other insurance expenses |  |  |                         |                                       |
| Included in other comprehensive income                | 21,646   | 10,503                                 | 8,243                   | 10,694                                |
| Purchases, sales and settlements <sup>(1)</sup>       | 17,842   | (26,923)                               | (15,144)                | 22,271                                |
| Transfers into Level 3 <sup>(2)</sup>                 | 33,149   |  | 22,047                  | 3,998                                 |
| Transfers out of Level 3 <sup>(2)</sup>               | (47,761)                                       | (32,676)                               | (9,604)                 | (30,682)                              |
| Fair value, end of period                             | \$ 914,327                                     | \$ 163,332                             | \$ 229,894              | \$ 155,382                            |

|  |        |        |         |         |
|--|--------|--------|---------|---------|
| Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period |        |        |         |         |
| Included in earnings, net:   |        |        |         |         |
| Investment income, net of related expenses   | \$ 134 | \$ 503 | \$ 606  | \$ 966  |
| Investment related gains (losses), net   | (8)    |        | (2,296) | (2,571) |
| Claims & other policy benefits   |        |        |         |         |
| Interest credited  |        |        |         |         |
| Policy acquisition costs and other insurance expenses  |        |        |         |         |

| For the three months ended September 30, 2010 (continued): | Fixed maturity securities - available-for-sale |                                     |  |                        |
|--|--|-------------------------------------|--|------------------------|
|  | State and political subdivision securities     | Other foreign government securities | Funds withheld at interest-embedded derivative | Short-term investments |
| Fair value, beginning of period                            | \$ 12,517                                      | \$ 6,303                            | \$ (279,348)                                   | \$ 1,266               |
| Total gains/losses (realized/unrealized)                   |  |                                     |  |                        |
| Included in earnings, net:                                 |  |                                     |  |                        |
| Investment income, net of related expenses                 | 100  | 1                                   |  |                        |
| Investment related gains (losses), net                     | (4)  |                                     | (38,652)                                       |                        |
| Claims & other policy benefits                             |  |                                     |  |                        |
| Interest credited  |  |                                     |  |                        |
| Policy acquisition costs and other insurance expenses      |  |                                     |  |                        |
| Included in other comprehensive income                     | 837  | 322                                 |  | 1                      |
| Purchases, sales and settlements <sup>(1)</sup>            | 34,902   | 135                                 |  | (1)                    |
| Transfers into Level 3 <sup>(2)</sup>                      |  |                                     |  |                        |
| Transfers out of Level 3 <sup>(2)</sup>                    |  |                                     |  | (652)                  |
| Fair value, end of period                                  | \$ 48,352                                      | \$ 6,761                            | \$ (318,000)                                   | \$ 614                 |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

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Included in earnings, net:

|   |    |     |    |   |          |    |
|---|----|-----|----|---|----------|----|
| Investment income, net of related expenses            | \$ | 100 | \$ | 1 | \$       | \$ |
| Investment related gains (losses), net                |    |     |    |   | (38,652) |    |
| Claims & other policy benefits                        |    |     |    |   |          |    |
| Interest credited                                     |    |     |    |   |          |    |
| Policy acquisition costs and other insurance expenses |    |     |    |   |          |    |

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| For the three months ended September 30, 2010 (continued): | Other invested                        |                                    | Reinsurance              | Interest sensitive     |
|--|---------------------------------------|------------------------------------|--------------------------|------------------------|
|  | assets-                               | Other invested                     | ceded receivable         | contract liabilities   |
|  | redeemable<br>non-<br>preferred stock | assets- other<br>equity securities | - embedded<br>derivative | embedded<br>derivative |
| Fair value, beginning of period                            | \$ 1,626                              | \$ 16,400                          | \$ 70,154                | \$ (759,604)           |
| Total gains/losses (realized/unrealized)                   |                                       |                                    |                          |                        |
| Included in earnings, net:                                 |                                       |                                    |                          |                        |
| Investment income, net of related expenses                 |                                       |                                    |                          |                        |
| Investment related gains (losses), net                     |                                       |                                    |                          | (16,232)               |
| Claims & other policy benefits                             |                                       |                                    |                          | (1,681)                |
| Interest credited  |                                       |                                    |                          | (25,765)               |
| Policy acquisition costs and other insurance expenses      |                                       |                                    | 2,701                    |                        |
| Included in other comprehensive income                     | 300                                   | (700)                              |                          |                        |
| Purchases, sales and settlements <sup>(1)</sup>            |                                       | 507                                | (232)                    | (16,620)               |
| Transfers into Level 3 <sup>(2)</sup>                      |                                       |                                    |                          |                        |
| Transfers out of Level 3 <sup>(2)</sup>                    |                                       |                                    |                          |                        |
| Fair value, end of period                                  | \$ 1,926                              | \$ 16,207                          | \$ 72,623                | \$ (819,902)           |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

Included in earnings, net:

|   |    |    |       |          |
|---|----|----|-------|----------|
| Investment income, net of related expenses            | \$ | \$ | \$    | \$       |
| Investment related gains (losses), net                |    |    |       | (16,232) |
| Claims & other policy benefits                        |    |    |       | (3,216)  |
| Interest credited                                     |    |    |       | (39,402) |
| Policy acquisition costs and other insurance expenses |    |    | 5,624 |          |

- (1) The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances during the period
- (2) The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market data for these securities or, in accordance with company policy, when the ratings of certain asset classes fall below investment grade. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable. Transfers between Level 1 and Level 2 were not significant.

For the nine months ended September 30, 2010:

|   | Fixed maturity securities - available-for-sale |  |                         |                                       |
|---|--|--|-------------------------|---------------------------------------|
|   | Corporate securities                           | Residential mortgage-backed securities | Asset-backed securities | Commercial mortgage-backed securities |
| Fair value, beginning of period                       | \$ 1,036,891                                   | \$ 144,457                             | \$ 262,767              | \$ 329,560                            |
| Total gains/losses (realized/unrealized)              |  |  |                         |                                       |
| Included in earnings, net:                            |  |  |                         |                                       |
| Investment income, net of related expenses            | 528  | 1,509                                  | 2,144                   | 2,743                                 |
| Investment related gains (losses), net                | 199  | (6,664)                                | (6,204)                 | (6,564)                               |
| Claims & other policy benefits                        |  |  |                         |                                       |
| Interest credited                                     |  |  |                         |                                       |
| Policy acquisition costs and other insurance expenses |  |  |                         |                                       |

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|   |            |            |            |            |
|---|------------|------------|------------|------------|
| Included in other comprehensive income          | 51,412     | 25,029     | 27,519     | 20,969     |
| Purchases, sales and settlements <sup>(1)</sup> | 55,058     | (34,372)   | (29,066)   | 26,499     |
| Transfers into Level 3 <sup>(2)</sup>           | 99,284     | 73,503     | 51,322     | 48,318     |
| Transfers out of Level 3 <sup>(2)</sup>         | (329,045)  | (40,130)   | (78,588)   | (266,143)  |
| Fair value, end of period                       | \$ 914,327 | \$ 163,332 | \$ 229,894 | \$ 155,382 |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

Included in earnings, net:

|   |        |          |          |          |
|---|--------|----------|----------|----------|
| Investment income, net of related expenses            | \$ 427 | \$ 1,339 | \$ 2,128 | \$ 2,725 |
| Investment related gains (losses), net                | (594)  | (3,684)  | (2,748)  | (6,563)  |
| Claims & other policy benefits                        |        |          |          |          |
| Interest credited                                     |        |          |          |          |
| Policy acquisition costs and other insurance expenses |        |          |          |          |



**Table of Contents****For the nine months ended September 30, 2010 (continued):**

|   | Fixed maturity securities -<br>available-for-sale   |   | Funds<br>withheld<br>at interest-<br>embedded<br>derivative | Short-term<br>investments |
|---|---|---|---|---------------------------|
|   | State and<br>political<br>subdivision<br>securities | Other foreign<br>government<br>securities |   |                           |
| Fair value, beginning of period                       | \$ 12,080   | \$ 17,303                                 | \$ (434,494)  | \$ 443                    |
| Total gains/losses (realized/unrealized)              |   |   |   |                           |
| Included in earnings, net:                            |   |   |   |                           |
| Investment income, net of related expenses            | 123   | 3   |   |                           |
| Investment related gains (losses), net                | (11)  | (12)                                      | 116,494   |                           |
| Claims & other policy benefits                        |   |   |   |                           |
| Interest credited                                     |   |   |   |                           |
| Policy acquisition costs and other insurance expenses |   |   |   |                           |
| Included in other comprehensive income                | 1,337   | 352                                       |   |                           |
| Purchases, sales and settlements <sup>(1)</sup>       | 34,862  | 1,393                                     |   | 995                       |
| Transfers into Level 3 <sup>(2)</sup>                 | 1,820   | 2,178                                     |   |                           |
| Transfers out of Level 3 <sup>(2)</sup>               | (1,859)   | (14,456)                                  |   | (824)                     |
| Fair value, end of period                             | \$ 48,352   | \$ 6,761                                  | \$ (318,000)  | \$ 614                    |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

|   |        |      |         |    |
|---|--------|------|---------|----|
| Included in earnings, net:                            |        |      |         |    |
| Investment income, net of related expenses            | \$ 123 | \$ 3 | \$      | \$ |
| Investment related gains (losses), net                |        |      | 116,494 |    |
| Claims & other policy benefits                        |        |      |         |    |
| Interest credited                                     |        |      |         |    |
| Policy acquisition costs and other insurance expenses |        |      |         |    |

**For the nine months ended September 30, 2010 (continued):**

|   | Other<br>invested<br>assets-<br>non-<br>redeemable<br>preferred stock | Other<br>invested<br>assets- other<br>equity securities | Reinsurance<br>ceded receivable-<br>embedded<br>derivative | Interest sensitive<br>contract liabilities<br>embedded<br>derivative |
|---|---|---|--|--|
|   | Fair value, beginning of period                                       | \$ 6,775  | \$ 10,436  | \$ 68,873  |
| Total gains/losses (realized/unrealized)              |   |   |  |  |
| Included in earnings, net:                            |   |   |  |  |
| Investment income, net of related expenses            |   |   |  |  |
| Investment related gains (losses), net                | 550   |   |  | (149,995)  |
| Claims & other policy benefits                        |   |   |  | (1,795)  |
| Interest credited                                     |   |   |  | (30,714)   |
| Policy acquisition costs and other insurance expenses |   |   | 4,259  |  |
| Included in other comprehensive income                | 160   | 4,639   |  |  |
| Purchases, sales and settlements <sup>(1)</sup>       | (5,146)   | 1,132   | (509)  | (28,744)   |
| Transfers into Level 3 <sup>(2)</sup>                 |   |   |  |  |
| Transfers out of Level 3 <sup>(2)</sup>               | (413)   |   |  |  |
| Fair value, end of period                             | \$ 1,926  | \$ 16,207   | \$ 72,623  | \$ (819,902)   |

Unrealized gains and losses recorded in earnings for the period relating to those Level 3 assets and liabilities that were still held at the end of the period

|  |        |    |    |    |
|--|--------|----|----|----|
| Included in earnings, net:                 |        |    |    |    |
| Investment income, net of related expenses | \$ (1) | \$ | \$ | \$ |

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|   |     |           |
|---|-----|-----------|
| Investment related gains (losses), net                | (3) | (149,995) |
| Claims & other policy benefits                        |     | (3,966)   |
| Interest credited                                     |     | (64,732)  |
| Policy acquisition costs and other insurance expenses |     | 10,528    |

- (1) The amount reported within purchases, sales and settlements is the purchase price (for purchases) and the sales/settlement proceeds (for sales and settlements) based upon the actual date purchased or sold/settled. Items purchased and sold/settled in the same period are excluded from the rollforward. The Company had no issuances during the period.
- (2) The Company's policy is to recognize transfers into and out of levels within the fair value hierarchy at the beginning of the quarter in which the actual event or change in circumstances that caused the transfer occurs. Transfers into Level 3 are due to a lack of observable market data for these securities or, in accordance with company policy, when the ratings of certain asset classes fall below investment grade. Transfers out of Level 3 are due to an increase in observable market data or when the underlying inputs are evaluated and determined to be market observable. Transfers between Level 1 and Level 2 were not significant.

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*Nonrecurring Fair Value Measurements* - Certain assets and liabilities are measured at fair value on a nonrecurring basis. Nonrecurring fair value adjustments on certain foreclosed commercial mortgage loans resulted in \$1.2 million of gains being recorded for the nine months ended September 30, 2011. The carrying value of these foreclosed mortgage loans as of September 30, 2011 was \$4.6 million, based on the fair value of the underlying real estate collateral. In addition, nonrecurring fair value adjustments on impaired commercial mortgage loans resulted in \$2.0 million and \$2.7 million of net losses being recorded for the third quarter and first nine months of 2011, respectively. The carrying value of these impaired mortgage loans as of September 30, 2011 was \$27.0 million. There were no material assets and liabilities measured at fair value on a nonrecurring basis as of December 31, 2010.

**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 2010 Annual Report. 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 economic 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 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 capital. 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 before income taxes, and total assets of the Company for each reportable segment are summarized below (dollars in thousands).

|                        | Three months ended September 30, |              | Nine months ended September 30, |              |
|------------------------|----------------------------------|--------------|---------------------------------|--------------|
|                        | 2011                             | 2010         | 2011                            | 2010         |
| <b>Total revenues:</b> |                                  |              |                                 |              |
| U.S.                   | \$ 1,016,291                     | \$ 1,125,706 | \$ 3,622,488                    | \$ 3,599,408 |
| Canada                 | 248,837                          | 253,894      | 777,413                         | 727,921      |
| Europe & South Africa  | 299,802                          | 244,206      | 875,818                         | 690,730      |
| Asia Pacific           | 357,776                          | 299,655      | 1,043,101                       | 891,692      |
| Corporate and Other    | 72,201                           | 32,078       | 162,499                         | 77,850       |
| Total                  | \$ 1,994,907                     | \$ 1,955,539 | \$ 6,481,319                    | \$ 5,987,601 |

|                                    | Three months ended September 30, |            | Nine months ended September 30, |            |
|------------------------------------|----------------------------------|------------|---------------------------------|------------|
|                                    | 2011                             | 2010       | 2011                            | 2010       |
| <b>Income before income taxes:</b> |                                  |            |                                 |            |
| U.S.                               | \$ 33,524                        | \$ 111,786 | \$ 300,592                      | \$ 364,133 |
| Canada                             | 44,406                           | 33,468     | 119,069                         | 86,189     |
| Europe & South Africa              | 15,881                           | 17,494     | 58,441                          | 50,477     |
| Asia Pacific                       | 29,750                           | 28,483     | 62,992                          | 78,689     |
| Corporate and Other                | 47,979                           | 5,942      | 72,701                          | 9,072      |
| Total                              | \$ 171,540                       | \$ 197,173 | \$ 613,795                      | \$ 588,560 |

| <b>Total Assets:</b>  | September 30, 2011 | December 31, 2010 |
|-----------------------|--------------------|-------------------|
| U.S.                  | \$ 17,835,250      | \$ 17,470,744     |
| Canada                | 3,655,687          | 3,441,915         |
| Europe & South Africa | 1,836,894          | 1,584,007         |
| Asia Pacific          | 2,960,901          | 2,440,316         |
| Corporate and Other   | 4,894,722          | 4,144,926         |

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|       |               |               |
|-------|---------------|---------------|
| Total | \$ 31,183,454 | \$ 29,081,908 |
|-------|---------------|---------------|

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**Table of Contents****8. Commitments and Contingent Liabilities**

At September 30, 2011, the Company's commitments to fund investments were \$163.9 million in limited partnerships, \$2.0 million in commercial mortgage loans and \$15.5 million in private placement investments. At December 31, 2010, the Company's commitments to fund investments were \$147.2 million in limited partnerships, \$6.7 million in commercial mortgage loans and \$7.5 million in private placement investments. The Company anticipates that the majority of its current commitments will be invested over the next five years; however, these commitments could become due any time at the request of the counterparties. Investments in limited partnerships and private placements are carried at cost or accounted for using the equity method 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. A legal reserve is established when the Company is notified of an arbitration demand or litigation or is notified that an arbitration demand or litigation is imminent, it is probable that the Company will incur a loss as a result and the amount of the probable loss is reasonably capable of being estimated.

The Company has obtained bank letters of credit 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. Certain of these letters of credit contain financial covenant restrictions. At September 30, 2011 and December 31, 2010, there were approximately \$16.3 million and \$16.0 million, respectively, of undrawn 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 subsidiaries, including Parkway Reinsurance Company, Timberlake Financial, L.L.C., RGA Americas Reinsurance Company, Ltd., RGA Reinsurance Company (Barbados) Ltd. and RGA Atlantic Reinsurance Company, Ltd. The Company cedes business to its 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 affiliates reflects more realistic expectations than the original jurisdiction of the business, where capital requirements are often considered to be quite conservative. As of September 30, 2011 and December 31, 2010, \$465.0 million and \$518.4 million, respectively, in undrawn letters of credit from various banks were outstanding, backing reinsurance between various subsidiaries of the Company. The banks providing letters of credit to the Company are included on the National Association of Insurance Commissioners (NAIC) list of approved banks.

The Company maintains a syndicated revolving credit facility with an overall capacity of \$750.0 million, which is scheduled to mature in September 2012. The Company may borrow cash and obtain letters of credit in multiple currencies under this facility. As of September 30, 2011, the Company had \$213.9 million in issued, but undrawn, letters of credit under this facility, which is included in the total above. Applicable letter of credit fees and fees payable for the credit facility depend upon the Company's senior unsecured long-term debt rating. The Company also maintains a \$200.0 million letter of credit facility which is scheduled to mature in September 2019. This letter of credit is fully utilized and is expected to amortize to zero by 2019. As of September 30, 2011, the Company had \$200.0 million in issued, but undrawn, letters of credit under this facility, which is included in the total above. Letter of credit fees for this facility are fixed for the term of the facility. In the second quarter of 2011, the Company entered into a five-year, \$120.0 million letter of credit facility agreement. As of September 30, 2011, the Company had no issued letters of credit under this new facility. Letter of credit fees for this facility are fixed for the term of the facility. 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 for the payment of amounts due under certain reinsurance treaties, securities borrowing arrangements 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, relative to the ceding company. Liabilities supported by the treaty guarantees, before consideration for any legally offsetting amounts due from the guaranteed party, totaled \$668.1 million and \$600.8 million as of September 30, 2011 and December 31, 2010, respectively, and are reflected on the Company's condensed consolidated balance sheets in future policy benefits. As of September 30, 2011 and December 31, 2010, the Company's obligation related to treaty guarantees, net of assets held in trust, was \$451.0 million and \$352.0 million, respectively. Potential guaranteed amounts of future payments will vary depending on production levels and underwriting results. Guarantees related to borrowed securities provide additional security to third parties should a subsidiary fail to make principal and/or interest payments when due. As of September 30, 2011, RGA's obligation related to borrowed securities guarantees was \$149.1 million.

Manor Reinsurance, Ltd. (Manor Re), a subsidiary of RGA, has obtained \$300.0 million of collateral financing through 2020 from an international bank which enables Manor Re to deposit assets in trust to support statutory reserve credits for an affiliated reinsurance transaction. The bank has recourse to RGA should Manor Re fail to make payments or otherwise not perform its obligations under this financing.



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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. Income Tax**

The Company's provision for income tax expense differed from the amounts computed by applying the U.S. federal income tax statutory rate of 35% to pre-tax income as a result of the following (dollars in thousands):

|  | Three months ended<br>September 30, |                  | Nine months ended<br>September 30, |                   |
|--|-------------------------------------|------------------|------------------------------------|-------------------|
|  | 2011                                | 2010             | 2011                               | 2010              |
| Tax provision at U.S. statutory rate                 | \$ 60,039                           | \$ 69,011        | \$ 214,828                         | \$ 205,996        |
| Increase (decrease) in income taxes resulting from:  |                                     |                  |                                    |                   |
| Foreign tax rate differing from U.S. tax rate        | (5,458)                             | (2,538)          | (12,989)                           | (7,113)           |
| Differences in tax basis in foreign jurisdictions    | (1,604)                             | (1,137)          | (4,550)                            | (3,828)           |
| Expiration of active financing exception tax rules   |                                     | 4,962            |                                    | 14,886            |
| Travel and entertainment                             | 147                                 | 176              | 396                                | 337               |
| Deferred tax valuation allowance                     |                                     |                  | 795                                | 300               |
| Amounts related to audit contingencies               | 984                                 | 984              | 4,499                              | 2,958             |
| Change in cash surrender value of insurance policies | 756                                 | (55)             | 173                                | (247)             |
| Canadian corporate rate reduction                    | (32,547)                            |                  | (32,547)                           |                   |
| Prior year tax adjustment                            | 1,778                               | (2,418)          | 1,784                              | (2,418)           |
| Other, net   | 60                                  | (44)             | 317                                | (1)               |
| <b>Total provision for income taxes</b>              | <b>\$ 24,155</b>                    | <b>\$ 68,941</b> | <b>\$ 172,706</b>                  | <b>\$ 210,870</b> |
| Effective tax rate                                   | 14.1%                               | 35.0%            | 28.1%                              | 35.8%             |

During the three-month and nine-month periods ended September 30, 2011, the Company recognized an income tax benefit associated with previously enacted reductions in federal statutory tax rates and adjustments to various provincial statutory tax rates in Canada. This 2007 tax rate change enactment included phased in effective dates through 2012. These adjustments in tax rates should have been recognized beginning in 2007, when the Canadian tax legislation was enacted. For the three-month and nine-month periods ended September 30, 2011, the Company recorded a cumulative tax benefit adjustment of \$32.5 million in Provision for income taxes to correct the deferred tax liabilities that were not properly recorded. If the impact of the tax rates had been recorded in the prior years, the Company estimates that it would have recognized approximately \$4.0 million, \$6.0 million, \$10.0 million and \$13.0 million of tax benefit in the years ended 2007, 2008, 2009 and 2010, respectively, and would not have been significant in the three and nine-month periods ended September 30, 2011 and 2010.

As of September 30, 2011 and 2010, respectively, the Company's total amount of unrecognized tax benefits was \$193.2 million and \$181.4 million and the total amount of unrecognized tax benefits that would affect the effective tax rate, if recognized, was \$25.8 million and \$20.3 million. A reconciliation of the beginning and ending amount of unrecognized tax benefits for the nine months ended September 30, 2011 and 2010 are as follows (dollars in thousands):

|   | Total Unrecognized<br>Tax Benefits |                   |
|---|------------------------------------|-------------------|
|   | 2011                               | 2010              |
| Balance, beginning of year                  | \$ 182,354                         | \$ 221,040        |
| Additions for tax positions of prior years  | 7,891                              |                   |
| Reductions for tax positions of prior years |                                    | (42,628)          |
| Additions for tax positions of current year | 2,953                              | 2,957             |
| <b>Balance, end of period</b>               | <b>\$ 193,198</b>                  | <b>\$ 181,369</b> |

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The Company's accrual for uncertain tax positions that are timing in nature and have no impact on the Company's effective tax rate increased by approximately \$6.3 million during the first nine months of 2011 and decreased by \$42.6 million during the first nine months of 2010. The Company also increased its uncertain tax positions that would impact the effective tax rate by approximately \$4.5 million and \$3.0 million during the first nine months of 2011 and 2010, respectively.



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The components of net periodic benefit costs for the three and nine months ended September 30, 2011 and 2010 were as follows (dollars in thousands):

|   | Three months ended<br>September 30, |                 | Nine months ended<br>September 30, |                 |
|---|-------------------------------------|-----------------|------------------------------------|-----------------|
|   | 2011                                | 2010            | 2011                               | 2010            |
| <b>Net periodic pension benefit cost:</b> |                                     |                 |                                    |                 |
| Service cost                              | \$ 1,312                            | \$ 1,288        | \$ 4,324                           | \$ 3,780        |
| Interest cost                             | 971                                 | 862             | 2,913                              | 2,585           |
| Expected return on plan assets            | (734)                               | (644)           | (2,203)                            | (1,933)         |
| Amortization of prior service cost        | 195                                 | 7               | 296                                | 22              |
| Amortization of prior actuarial gain      | 658                                 | 188             | 1,160                              | 563             |
| <b>Total</b>                              | <b>\$ 2,402</b>                     | <b>\$ 1,701</b> | <b>\$ 6,490</b>                    | <b>\$ 5,017</b> |
| <b>Net periodic other benefits cost:</b>  |                                     |                 |                                    |                 |
| Service cost                              | \$ 413                              | \$ 337          | \$ 837                             | \$ 635          |
| Interest cost                             | 335                                 | 324             | 776                                | 661             |
| Expected return on plan assets            |                                     |                 |                                    |                 |
| Amortization of prior service cost        |                                     |                 |                                    |                 |
| Amortization of prior actuarial gain      | 147                                 | 167             | 265                                | 177             |
| <b>Total</b>                              | <b>\$ 895</b>                       | <b>\$ 828</b>   | <b>\$ 1,878</b>                    | <b>\$ 1,473</b> |

The Company made pension contributions in the amount of \$6.0 million in the first nine months of 2011 and expects to make total pension contributions of \$7.6 million in 2011.

**11. Equity Based Compensation**

Equity compensation expense was \$3.9 million and \$3.1 million in the third quarter of 2011 and 2010, respectively, and \$16.0 million and \$13.0 million in the first nine months of 2011 and 2010, respectively. In the first quarter of 2011, the Company granted 0.5 million stock options at a weighted average strike price of \$59.74 per share and 0.2 million performance contingent units to employees. Also in the first quarter of 2011, non-employee directors were granted a total of 14,200 shares of common stock. As of September 30, 2011, 1.4 million stock options at a weighted average strike price of \$43.56 per share were vested and exercisable with a remaining weighted average exercise period of 3.8 years. As of September 30, 2011, the total compensation cost of non-vested awards not yet recognized in the financial statements was \$26.5 million. The Company estimates that these costs will vest over a weighted average period of 2.2 years.

**12. Retrocession Arrangements and Reinsurance Ceded Receivables**

The Company generally reports retrocession activity on a gross basis. Amounts paid or deemed to have been paid for reinsurance are reflected in reinsurance ceded receivables. The cost of reinsurance related to long-duration contracts is recognized over the terms of the reinsured policies on a basis consistent with the reporting of those policies. 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 benefits paid by ceding reinsurance to other insurance enterprises or reinsurers under excess coverage, quota share and coinsurance contracts.

Certain retrocessions are arranged through the Company's retrocession pools for amounts in excess of the Company's retention limit. As of September 30, 2011 and December 31, 2010, all rated retrocession pool participants followed by the A.M. Best Company were rated A- (excellent) or better. The Company verifies retrocession pool participants' ratings on a quarterly basis. For a majority of the retrocessionaires that were not rated, security in the form of letters of credit or trust assets has been given as additional security in favor of RGA Reinsurance Company (RGA Reinsurance). In addition, the Company performs annual financial reviews of its retrocessionaires to evaluate financial stability and performance. In addition to its third party retrocessionaires, various RGA reinsurance subsidiaries retrocede amounts in excess of their

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retention to RGA Reinsurance, RGA Reinsurance Company (Barbados) Ltd., RGA Americas Reinsurance, Ltd., Manor Reinsurance, Ltd., RGA Worldwide Reinsurance Company, Ltd., or RGA Atlantic Reinsurance Company, Ltd.

As of September 30, 2011 and December 31, 2010, the Company had claims recoverable from retrocessionaires of \$163.6 million and \$162.4 million, respectively, which is included in reinsurance ceded receivables, in the condensed consolidated balance sheets. The Company considers outstanding claims recoverable in excess of 90 days to be past due. There was \$16.0 million of past due claims recoverable as of both September 30, 2011 and December 31, 2010. Based on the Company's annual financial reviews, the Company has not established a valuation allowance for claims recoverable from

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

**13. Repurchase of Collateral Finance Facility Notes**

In the three and nine months ended September 30, 2011, respectively, the Company repurchased \$156.8 million and \$169.5 million face amount of its Series A Floating Rate Insured Notes issued by RGA's subsidiary, Timberlake Financial, L.L.C., for \$104.2 million and \$111.8 million, which was the market value at the date of the purchases. The notes were purchased by RGA Reinsurance, also a subsidiary of RGA. As a result, the Company recorded pre-tax gains of \$50.9 million and \$55.8, after fees, in other revenues in the three and nine months ended September 30, 2011, respectively.

**14. Financing Activities and Stock Transactions**

In anticipation of the redemption and remarketing of the Company's trust preferred securities discussed below, the Company purchased 3.0 million shares of its outstanding common stock from MetLife, Inc. on February 15, 2011, at a price of \$61.14 per share, reflecting the closing price of the Company's common stock on February 14, 2011. The purchased common shares have been placed into treasury to be used for general corporate purposes.

On March 4, 2011, RGA completed the remarketing of approximately 4.5 million trust preferred securities with an aggregate accreted value of approximately \$158.2 million that were initially issued as a component of its Trust Preferred Income Equity Redeemable Securities (PIERS Units). When issued, each PIERS Unit initially consisted of (1) a preferred security issued by RGA Capital Trust I, a financing subsidiary of RGA, with an annual distribution rate of 5.75 percent and stated maturity of March 18, 2051, and (2) a warrant to purchase at any time prior to December 15, 2050, 1.2508 shares of RGA common stock. Approximately 4.4 million of the warrants were exercised on March 4, 2011, at a price of \$35.44 per warrant, resulting in the issuance of approximately 5.5 million shares, with cash paid in lieu of fractional shares. The warrant exercise price was paid to RGA. Remaining warrants were redeemed in cash at their redemption amount of \$14.56 per warrant. As a result of the remarketing, the remarketed preferred securities had a fixed accreted value of \$35.44 per security with a fixed annual distribution rate of 2.375% and were repaid on June 5, 2011, the revised maturity date. The proceeds from the remarketing were paid directly to the selling holders, unless holders timely elected to exercise their warrants in lieu of mandatory redemption, in which case the proceeds were applied on behalf of such selling holders to satisfy in full the exercise price of the warrants. Preferred securities of holders who timely elected to opt out of the remarketing were adjusted to match the terms of the remarketed preferred securities. In the first quarter of 2011, RGA recorded a \$4.4 million pre-tax loss, included in other operating expenses, related to the recognition of the unamortized issuance costs of the original preferred securities.

On March 7, 2011, RGA entered into an accelerated share repurchase (ASR) agreement with a financial counterparty. Under the ASR agreement, RGA purchased 2.5 million shares of its outstanding common stock at an initial price of \$59.76 per share and an aggregate price of approximately \$149.4 million. The purchase price was funded from cash on hand. The counterparty completed its purchases during the second quarter of 2011 and as a result, RGA was required to pay \$4.3 million to the counterparty for the final settlement which resulted in a final price of \$61.47 per share on the repurchased common stock. The common shares repurchased have been placed into treasury to be used for general corporate purposes.

RGA's share purchase transactions described above are intended to offset share dilution associated with the issuance of approximately 5.5 million common shares from the exercise of warrants as discussed above.

On May 27, 2011, RGA issued 5.00% Senior Notes due June 1, 2021 with a face amount of \$400.0 million. These senior notes have been registered with the Securities and Exchange Commission. The net proceeds from the offering were approximately \$394.4 million and will be used to fund the payment of RGA's \$200.0 million senior notes that will mature in December 2011 and for general corporate purposes. Capitalized issue costs were approximately \$3.4 million.

RGA had \$43.4 million remaining under its January 2002 board of directors approved stock repurchase program at the beginning of 2011. Under this repurchase program, RGA was authorized to purchase its common stock in the open market, including pursuant to the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Exchange Act. During the third quarter of 2011, RGA repurchased 838,362 shares of common stock under this program for \$43.1 million. The common shares repurchased have been placed into treasury to be used for general corporate purposes.

**15. New Accounting Standards**

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Changes to the general accounting principles are established by the Financial Accounting Standards Board ( FASB ) in the form of accounting standards updates to the FASB Accounting Standards Codification . Accounting standards updates not

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listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

*Consolidation and Business Combinations*

In December 2010, the FASB amended the general accounting principles for *Business Combinations* as it relates to the disclosure of supplementary pro forma information for business combinations. The amendment requires the disclosure of pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. This amendment also explains that if comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendment is effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

In February 2010, the FASB amended the general accounting principles for *Consolidation* as it relates to the assessment of a variable interest entity for potential consolidation. The amendment defers the effective date of the *Consolidation* amendment made in June 2009 for certain variable interest entities. This update also clarifies how a related party's interest should be considered when evaluating variable interests. The amendment is effective for interim and annual reporting periods beginning after January 31, 2010. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

In January 2010, the FASB amended the general accounting principles for *Consolidation* as it relates to decreases in ownership of a subsidiary. This amendment clarifies the scope of the decrease in ownership provisions. This amendment also requires additional disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB amended the general accounting principles for *Consolidation* as it relates to the assessment of a variable interest entity for potential consolidation. This amendment also requires additional disclosures to provide transparent information regarding the involvement in a variable interest entity. The amendment is effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

*Investments*

In April 2011, the FASB amended the general accounting principles for *Receivables* as it relates to a creditor's determination of whether a restructuring is a troubled debt restructuring. This amendment clarifies the guidance related to the creditor's evaluation of whether it has granted a concession and whether the debtor is experiencing financial difficulties. It also clarifies that the creditor is precluded from using the effective interest rate test when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendment is effective for interim and annual reporting periods beginning on or after June 15, 2011, and is to be applied retrospectively to restructurings occurring on or after the beginning of the annual period of adoption. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

In July 2010, the FASB amended the general accounting principles for *Receivables* as it relates to the disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires the disclosure of credit quality indicators, past due information, and modifications of financing receivables. The amendment is effective for interim and annual reporting periods ending on or after December 15, 2010, except for disclosures about activity that occurs during the reporting period. Those disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted this amendment and the required disclosures are provided in Note 4 Investments and in Note 12 Retrocession Arrangements and Reinsurance Ceded Receivables.

*Transfers and Servicing*

In April 2011, the FASB amended the general accounting principles for *Transfers and Servicing* as it relates to the reconsideration of effective control for repurchase agreements. This amendment removes from the assessment of effective



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control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets and also removes the collateral maintenance implementation guidance related to that criterion. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

In June 2009, the FASB amended the general accounting principles for *Transfers and Servicing* as it relates to the transfers of financial assets. This amendment also requires additional disclosures to address concerns regarding the transparency of transfers of financial assets. The amendment is effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

### *Derivatives and Hedging*

In March 2010, the FASB amended the general accounting principles for *Derivatives and Hedging* as it relates to embedded derivatives. This amendment clarifies the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of a financial instrument to another. The amendment is effective for financial statements issued for interim and annual reporting periods beginning after June 15, 2010. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

### *Fair Value Measurements and Disclosures*

In May 2011, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the measurement and disclosure requirements about fair value measurements. This amendment clarifies the FASB's intent about the application of existing fair value measurement requirements. It also changes particular principles and requirements for measuring fair value and for disclosing information about fair value measurements. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

In January 2010, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the disclosures about fair value measurements. This amendment requires new disclosures about the transfers in and out of Level 1 and 2 measurements and also enhances disclosures about the activity within the Level 3 measurements. It also clarifies the required level of disaggregation and the disclosures regarding valuation techniques and inputs to fair value measurements. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009, except for the enhanced Level 3 disclosures. Those disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted this amendment and the required disclosures are provided in Note 6 – Fair Value of Financial Instruments.

### *Deferred Policy Acquisition Costs*

In October 2010, the FASB amended the general accounting principles for Financial Services – Insurance as it relates to accounting for costs associated with acquiring or renewing insurance contracts. This amendment clarifies that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defines acquisitions costs as costs that are related directly to the successful acquisitions of new or renewal insurance contracts. The amendment is effective for interim and annual reporting periods beginning after December 15, 2011. The retrospective adoption of this update on January 1, 2012, is expected to result in a reduction in the Company's deferred acquisition cost asset as well as a decrease in amortization subsequent to adoption due to the reduced deferred acquisition cost asset. There will also be a reduction in the level of future costs the Company defers. The Company is evaluating the full effects of implementing this update, but currently estimates that the retrospective adoption will result in a cumulative effect decrease to the opening balance of retained earnings between 6 and 9 percent of stockholders' equity in the year of adoption. The Company estimates the adoption of this update will result in a decrease in income before income taxes between 7 and 14 percent in 2012 and in the years preceding to which the retrospective adoption will be applied. The estimates of the impact are preliminary and therefore subject to change.

### *Compensation*

In April 2010, the FASB amended the general accounting principles for *Compensation* as it relates to stock compensation. This amendment clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it





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otherwise qualifies as equity. The amendment is effective for interim and annual reporting periods after December 15, 2010. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

*Debt*

In October 2009, the FASB amended the general accounting principles for *Debt* as it relates to the accounting for own-share lending arrangements entered into in contemplation of a convertible debt issuance or other financing. This amendment provides accounting and disclosure guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

*Equity*

In January 2010, the FASB amended the general accounting principles for *Equity* as it relates to distributions to shareholders with components of stock and cash. This amendment clarifies that the stock portion of a distribution to shareholders, which allows them to elect to receive cash or stock with a limitation on the total amount of cash that shareholders can receive, is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

*Comprehensive Income*

In June 2011, the FASB amended the general accounting principles for *Comprehensive Income* as it relates to the presentation of comprehensive income. This amendment requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change the items that must be reported in other comprehensive income. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

**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 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, including ongoing uncertainties regarding the amount of United States sovereign debt and the credit ratings thereof, (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) action by regulators who have authority over the Company's reinsurance operations in the jurisdictions in which it operates, (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 2010 Annual Report.

**Overview**

RGA, an insurance holding company that was formed on December 31, 1992, is primarily engaged in the life and health related reinsurance business, which involves reinsuring 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



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transactions. The Company believes that industry trends have not changed materially from those discussed in its 2010 Annual Report.

The Company's long-term profitability primarily depends on the volume and amount of claims incurred and its ability to adequately price the risks it assumes. While 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 individual life coverage the Company retains per life varies by market and can be up to \$8.0 million. 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 life. Claims in excess of these retention amounts 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 has five geographic-based or function-based operational segments, each of which is a distinct reportable segment: U.S., Canada, Europe & South Africa, Asia Pacific and Corporate and Other. The U.S. operations provide traditional life, long-term care, group life and health reinsurance, annuity and financial reinsurance products. The Canada operations provide insurers with reinsurance of traditional life products as well as creditor reinsurance, group life and health reinsurance, non-guaranteed critical illness products and longevity reinsurance. Europe & South Africa operations include traditional life reinsurance and critical illness business from Europe & South Africa, in addition to other markets the Company is developing. Asia Pacific operations provide primarily traditional and group life reinsurance, critical illness and, to a lesser extent, financial reinsurance. Corporate and Other includes results from, among others, RGA Technology Partners, Inc. ( RTP ), a wholly-owned subsidiary that develops and markets technology solutions for the insurance industry and the investment income and expense associated with the Company's collateral finance facility.

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

Consolidated income before income taxes decreased \$25.6 million, or 13.0%, and increased \$25.2 million, or 4.3%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in income before income taxes for the third quarter of 2011 was primarily due to an unfavorable change in the value of embedded derivatives within the U.S. segment due to the impact of widening credit spreads and lower interest rate environment in the U.S. debt markets and poor equity market performance, as compared to the same periods in 2010. Also contributing to the decrease in the third quarter of 2011 was lower investment income offset by an increase in premiums. The increase in income before income taxes for the first nine months of 2011 was primarily due to increased net premiums and investment income in all segments largely offset by the previously mentioned unfavorable change in the value of embedded derivatives within the U.S. segment. Foreign currency fluctuations relative to the prior year favorably affected income before income taxes by approximately \$7.9 million and \$19.2 million for the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010.

The Company recognizes in consolidated income, changes in the value of embedded derivatives on modified coinsurance ( modco ) 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 modco or funds withheld basis are subject to the general accounting principles for *Derivatives and Hedging* related to embedded derivatives. The unrealized gains and losses associated with these embedded derivatives, after adjustment for deferred acquisition costs, decreased income before income taxes by \$21.2 million and \$31.0 million in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010. Changes in risk-free rates used in the fair value estimates 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, increased income before income taxes by \$0.6 million and \$1.2 million in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010. The change in the Company's liability for variable annuities associated with guaranteed minimum living benefits affects 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, decreased income before income taxes by \$25.0 million and increased income before income taxes by \$1.6 million in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010.

The combined changes in these three types of embedded derivatives, after adjustment for deferred acquisition costs and retrocession, resulted in a decrease of approximately \$45.6 million and approximately \$28.2 million in consolidated income



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before income taxes in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010. These fluctuations do not affect current cash flows, crediting rates or spread performance on the underlying treaties. Therefore, management believes it is helpful to distinguish between the effects of changes in these embedded derivatives, net of related hedging activity, and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income, and interest credited.

Consolidated net premiums increased \$128.9 million, or 7.8%, and \$443.2 million, or 9.1%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010, primarily due to growth in life reinsurance and foreign currency fluctuations. Foreign currency fluctuations favorably affected net premiums by approximately \$53.4 million and \$173.2 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Consolidated assumed insurance in force increased to \$2,615.2 billion as of September 30, 2011 from \$2,478.9 billion as of September 30, 2010 due to new business production. The Company added new business production, measured by face amount of insurance in force, of \$110.6 billion and \$77.4 billion during the third quarter of 2011 and 2010, respectively, and \$293.8 billion and \$246.5 billion during the first nine months of 2011 and 2010, respectively. Management believes industry consolidation and the established practice of reinsuring mortality risks should continue to provide opportunities for growth, albeit at rates less than historically experienced in some markets.

Consolidated investment income, net of related expenses, decreased \$19.3 million, or 6.7%, and increased \$93.3 million, or 10.6%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in the third quarter was primarily due to a lower effective investment portfolio yield and a \$38.4 million decrease from market value changes related to the Company's funds withheld at interest investment associated with the reinsurance of certain EIAs, which are substantially offset by a corresponding change in interest credited to policyholder account balances resulting in an insignificant effect on net income, offset by a larger average invested asset base. The increase in the first nine months was primarily due to a \$50.1 million increase from market value changes related to the Company's funds withheld at interest investment associated with the reinsurance of certain EIAs, which are substantially offset by a corresponding change in interest credited to policyholder account balances resulting in an insignificant effect on net income. In addition, increased investment income from a larger average invested asset base was somewhat offset by a lower invested asset yield. Average invested assets at amortized cost for the nine months ended September 30, 2011 totaled \$17.1 billion, a 12.3% increase over the same period in 2010. The average yield earned on investments, excluding funds withheld, decreased to 5.29% for the third quarter of 2011 from 5.66% for the third quarter of 2010. The average yield earned on investments, excluding funds withheld, decreased to 5.33% for the first nine months of 2011 from 5.67% for the first nine months of 2010. 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.

Total investment related gains (losses), net reflect an unfavorable change of \$122.8 million and \$126.0 million, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The unfavorable change for the third quarter was primarily due to unfavorable changes in the embedded derivatives related to guaranteed minimum living benefits of \$244.0 million and unfavorable changes in the embedded derivatives related to reinsurance treaties written on a modco or funds withheld basis of \$63.9 million, largely offset by an increase in net hedging gains related to the liabilities associated with guaranteed minimum living benefits of \$205.2. The unfavorable change for the first nine months is primarily due to unfavorable changes in the value of embedded derivatives associated with reinsurance treaties written on a modco or funds withheld basis of \$118.0 million and unfavorable changes in the embedded derivatives related to guaranteed minimum living benefits of \$103.5 million, partially offset by an increase in net hedging gains related to the liabilities associated with guaranteed minimum living benefits of \$86.1 million and an increase in gains from the sale of investment securities. See Note 4 Investments and Note 5 Derivative Instruments in the Notes to Condensed Consolidated Financial Statements for additional information on investment related gains (losses), net and derivatives. 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 segment operations.

The effective tax rate on a consolidated basis was 14.1% and 35.0% for the third quarter of 2011 and 2010, respectively, and 28.1% and 35.8% for the first nine months of 2011 and 2010, respectively. The third quarter and first nine months of 2011 effective tax rates were lower than the U.S. statutory rate of 35% primarily due to the adjustment resulting from a decrease in statutory rates on the Canadian deferred tax liability and income in non-U.S. jurisdictions with lower tax rates than the U.S.

During the three-month and nine-month periods ended September 30, 2011, the Company recognized an income tax benefit associated with previously enacted reductions in federal statutory tax rates and adjustments to various provincial statutory tax rates in Canada. This 2007 tax rate change enactment included phased in effective dates through 2012. These adjustments in tax rates should have been recognized beginning in 2007, when the Canadian tax legislation was enacted. For the three-month and nine-month periods ended September 30, 2011, the Company recorded a cumulative tax benefit adjustment of \$32.5 million in Provision for income taxes to correct the deferred tax liabilities that were not properly recorded. If the impact of the tax rates had been recorded in the prior years, the Company estimated that it would have recognized approximately \$4.0 million, \$6.0 million, \$10.0 million and \$13.0 million of tax benefit in the years ended 2007, 2008, 2009



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and 2010, respectively, and would not have been significant in the three and nine-month periods ended September 30, 2011 and 2010.

The Company assessed the materiality of the potential adjustments on its financial statements for the prior-year periods and the adjustment recorded in the current year, including the March 31 and June 30 periods, and concluded that the adjustments are immaterial to the financial statements as a whole, for all periods. The total decrease in the Canadian federal tax rate, once fully effective, is 6% and is not expected to have a material impact on the Company's future consolidated effective tax rate.

The third quarter and first nine months of 2010 effective tax rates were affected by additional tax provision accruals of approximately \$5.0 million and \$14.9 million, respectively, related to extender provisions that the U.S. Congress did not pass until the fourth quarter of 2010, at which time the Company reversed this accrual.

**Critical Accounting Policies**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or U.S. GAAP, requires the application of accounting policies that often involve a significant degree of judgment. Management, on an ongoing basis, reviews estimates and assumptions used in the preparation of financial statements. If management determines that modifications in assumptions and estimates are appropriate given current facts and circumstances, results of operations and financial position as reported in the condensed consolidated financial statements could change significantly.

Management believes the critical accounting policies relating to the following areas are most dependent on the application of estimates and assumptions:

Deferred acquisition costs;

Liabilities for future policy benefits and other policy liabilities;

Valuation of fixed maturity securities;

Valuation of embedded derivatives;  
Income taxes; and

Arbitration and litigation reserves.

A discussion of each of the critical accounting policies may be found in the Company's 2010 Annual Report under Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies.

Further discussion and analysis of the results for 2011 compared to 2010 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 individual mortality-risk reinsurance and to a lesser extent, group, health and long-term care reinsurance. The Non-Traditional sub-segment consists of Asset-Intensive and Financial Reinsurance.

**For the three months ended September 30, 2011**  
(dollars in thousands)

|             |                 |                 |  |
|-------------|-----------------|-----------------|--|
|             |                 | Non-Traditional |  |
| Traditional | Asset-Intensive | Financial       |  |
|             |                 | Reinsurance     |  |



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|  |            |             |          | Total<br>U.S. |
|--|------------|-------------|----------|---------------|
| <b>Revenues:</b>   |            |             |          |               |
| Net premiums   | \$ 971,190 | \$ 2,786    | \$       | \$ 973,976    |
| Investment income, net of related expenses   | 122,687    | 30,044      | 168      | 152,899       |
| Investment related gains (losses), net:  |            |             |          |               |
| Other-than-temporary impairments on fixed maturity securities  | (1,169)    | (4,993)     | (5)      | (6,167)       |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income | 501        | 1,196       | 2        | 1,699         |
| Other investment related gains (losses), net   | 5,724      | (140,875)   | (10)     | (135,161)     |
| Total investment related gains (losses), net   | 5,056      | (144,672)   | (13)     | (139,629)     |
| Other revenues   | 599        | 19,827      | 8,619    | 29,045        |
| Total revenues   | 1,099,532  | (92,015)    | 8,774    | 1,016,291     |
| <b>Benefits and expenses:</b>  |            |             |          |               |
| Claims and other policy benefits   | 844,090    | 4,431       |          | 848,521       |
| Interest credited  | 15,166     | 19,806      |          | 34,972        |
| Policy acquisition costs and other insurance expenses (income)   | 131,810    | (57,103)    | 798      | 75,505        |
| Other operating expenses   | 20,299     | 1,886       | 1,584    | 23,769        |
| Total benefits and expenses  | 1,011,365  | (30,980)    | 2,382    | 982,767       |
| Income (loss) before income taxes  | \$ 88,167  | \$ (61,035) | \$ 6,392 | \$ 33,524     |

**Table of Contents****For the three months ended September 30, 2010**

(dollars in thousands)

|  | Traditional | Asset-Intensive | Non-Traditional<br>Financial<br>Reinsurance | Total U.S. |
|--|-------------|-----------------|---|------------|
| <b>Revenues:</b>   |             |                 |   |            |
| Net premiums   | \$ 930,070  | \$ 2,724        | \$  | \$ 932,794 |
| Investment income (loss), net of related expenses  | 124,596     | 67,347          | 154   | 192,097    |
| Investment related gains (losses), net:  |             |                 |   |            |
| Other-than-temporary impairments on fixed maturity securities  |             | (2,623)         |   | (2,623)    |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income |             | 849             |   | 849        |
| Other investment related gains (losses), net   | 13,009      | (36,017)        | (44)  | (23,052)   |
| Total investment related gains (losses), net   | 13,009      | (37,791)        | (44)  | (24,826)   |
| Other revenues   | 428         | 19,605          | 5,608                                       | 25,641     |
| Total revenues   | 1,068,103   | 51,885          | 5,718                                       | 1,125,706  |
| <b>Benefits and expenses:</b>  |             |                 |   |            |
| Claims and other policy benefits   | 793,270     | (318)           |   | 792,952    |
| Interest credited  | 16,698      | 78,078          |   | 94,776     |
| Policy acquisition costs and other insurance expenses (income)   | 125,526     | (21,682)        | 461   | 104,305    |
| Other operating expenses   | 18,534      | 2,413           | 940   | 21,887     |
| Total benefits and expenses  | 954,028     | 58,491          | 1,401                                       | 1,013,920  |
| Income (loss) before income taxes  | \$ 114,075  | \$ (6,606)      | \$ 4,317                                    | \$ 111,786 |

**For the nine months ended September 30, 2011**

(dollars in thousands)

|  | Traditional  | Asset-Intensive | Non-Traditional<br>Financial<br>Reinsurance | Total U.S.   |
|--|--------------|-----------------|---|--------------|
| <b>Revenues:</b>   |              |                 |   |              |
| Net premiums   | \$ 2,880,080 | \$ 9,570        | \$  | \$ 2,889,650 |
| Investment income, net of related expenses   | 367,032      | 282,546         | 33  | 649,611      |
| Investment related gains (losses), net:  |              |                 |   |              |
| Other-than-temporary impairments on fixed maturity securities  | (7,444)      | (5,444)         | (31)  | (12,919)     |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income | 2,808        | 944             | 12  | 3,764        |
| Other investment related gains (losses), net   | 18,772       | (22,377)        | (22)  | (3,627)      |
| Total investment related gains (losses), net   | 14,136       | (26,877)        | (41)  | (12,782)     |
| Other revenues   | 1,830        | 67,364          | 26,815                                      | 96,009       |
| Total revenues   | 3,263,078    | 332,603         | 26,807                                      | 3,622,488    |
| <b>Benefits and expenses:</b>  |              |                 |   |              |
| Claims and other policy benefits   | 2,505,670    | 11,511          |   | 2,517,181    |
| Interest credited  | 44,717       | 191,899         |   | 236,616      |
| Policy acquisition costs and other insurance expenses  | 391,444      | 102,439         | 2,448                                       | 496,331      |
| Other operating expenses   | 61,135       | 5,783           | 4,850                                       | 71,768       |
| Total benefits and expenses  | 3,002,966    | 311,632         | 7,298                                       | 3,321,896    |
| Income before income taxes   | \$ 260,112   | \$ 20,971       | \$ 19,509                                   | \$ 300,592   |

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**For the nine months ended September 30, 2010**

(dollars in thousands)

|  | Traditional  | Asset-Intensive | Non-Traditional<br>Financial<br>Reinsurance | Total U.S.   |
|--|--------------|-----------------|---|--------------|
| <b>Revenues:</b>   |              |                 |   |              |
| Net premiums   | \$ 2,766,193 | \$ 17,729       | \$  | \$ 2,783,922 |
| Investment income (loss), net of related expenses  | 358,839      | 246,675         | 210   | 605,724      |
| Investment related gains (losses), net:  |              |                 |   |              |
| Other-than-temporary impairments on fixed maturity securities  | (930)        | (2,668)         |   | (3,598)      |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income | 620          | 284             |   | 904          |
| Other investment related gains (losses), net   | 18,888       | 113,495         | (63)  | 132,320      |
| Total investment related gains (losses), net   | 18,578       | 111,111         | (63)  | 129,626      |
| Other revenues   | 1,216        | 62,442          | 16,478                                      | 80,136       |
| Total revenues   | 3,144,826    | 437,957         | 16,625                                      | 3,599,408    |

**Table of Contents****For the nine months ended September 30, 2010 continued**

(dollars in thousands)

|   | Traditional | Asset-Intensive | Non-Traditional<br>Financial<br>Reinsurance | Total U.S. |
|---|-------------|-----------------|---|------------|
| <b>Benefits and expenses:</b>                         |             |                 |   |            |
| Claims and other policy benefits                      | 2,372,001   | 12,142          |   | 2,384,143  |
| Interest credited                                     | 49,646      | 181,220         |   | 230,866    |
| Policy acquisition costs and other insurance expenses | 388,769     | 161,062         | 1,567                                       | 551,398    |
| Other operating expenses                              | 57,696      | 8,016           | 3,156                                       | 68,868     |
| Total benefits and expenses                           | 2,868,112   | 362,440         | 4,723                                       | 3,235,275  |
| Income before income taxes                            | \$ 276,714  | \$ 75,517       | \$ 11,902                                   | \$ 364,133 |

Income before income taxes for the U.S. operations segment decreased by \$78.3 million, or 70.0%, and \$63.5 million, or 17.4%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in income before income taxes in the third quarter and the first nine months can primarily be attributed to an increase in investment related losses related to the unfavorable impact of changes in credit spreads and interest rates on the fair value of embedded derivatives associated with treaties written on a modco or funds withheld basis and guaranteed minimum benefit riders. Decreases or increases in credit spreads result in an increase or decrease in value of the embedded derivative, and therefore, an increase or decrease in investment related gains or losses, respectively. Unfavorable claims experience and a decrease in income in the asset intensive subsegment due to the decline in the broader U.S. financial markets and the related unfavorable impact on annuity account values and investment performance, also contributed to the decrease in income before income taxes in the third quarter and first nine months of 2011.

*Traditional Reinsurance*

The U.S. Traditional sub-segment provides individual life reinsurance, and to a lesser extent, group, health and long-term care 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 \$30.1 billion and \$30.3 billion during the third quarters, and \$85.6 billion and \$114.9 billion during the first nine months of 2011 and 2010, respectively. Management believes industry consolidation and the established practice of reinsuring mortality risks should continue to provide opportunities for new business, albeit at rates less than historically experienced due to companies ceding less business to the reinsurance market.

Income before income taxes for the U.S. Traditional sub-segment decreased by \$25.9 million and \$16.6 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in the third quarter and the first nine months can be primarily attributed to increases in claims and other policy benefits. In addition, net investment related gains decreased by \$8.0 million and \$4.4 million in the third quarter and first nine months of 2011, respectively.

Net premiums for the U.S. Traditional sub-segment increased \$41.1 million, or 4.4%, and \$113.9 million, or 4.1% for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. These increases in net premiums were driven by the growth in individual life business in force and health and group related coverages. At September 30, 2011, total face amount of individual life insurance for the U.S. Traditional sub-segment was \$1,347.9 million compared to \$1,333.8 million at September 30, 2010.

Net investment income decreased \$1.9 million, or 1.5%, and increased \$8.2 million, or 2.3%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease quarter over quarter can be primarily attributed to the lower yield earned on the underlying investment portfolio in the third quarter of 2011 as compared to 2010. However, for the first nine months the lower yield rates were more than offset by a 5.6% increase in the invested asset base. Investment related gains decreased \$8.0 million and \$4.4 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. 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 segment operations. 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 86.9% and 85.3% for the third quarter of 2011 and 2010, respectively, and 87.0% and 85.7% for the nine months ended September 30, 2011 and 2010, respectively. The increase in the percentages for both the third quarter and first nine months was primarily due to normal volatility in mortality claims. The first nine months of 2011 also reflects higher than expected group disability claims in the first half of the year. Although reasonably predictable over a period of years, claims can be volatile over short-term periods.



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Interest credited expense decreased \$1.5 million, or 9.2%, and \$4.9 million, or 9.9%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decreases were driven primarily by a treaty with a decrease in the overall credited loan rate to 4.8% in 2011 compared to 5.6% in 2010. Interest credited in this sub-segment 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 13.6% and 13.5% for the third quarter of 2011 and 2010, respectively, and 13.6% and 14.1% for the nine months ended September 30, 2011 and 2010, 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. Also, 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 \$1.8 million, or 9.5%, and \$3.4 million, or 6.0%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Other operating expenses as a percentage of net premiums were 2.1% and 2.0% for the third quarter of 2011 and 2010, respectively, and 2.1% for the nine months ended September 30, 2011 and 2010.

*Asset-Intensive Reinsurance*

The U.S. Asset-Intensive sub-segment assumes primarily investment risk within underlying annuities and corporate-owned life insurance policies. Most of these agreements are coinsurance, coinsurance with funds withheld or modco 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, as well as fees associated with variable annuity account values.

Impact of certain derivatives:

Income for the asset-intensive business tends to be volatile due to changes in the fair value of certain derivatives, including embedded derivatives associated with reinsurance treaties structured on a modco basis or funds withheld basis, as well as embedded derivatives associated with the Company's reinsurance of equity-indexed annuities and variable annuities with guaranteed minimum benefit riders. The following table summarizes the asset-intensive results and quantifies the impact of these embedded derivatives for the periods presented.

| (dollars in thousands)  | For the three months ended<br>September 30, |           | For the nine months ended<br>September 30, |            |
|---|---|-----------|--|------------|
|   | 2011  | 2010      | 2011                                       | 2010       |
| <b>Revenues:</b>  |   |           |  |            |
| Total revenues  | \$ (92,015)                                 | \$ 51,885 | \$ 332,603                                 | \$ 437,957 |
| Less:   |   |           |  |            |
| Embedded derivatives modco/Funds withheld treaties                      | (103,949)                                   | (38,652)  | (2,889)                                    | 116,494    |
| Guaranteed minimum benefit riders and related free standing derivatives | (38,968)                                    | (167)     | (25,006)                                   | (7,619)    |
| Revenues before certain derivatives                                     | 50,902                                      | 90,704    | 360,498                                    | 329,082    |
| <b>Benefits and expenses:</b>   |   |           |  |            |
| Total benefits and expenses   | (30,980)                                    | 58,491    | 311,632                                    | 362,440    |
| Less:   |   |           |  |            |
| Embedded derivatives modco/Funds withheld treaties                      | (68,108)                                    | (25,388)  | (2,388)                                    | 84,668     |
| Guaranteed minimum benefit riders and related free standing derivatives | (21,732)                                    | 2,761     | (12,777)                                   | (3,390)    |
| Equity-indexed annuities  | 12,848                                      | 13,449    | 11,311                                     | 12,517     |
| Benefits and expenses before certain derivatives                        | 46,012                                      | 67,669    | 315,486                                    | 268,645    |
| <b>Income (loss) before income taxes:</b>                               |   |           |  |            |
| Income (loss) before income taxes                                       | (61,035)                                    | (6,606)   | 20,971                                     | 75,517     |
| Less:   |   |           |  |            |

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|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Embedded derivatives modco/Funds withheld treaties                      | (35,841) | (13,264) | (501)    | 31,826   |
| Guaranteed minimum benefit riders and related free standing derivatives | (17,236) | (2,928)  | (12,229) | (4,229)  |
| Equity-indexed annuities  | (12,848) | (13,449) | (11,311) | (12,517) |
| Income before income taxes and certain derivatives                      | 4,890    | 23,035   | 45,012   | 60,437   |

*Embedded Derivatives modco/Funds Withheld Treaties*- Represents the change in the fair value of embedded derivatives on funds withheld at interest associated with treaties written on a modco or funds withheld basis, allowing for deferred acquisition expenses. Changes in the fair value of the embedded derivative are driven by changes in investment credit

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spreads, including the Company's own credit spread. Generally, an increase in investment credit spreads, ignoring changes in the Company's own credit spread, will have a negative impact on the fair value of the embedded derivative (decrease in income).

In the third quarter of 2011, the change in fair value of the embedded derivative decreased revenues by \$103.9 million and related deferred acquisition expenses decreased benefits and expenses by \$68.1 million, for a negative pre-tax income impact of \$35.8 million, primarily due to an increase in investment credit spreads. During the third quarter of 2010, the change in fair value of the embedded derivative decreased revenues by \$38.7 million and related deferred acquisition expenses decreased benefits and expenses by \$25.4 million, for a negative pre-tax income impact of \$13.3 million, primarily due to a decrease in investment credit spreads. In the first nine months of 2011, the change in fair value of the embedded derivative decreased revenues by \$2.9 million and related deferred acquisition expenses decreased benefits and expenses by \$2.4 million, for a negative pre-tax income impact of \$0.5 million, primarily due to an increase in investment credit spreads. During the first nine months of 2010, the change in fair value of the embedded derivative increased revenues by \$116.5 million and related deferred acquisition expenses increased benefits and expenses by \$84.7 million, for a positive pre-tax income impact of \$31.8 million, primarily due to a decrease in investment credit spreads.

*Guaranteed Minimum Benefit Riders*- Represents the impact related to guaranteed minimum benefits associated with the Company's reinsurance of variable annuities. The fair value changes of the guaranteed minimum benefits along with the changes in fair value of the free standing derivatives (interest rate swaps, financial futures and equity options), purchased by the Company to hedge the liability are reflected in revenues, while the related impact on deferred acquisition expenses is reflected in benefits and expenses. In the third quarter of 2011, the change in the fair value of the guaranteed minimum benefits, after allowing for changes in the associated free standing derivatives, decreased revenues by \$39.0 million and related deferred acquisition expenses decreased benefits and expenses by \$21.7 million for a negative pre-tax income impact of \$17.2 million. In the third quarter of 2010, the change in the fair value of the guaranteed minimum benefits after allowing for changes in the associated free-standing derivatives decreased revenues by \$0.2 million and related deferred acquisition expenses increased benefits and expenses by \$2.8 million for a negative pre-tax income impact of \$2.9 million. In the first nine months of 2011, the change in the fair value of the guaranteed minimum benefits, after allowing for changes in the associated free standing derivatives, decreased revenues by \$25.0 million and related deferred acquisition expenses decreased benefits and expenses by \$12.8 million for a negative pre-tax income impact of \$12.2 million. In the first nine months of 2010, the change in the fair value of the guaranteed minimum benefits after allowing for changes in the associated hedge instruments decreased revenues by \$7.6 million and related deferred acquisition expenses decreased benefits and expenses by \$3.4 million for a negative pre-tax income impact of \$4.2 million.

*Equity-Indexed Annuities*- Represents the impact of changes in the risk-free rate on the calculation of the fair value of embedded derivative liabilities associated with EIAs, after adjustments for related deferred acquisition expenses and retrocession. In the third quarter of 2011 and 2010, benefits and expenses increased \$12.8 million and \$13.4 million, respectively. In the first nine months of 2011 and 2010, benefits and expenses increased \$11.3 million and increased \$12.5 million, respectively.

The changes in derivatives discussed above do not affect current cash flows, crediting rates or spread performance on the underlying treaties. Fluctuations occur period to period primarily due to changing investment conditions including, but not limited to, interest rate movements (including risk-free rates and credit spreads), implied volatility and equity market performance, all of which are factors in the calculations of fair value. Therefore, management believes it is helpful to distinguish between the effects of changes in these derivatives, net of related hedging activity, and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income (included in other revenues), and interest credited.

Discussion and analysis before certain derivatives:

Income before income taxes and certain derivatives decreased by \$18.1 million and \$15.4 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. In general, a decline in the broader U.S. financial markets and the related unfavorable impact on the underlying annuity account values contributed to the declines in both periods. Lower annuity account values leads to a reduction in expected fund based fees collected in future periods. This lower expectation of future revenue leads to an increase in the amortization of deferred acquisition costs in the current period. The decrease in income for the third quarter is primarily attributed to a decrease in investment income, net of related expenses coupled with slightly higher claims and other policy benefits. The decrease in income for the first nine months was primarily due to higher benefits and expenses offset in part by an increase in investment income, net of related expenses compared to the same period in 2010.

Revenue before certain derivatives decreased by \$39.8 million and increased by \$31.4 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. These variances were driven by changes in investment income related to equity options held in a funds withheld portfolio associated with equity-indexed annuity treaties. Increases





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and decreases in investment income related to equity options were mostly offset by corresponding increases and decreases in interest credited expense.

Benefits and expenses before certain derivatives decreased by \$21.7 million and increased by \$46.8 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010, primarily due to a change in the interest credited expense related to equity option income on funds withheld equity-indexed annuity treaties. These changes were mostly offset by corresponding changes in investment income.

The average invested asset base supporting this sub-segment increased to \$6.0 billion in the third quarter of 2011 from \$5.6 billion in the third quarter of 2010. The growth in the asset base was driven primarily by new business written on existing equity-indexed treaties. As of September 30, 2011, \$4.2 billion of the invested assets were funds withheld at interest, of which 90.1% is associated with one client.

*Financial Reinsurance*

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 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 and brokered business are reflected in other revenues, and the fees paid to retrocessionaires are reflected in policy acquisition costs and other insurance expenses.

Income before income taxes increased \$2.1 million, or 48.1%, and \$7.6 million, or 63.9% for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increases in the third quarter and first nine months of 2011 were primarily related to new business generated in the second half of 2010 and the first quarter of 2011. At September 30, 2011 and 2010, the amount of reinsurance provided, as measured by pre-tax statutory surplus, was \$1.9 billion and \$1.1 billion, respectively. These pre-tax statutory surplus amounts 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, group life and health, critical illness, and longevity 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.

| (dollars in thousands)   | For the three months ended |            | For the nine months ended |            |
|--|----------------------------|------------|---------------------------|------------|
|  | September 30,              |            | September 30,             |            |
|  | 2011                       | 2010       | 2011                      | 2010       |
| <b>Revenues:</b>   |                            |            |                           |            |
| Net premiums   | \$ 185,790                 | \$ 205,552 | \$ 610,535                | \$ 591,281 |
| Investment income, net of related expenses   | 52,611                     | 41,170     | 142,564                   | 123,604    |
| Investment related gains (losses), net:  |                            |            |                           |            |
| Other-than-temporary impairments on fixed maturity securities  |                            |            |                           |            |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income |                            |            |                           |            |
| Other investment related gains (losses), net   | 9,996                      | 6,369      | 18,872                    | 11,949     |
| Total investment related gains (losses), net   | 9,996                      | 6,369      | 18,872                    | 11,949     |
| Other revenues   | 440                        | 803        | 5,442                     | 1,087      |
| Total revenues   | 248,837                    | 253,894    | 777,413                   | 727,921    |
| <b>Benefits and expenses:</b>  |                            |            |                           |            |
| Claims and other policy benefits   | 162,734                    | 186,554    | 507,649                   | 504,320    |
| Policy acquisition costs and other insurance expenses  | 32,568                     | 26,901     | 124,079                   | 116,606    |

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|                             |           |           |            |           |
|-----------------------------|-----------|-----------|------------|-----------|
| Other operating expenses    | 9,129     | 6,971     | 26,616     | 20,806    |
| Total benefits and expenses | 204,431   | 220,426   | 658,344    | 641,732   |
| Income before income taxes  | \$ 44,406 | \$ 33,468 | \$ 119,069 | \$ 86,189 |

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Income before income taxes increased \$10.9 million, or 32.7%, and \$32.9 million, or 38.1%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase in income in the third quarter and first nine months of 2011 is primarily due to an increase in net investment related gains of \$3.6 million and \$6.9 million, respectively, and improved traditional individual life mortality experience compared to prior year. In addition, contributing to the increase in income in the first nine months of 2011 is \$4.5 million of income from the recapture of a previously assumed block of individual life business. Favorable Canadian dollar exchange fluctuations contributed to the increase in income before income taxes of approximately \$3.1 million and \$6.8 million in the third quarter and first nine months of 2011, respectively.

Net premiums decreased \$19.8 million, or 9.6%, and increased \$19.3 million, or 3.3%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Favorable Canadian dollar exchange fluctuations contributed to an increase in net premiums of approximately \$10.3 million and \$33.9 million in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010. Contributing to the overall decrease in premiums was a decrease in longevity reinsurance of \$53.1 million and \$42.8 million, excluding the impact of foreign exchange, in the third quarter and first nine months of 2011, respectively. In the third quarter of 2010, the Company completed its first longevity reinsurance transaction and reported an upfront premium of \$43.3 million, which accounts for the majority of the decrease in 2011 as compared to the same periods in 2010. In addition to an increase in premiums from new and existing individual life treaties, creditor premiums increased by \$11.5 million and decreased by \$12.4 million in the third quarter and first nine months of 2011, respectively. Premium levels can be significantly influenced by currency fluctuations, large transactions, mix of business and reporting practices of ceding companies and therefore may fluctuate from period to period.

Net investment income increased \$11.4 million, or 27.8%, and \$19.0 million, or 15.3%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Favorable Canadian dollar exchange fluctuations contributed to an increase in net investment income of approximately \$3.0 million and \$6.9 million in the third quarter and first nine months of 2011 compared to 2010. 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 segment operations. 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 a 10.2% increase in the allocated asset base due to growth in the underlying business volume partially offset by a lower investment yield.

Other revenues decreased by \$0.4 million and increased by \$4.4 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase in the first nine months of 2011 was primarily due to a \$4.9 million fee earned from the recapture of a previously assumed block of individual life business.

Loss ratios for this segment were 87.6% and 90.8% for the third quarter of 2011 and 2010, respectively, and 83.1% and 85.3% for the nine months ended September 30, 2011 and 2010, respectively. Historically, the loss ratio had increased primarily as the result of several large permanent level premium in force blocks assumed in 1997 and 1998. These are mature blocks of permanent level premium business in which mortality as a percentage of net premiums were 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. Excluding creditor business, claims and other policy benefits, as a percentage of net premiums and investment income for this segment were 72.5% and 78.7% in the third quarter of 2011 and 2010, respectively, and 73.0% and 77.3% for the nine months ended September 30, 2011 and 2010, respectively. The decrease in the loss ratios for the third quarter and first nine months of 2011, compared to 2010, were due to improved traditional individual life mortality experience.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 17.5% and 13.1% for the third quarter of 2011 and 2010, respectively, and 20.3% and 19.7% for the nine months ended September 30, 2011 and 2010, respectively. Policy acquisition costs and other insurance expenses as a percentage of net premiums for traditional individual life business were 11.2% and 12.5% for the third quarter of 2011 and 2010, respectively, and 11.8% and 11.9% for the nine months ended September 30, 2011 and 2010, 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 and product mix. 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 increased by \$2.2 million, or 31.0%, and \$5.8 million, or 27.9%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Canadian dollar exchange fluctuations contributed approximately \$0.4 million and \$1.2 million to the increase in operating expenses in the third quarter and first nine months of 2011, respectively. Other operating expenses as a percentage of net premiums were 4.9% and 3.4% for the third quarter of 2011 and 2010, respectively, and 4.4% and 3.5% for the nine months ended September 30, 2011 and 2010, respectively. The 2011 increase in other operating expenses as a percentage of net premiums compared to the same periods in 2010 is primarily due to office relocation expenses.



**Table of Contents****Europe & South Africa Operations**

The Europe & South Africa segment includes operations in the United Kingdom ( UK ), South Africa, France, Germany, India, Italy, Mexico, the Netherlands, Poland, Spain and the Middle East. The segment provides reinsurance for a variety of life products through yearly renewable term and coinsurance agreements, critical illness coverage and longevity risk related to payout annuities. Reinsurance agreements may be either facultative or automatic agreements covering individual and group risks.

| (dollars in thousands)   | For the three months ended<br>September 30, |            | For the nine months ended<br>September 30, |            |
|--|---|------------|--|------------|
|  | 2011  | 2010       | 2011                                       | 2010       |
| <b>Revenues:</b>   |   |            |  |            |
| Net premiums   | \$ 286,054                                  | \$ 232,962 | \$ 838,193                                 | \$ 660,533 |
| Investment income, net of related expenses   | 10,552                                      | 8,579      | 30,580                                     | 24,780     |
| Investment related gains (losses), net:  |   |            |  |            |
| Other-than-temporary impairments on fixed maturity securities  |   |            |  |            |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income |   |            |  |            |
| Other investment related gains (losses), net   | 2,000                                       | 1,808      | 3,049                                      | 3,614      |
| Total investment related gains (losses), net   | 2,000                                       | 1,808      | 3,049                                      | 3,614      |
| Other revenues   | 1,196                                       | 857        | 3,996                                      | 1,803      |
| Total revenues   | 299,802                                     | 244,206    | 875,818                                    | 690,730    |
| <b>Benefits and expenses:</b>  |   |            |  |            |
| Claims and other policy benefits   | 248,890                                     | 193,377    | 708,795                                    | 539,220    |
| Policy acquisition costs and other insurance expenses  | 10,462                                      | 12,137     | 32,474                                     | 35,808     |
| Other operating expenses   | 24,569                                      | 21,198     | 76,108                                     | 65,225     |
| Total benefits and expenses  | 283,921                                     | 226,712    | 817,377                                    | 640,253    |
| Income before income taxes   | \$ 15,881                                   | \$ 17,494  | \$ 58,441                                  | \$ 50,477  |

Income before income taxes decreased \$1.6 million, or 9.2% and increased \$8.0 million, or 15.8%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease in income before income taxes for the third quarter was primarily due to unfavorable claims experience over the prior period in South Africa, Latin America, India and the Middle East. The increase in income before income taxes for the first nine months was primarily due to an increase in net premiums in the UK, South Africa, Spain, India and the Middle East offset by unfavorable claims experience in South Africa, Latin America and the Middle East. Favorable foreign currency exchange fluctuations contributed to an increase to income before income taxes totaling approximately \$0.7 million and \$2.6 million for the third quarter and first nine months of 2011, respectively.

Net premiums increased \$53.1 million, or 22.8%, and \$177.7 million, or 26.9%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Net premiums increased as a result of new business from both new and existing treaties including an increase associated with reinsurance of longevity risk in the UK of \$15.9 million and \$47.1 million for the third quarter and first nine months of 2011, respectively. During 2011, there were favorable foreign currency exchange fluctuations, particularly with the British pound, the euro and the South African rand strengthening against the U.S. dollar when compared to the same periods in 2010, which increased net premiums by approximately \$9.2 million and \$40.4 million in the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010.

A 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 \$59.7 million and \$57.3 million in the third quarter of 2011 and 2010, respectively, and \$183.3 million and \$166.0 million for the nine months ended September 30, 2011 and 2010, respectively. Premium levels can be significantly influenced by currency fluctuations, large transactions

and reporting practices of ceding companies and therefore can fluctuate from period to period.

Net investment income increased \$2.0 million, or 23.0%, and \$5.8 million, or 23.4%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. These increases were primarily due to growth of 40.6% in the invested asset base partially offset by a lower investment yield. 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 segment operations.

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Loss ratios were 87.0% and 83.0% for the third quarter of 2011 and 2010, respectively, and 84.6% and 81.6% for the nine months ended September 30, 2011 and 2010, respectively. The increases in the loss ratios for the third quarter and first nine months of 2011 were due to unfavorable claims experience, primarily in South Africa, Latin America and the Middle East. Although reasonably predictable over a period of years, claims can be volatile over shorter periods. Management views recent experience as normal short-term volatility that is inherent in the business.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 3.7% and 5.2% for the third quarter of 2011 and 2010, respectively, and 3.9% and 5.4% for the nine months ended September 30, 2011 and 2010, respectively. The decrease in 2011 policy acquisition costs and other insurance expenses is related to a decrease in the amortization of deferred acquisition costs affected by the mix of business, primarily in the UK. 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 \$3.4 million, or 15.9%, and \$10.9 million, or 16.7%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Other operating expenses as a percentage of net premiums totaled 8.6% and 9.1% for the third quarter of 2011 and 2010, respectively, and 9.1% and 9.9% for the nine months ended September 30, 2011 and 2010, respectively. The 2011 decrease in other operating expenses as a percentage of net premiums compared to the same periods in 2010 is due to the sustained growth in net premiums for the segment.

**Asia Pacific Operations**

The Asia Pacific segment includes operations in Australia, Hong Kong, Japan, Malaysia, Singapore, New Zealand, South Korea, Taiwan and mainland China. The principal types of reinsurance 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 facultative or automatic agreements covering individual and group risks.

| (dollars in thousands)   | For the three months ended |            | For the nine months ended |            |
|--|----------------------------|------------|---------------------------|------------|
|  | September 30,              |            | September 30,             |            |
|  | 2011                       | 2010       | 2011                      | 2010       |
| <b>Revenues:</b>   |                            |            |                           |            |
| Net premiums   | \$ 328,259                 | \$ 273,825 | \$ 956,132                | \$ 816,521 |
| Investment income, net of related expenses   | 21,133                     | 17,042     | 62,169                    | 51,555     |
| Investment related gains (losses), net:  |                            |            |                           |            |
| Other-than-temporary impairments on fixed maturity securities  |                            |            |                           |            |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income |                            |            |                           |            |
| Other investment related gains (losses), net   | (173)                      | 1,326      | 468                       | 3,839      |
| Total investment related gains (losses), net   | (173)                      | 1,326      | 468                       | 3,839      |
| Other revenues   | 8,557                      | 7,462      | 24,332                    | 19,777     |
| Total revenues   | 357,776                    | 299,655    | 1,043,101                 | 891,692    |
| <b>Benefits and expenses:</b>  |                            |            |                           |            |
| Claims and other policy benefits   | 254,739                    | 220,867    | 770,031                   | 648,457    |
| Interest credited  | 280                        |            | 895                       |            |
| Policy acquisition costs and other insurance expenses  | 45,409                     | 27,373     | 130,369                   | 96,964     |
| Other operating expenses   | 27,598                     | 22,932     | 78,814                    | 67,582     |
| Total benefits and expenses  | 328,026                    | 271,172    | 980,109                   | 813,003    |



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|                            |           |           |           |           |
|----------------------------|-----------|-----------|-----------|-----------|
| Income before income taxes | \$ 29,750 | \$ 28,483 | \$ 62,992 | \$ 78,689 |
|----------------------------|-----------|-----------|-----------|-----------|

Income before income taxes increased \$1.3 million, or 4.4%, and decreased \$15.7 million, or 19.9%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase in income before income taxes for the third quarter is primarily due to higher premiums in Australia and New Zealand and favorable claims experience in Japan. The decrease in income for the first nine months was affected by \$6.5 million in estimated net losses from the Japan and New Zealand earthquakes and adverse claims experience in certain other locations, partially offset by the favorable experience during the third quarter. Additionally, foreign currency exchange fluctuations resulted in increases to income before income taxes totaling approximately \$3.7 million and \$5.9 million for the third quarter and first nine months of 2011, respectively.

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Net premiums increased \$54.4 million, or 19.9%, and \$139.6 million, or 17.1%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Premiums in the third quarter and first nine months of 2011 increased for most markets due to new treaties and increased production under existing treaties. The strengthening of local currencies against the U.S. dollar resulted in an increase in net premiums of approximately \$33.9 million and \$99.0 million for the third quarter and first nine months of 2011, respectively, as compared to the same periods in 2010.

A portion of net premiums 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 \$30.1 million and \$46.0 million in the third quarter of 2011 and 2010, respectively and \$116.8 million and \$133.9 million for the first nine months of 2011 and 2010, respectively. Premium levels can be significantly influenced by currency fluctuations, large transactions and reporting practices of ceding companies and can fluctuate from period to period.

Net investment income increased \$4.1 million, or 24.0%, and \$10.6 million, or 20.6%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. These increases were primarily due to growth in assets related to asset-intensive treaties. Also contributing to the increases were favorable changes in foreign currency exchange fluctuations of \$1.7 million and \$4.3 million in the third quarter and first nine months of 2011, respectively. 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 segment operations. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments.

Other revenues increased \$1.1 million, or 14.7%, and \$4.6 million, or 23.0%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The primary source of other revenues is fees from financial reinsurance treaties in Japan. The increase in other revenues for the third quarter and first nine months is primarily due to a new financial reinsurance treaty executed in 2011. At September 30, 2011 and 2010, the amount of reinsurance assumed from client companies, as measured by pre-tax statutory surplus, was \$181.6 million and \$380.8 million, respectively. The decrease in pre-tax statutory surplus was due to the expiration of a treaty in 2011. 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 77.6% and 80.7% for the third quarter of 2011 and 2010, respectively, and 80.5% and 79.4% for the nine months ended September 30, 2011 and 2010, respectively. The decrease in the loss ratio for the third quarter was due to more favorable claims experience in Japan. The increase in the first nine months of 2011, compared to 2010, was due to high individual life claims in Australia and the estimated losses from the Japan and New Zealand earthquakes. Although reasonably predictable over a period of years, claims can be volatile over shorter periods. Management views recent experience as normal short-term volatility that is inherent in the business. Loss ratios will fluctuate due to timing of client company reporting, variations in the mixture of business and the relative maturity of the business.

Interest credited expense increased \$0.3 million and \$0.9 million for the third quarter and first nine months of 2011, as compared to the same periods in 2010. The increase is due to contractual interest related to a new asset-intensive treaty in Japan.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 13.8% and 10.0% for the third quarter of 2011 and 2010, respectively, and 13.6% and 11.9% for the nine months ended September 30, 2011 and 2010, 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.

Other operating expenses increased \$4.7 million, or 20.3%, and \$11.2 million, or 16.6%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. Foreign currency exchange fluctuations contributed approximately \$1.5 million and \$4.0 million to the increase in operating expenses in the third quarter and first nine months of 2011, respectively. Other operating expenses as a percentage of net premiums totaled 8.4% for both the third quarter of 2011 and 2010, and 8.2% and 8.3% for the nine months ended September 30, 2011 and 2010, 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 time.

**Corporate and Other**

Corporate and Other revenues include investment income and investment related gains and losses from unallocated invested assets. 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 trust preferred securities. Additionally, Corporate and Other includes results from, among others, RTP, a



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wholly-owned subsidiary that develops and markets technology solutions for the insurance industry and the investment income and expense associated with the Company's collateral finance facility.

| (dollars in thousands)   | For the three months ended |          | For the nine months ended |          |
|--|----------------------------|----------|---------------------------|----------|
|  | September 30,<br>2011      | 2010     | September 30,<br>2011     | 2010     |
| <b>Revenues:</b>   |                            |          |                           |          |
| Net premiums   | \$ 2,086                   | \$ 2,167 | \$ 6,461                  | \$ 5,524 |
| Investment income, net of related expenses   | 31,015                     | 28,616   | 91,762                    | 77,770   |
| Investment related gains (losses), net:  |                            |          |                           |          |
| Other-than-temporary impairments on fixed maturity securities  | (5,744)                    | (2,281)  | (6,130)                   | (12,225) |
| Other-than-temporary impairments on fixed maturity securities transferred to (from) accumulated other comprehensive income | 1,390                      | (823)    | (383)                     | 1,327    |
| Other investment related gains (losses), net   | (7,440)                    | 1,647    | 8,314                     | (733)    |
| Total investment related gains (losses), net   | (11,794)                   | (1,457)  | 1,801                     | (11,631) |
| Other revenues   | 50,894                     | 2,752    | 62,475                    | 6,187    |
| Total revenues   | 72,201                     | 32,078   | 162,499                   | 77,850   |
| <b>Benefits and expenses:</b>  |                            |          |                           |          |
| Claims and other policy benefits   | (119)                      | 141      | 571                       | 170      |
| Interest credited  | (1)                        |          | (1)                       | 13       |
| Policy acquisition costs and other insurance expenses (income)   | (14,716)                   | (13,658) | (41,590)                  | (40,267) |
| Other operating expenses   | 8,964                      | 12,421   | 44,034                    | 37,274   |
| Interest expense   | 27,025                     | 25,191   | 77,412                    | 65,781   |
| Collateral finance facility expense  | 3,069                      | 2,041    | 9,372                     | 5,807    |
| Total benefits and expenses  | 24,222                     | 26,136   | 89,798                    | 68,778   |
| Income before income taxes   | \$ 47,979                  | \$ 5,942 | \$ 72,701                 | \$ 9,072 |

Income before income taxes increased \$42.0 million and \$63.6 million for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase for the third quarter was primarily due to a \$48.1 million increase in other revenues partially offset by an increase in investment related losses of \$10.3 million. The increase for the first nine months is primarily due to a \$56.3 million increase in other revenues, a \$14.0 million increase in investment income and a \$13.4 million improvement in investment related gains (losses) partially offset by an \$11.6 million increase in interest expense and a \$6.8 million increase in other operating expenses.

Total revenues increased \$40.1 million, or 125.1%, and \$84.6 million, or 108.7%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The increase for the third quarter was primarily due to a \$48.1 million increase in other revenues related to gains on the repurchase of collateral finance facility securities of \$50.9 million. The increase in revenues for the third quarter was partially offset by a decrease in gains on investment security sales and increased investment impairments. The increase in revenues for the first nine months was largely due a \$56.3 million increase in other revenues related to gains on the repurchase of collateral finance facility securities of \$55.8 million, a \$14.0 million increase in investment income, primarily due to growth in the invested asset base, and a \$13.4 million improvement in investment related gains (losses) which reflects an increase in net gains from the sale of investment securities.

Total benefits and expenses decreased \$1.9 million, or 7.3%, and increased \$21.0 million, or 30.6%, for the three and nine months ended September 30, 2011, as compared to the same periods in 2010. The decrease for the third quarter was primarily due to a \$3.5 million decrease in other operating expenses related to employee compensation offset by a \$1.8 million increase in interest expense related to a higher level of outstanding debt and a \$1.0 million increase in collateral finance facility expense related to a collateral financing arrangement with an international bank executed in the fourth quarter of 2010. The increase for the first nine months was primarily due to an increase in interest expense related to higher interest provisions for income taxes related to uncertain tax positions of \$9.8 million and interest on a higher level of outstanding debt. Collateral finance facility expense increased \$3.6 million related to the previously mentioned collateral financing arrangement.

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Also contributing to the increase in benefits and expenses for the first nine months was a loss associated with the redemption and remarketing associated with Preferred Income Equity Redeemable Securities ( PIERS ) of \$4.4 million which is included in other operating expenses. This loss reflects the recognition of the unamortized issuance costs of the original preferred securities.

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### **Liquidity and Capital Resources**

#### **Current Market Environment**

The third quarter of 2011 was particularly volatile for the equity markets due to the slow recovery of the U.S. economy, the reduction in the credit rating of U.S. sovereign debt by Standard & Poor's, and financial distress of certain European countries which continues to create volatility and uncertainty in the global financial markets.

The current interest rate environment is negatively affecting the Company's earnings. Investment yield has decreased 34 basis points for the nine months ended September 30, 2011 as compared to the same period in 2010. In addition, the Company's insurance liabilities, in particular its annuity products, are sensitive to changing market factors. Unfavorable market performance has contributed to a decrease in earnings on the Company's annuity products, particularly with variable annuities that contain embedded derivatives. Results of operations in the first nine months of 2011 and 2010 reflect unfavorable changes in the value of embedded derivatives as credit spreads have widened during both periods. However, gross unrealized gains on investment securities have improved from \$1,541.7 million at September 30, 2010 to \$1,928.6 million at September 30, 2011, while gross unrealized losses have not changed significantly during the same time period. The increase in the gross unrealized gains is due to the widening credit spreads and lower interest rates.

The Company continues to be in a position to hold its investment securities until recovery, provided it remains comfortable with the credit of the issuers. Gross unrealized gains on investment securities of \$1.9 billion are well in excess of gross unrealized losses of \$0.3 billion as of September 30, 2011. Historically low interest rates continued to put pressure on the Company's investment yield. If interest rates remain at current levels for the next five years, investment yield would gradually drop by an estimated 50 basis points over that five-year period, which would, in turn, reduce returns on equity as excess cash flows would be reinvested at lower yields. All else equal, those projected returns would decline between 15 and 20 basis points in 2012 and around 50 basis points by the end of 2016. The Company does 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.

The Company projects its reserves to be sufficient and it would not expect to write down deferred acquisition costs or be required to take any actions to augment capital, even if interest rates remain at current levels for the next five years. While the Company has felt the pressures of sustained low interest rates and volatile equity markets and may continue to do so, its business is not overly sensitive to these risks due to its relatively low levels of asset leverage and annuity business. 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.

#### **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, dividends paid to shareholders and interest payments on indebtedness. The primary sources of RGA's liquidity include proceeds from 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 for the next 12 months to fund its cash needs under various scenarios that include the potential risk of early recapture of reinsurance treaties and 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, preferred securities or common equity and, if necessary, the sale of invested assets subject to market conditions.

In anticipation of the redemption and remarketing of RGA's trust preferred securities discussed below, RGA purchased 3.0 million shares of its outstanding common stock from MetLife, Inc. on February 15, 2011, at a price of \$61.14 per share, reflecting the closing price of the Company's common stock on February 14, 2011. The purchased common shares have been placed into treasury for general corporate purposes.

On March 7, 2011, RGA entered into an accelerated share repurchase (ASR) agreement with a financial counterparty. Under the ASR agreement, RGA purchased 2.5 million shares of its outstanding common stock at an initial price of \$59.76 per share and an aggregate price of approximately \$149.4 million. The purchase price was funded from cash on hand. The counterparty completed its purchases during the second quarter of 2011 and as a result, RGA was required to pay \$4.3 million to the counterparty for the final settlement which resulted in a final price

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of \$61.47 per share on the repurchased common stock. The common shares repurchased have been placed into treasury to be used for general corporate purposes.

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The Company's share purchase transactions described above are intended to offset share dilution associated with the issuance of approximately 5.5 million common shares from the exercise of warrants as discussed below in Debt and Preferred Securities .

During the third quarter of 2011, RGA repurchased 838,362 shares of common stock under a previously approved stock repurchase program for \$43.1 million. The common shares repurchased have been placed into treasury to be used for general corporate purposes.

In July 2011, the quarterly dividend was increased to \$0.18 per share from \$0.12 per share. All future payments of dividends are at the discretion of RGA's board of directors and will depend on the Company's earnings, capital requirements, insurance regulatory conditions, operating conditions, and other such factors as the board of directors may deem relevant. The amount of dividends that RGA can pay will depend in part on the operations of its reinsurance subsidiaries.

## **Cash Flows**

The Company's net cash flows provided by operating activities for the nine months ended September 30, 2011 and 2010 were \$834.0 million and \$1,330.3 million, respectively. Cash flows from operating activities are affected by the timing of premiums received, claims paid, and working capital changes. The \$496.3 million net decrease in operating cash flows during the nine months of 2011 compared to the same period in 2010 was primarily a result of cash outflows related to claims, acquisition costs, income taxes and other operating expenses increasing more than cash inflows related to premiums and investment income. Cash from premiums and investment income increased \$539.8 million and \$97.5 million, respectively, but was more offset by higher cash outlays of \$1,133.6 million for the current nine 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 nine months ended September 30, 2011 and 2010 was \$738.8 million and \$1,209.4 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 provided by (used in) financing activities for the nine months ended September 30, 2011 and 2010 was \$252.4 million and \$(13.2) million, respectively. The increase in cash provided by financing activities is primarily due to \$394.4 million in net proceeds from the issuance of \$400 million in Senior Notes in May 2011, as discussed below, and increased deposits of \$198.4 million and reduced withdrawals of \$128.7 million, under investment-type contracts largely offset by increased purchases of treasury stock of \$379.6 million. Also reflected in the net cash provided by (used in) financing activities is cash used due to the maturity of trust preferred securities of \$159.5 million and the repurchase of collateral finance facility securities of \$111.8 million as discussed below, partially offset by the proceeds from the redemption and remarketing of trust preferred securities which provided cash of \$154.6 million.

## **Debt and Preferred Securities**

As of September 30, 2011 and December 31, 2010, the Company had \$1,614.5 million and \$1,216.4 million, respectively, in outstanding borrowings under its debt agreements and was in compliance with all covenants under those agreements.

The Company maintains a syndicated revolving 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 September 30, 2011, the Company had no cash borrowings outstanding and \$213.9 million in issued, but undrawn, letters of credit under this facility. As of September 30, 2011, the average interest rate on long-term and short-term debt outstanding was 6.04%.

On May 27, 2011, RGA issued 5.00% Senior Notes due June 1, 2021 with a face amount of \$400.0 million. These senior notes have been registered with the Securities and Exchange Commission. The net proceeds from the offering were approximately \$394.4 million and will be used to fund the payment of the RGA's \$200.0 million senior notes that will mature in December 2011 and for general corporate purposes. Capitalized issue costs were approximately \$3.4 million.

On March 4, 2011, RGA completed the remarketing of approximately 4.5 million trust preferred securities with an aggregate accreted value of approximately \$158.2 million that were initially issued as a component of its Trust Preferred Income Equity Redeemable Securities ( PIERS Units ). When issued, each PIERS Unit initially consisted of (1) a preferred security issued by RGA Capital Trust I, a financing subsidiary of RGA, with an annual distribution rate of 5.75 percent and stated maturity of March 18, 2051, and (2) a warrant to purchase at any time prior to December 15, 2050, 1.2508 shares of RGA common stock. Approximately 4.4 million of the warrants were exercised on March 4, 2011, at a price of \$35.44 per warrant, resulting in the issuance of approximately 5.5 million shares, with cash paid in lieu of fractional shares. The warrant



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exercise price was paid to RGA. Remaining warrants were redeemed in cash at their redemption amount of \$14.56 per warrant. As a result of the remarketing, the remarketed preferred securities had a fixed accreted value of \$35.44 per security with a fixed annual distribution rate of 2.375% and were repaid on June 5, 2011, the revised maturity date. The proceeds from the

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remarketing were paid directly to the selling holders, unless holders timely elected to exercise their warrants in lieu of mandatory redemption, in which case the proceeds were applied on behalf of such selling holders to satisfy in full the exercise price of the warrants. Preferred securities of holders who timely elected to opt out of the remarketing were adjusted to match the terms of the remarketed preferred securities. In the first quarter of 2011, RGA recorded a \$4.4 million pre-tax loss, included in other operating expenses, related to the recognition of the unamortized issuance costs of the original preferred securities.

Based on the historic cash flows and the current financial results of the Company, management believes RGA's cash flows will be sufficient to enable RGA to meet its obligations for at least the next 12 months.

## **Collateral Finance Facility**

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

In the three and nine months ended September 30, 2011, respectively, the Company repurchased \$156.8 million and \$169.5 million face amount of the Timberlake Financial notes for \$104.2 million and \$111.8 million, which was the market value at the date of the purchases. The notes were purchased by RGA Reinsurance. As a result, the Company recorded pre-tax gains of \$50.9 million and \$55.8, after fees, in other revenues in the three and nine months ended September 30, 2011, respectively.

## **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 and limits 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 \$884.4 million and \$582.0 million at September 30, 2011 and December 31, 2010, respectively. 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 periodically sells 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 September 30, 2011 or December 31, 2010. The book value of securities subject to these agreements, if any, are included in fixed maturity securities while the repurchase obligations would be reported in other liabilities in the condensed consolidated balance sheets. 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 on the Company's condensed consolidated balance sheets. These agreements are primarily used as yield enhancement alternatives to other cash equivalent investments. There were no amounts outstanding at September 30, 2011 or December 31, 2010. The Company participates in a securities borrowing program whereby securities, which are not reflected on the Company's condensed consolidated balance sheets, are borrowed from a third party. The Company is required to maintain a minimum of 100% of the market value of the borrowed securities as collateral. The Company had borrowed securities with an amortized cost of \$150.0 million and a market value of \$149.1 million as of September 30, 2011. The borrowed securities are used to provide collateral under an affiliated reinsurance transaction. There were no securities borrowed as of

December 31, 2010.

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RGA Reinsurance is a member of the Federal Home Loan Bank of Des Moines ( FHLB ) and holds \$18.9 million of common stock in 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 and had no outstanding traditional funding agreements with the FHLB at September 30, 2011 and December 31, 2010. The Company s average outstanding balance of traditional funding agreements was \$31.0 million during the first nine months of 2011. The Company s average outstanding balance of traditional funding agreements during the first nine months of 2010 was not material. Interest on traditional funding agreements with the FHLB is reflected in interest expense on the Company s condensed consolidated statements of income.

In addition, RGA Reinsurance has also entered into funding agreements with the FHLB under guaranteed investment contracts whereby RGA Reinsurance has issued the funding agreements in exchange for cash and for which the FHLB has been granted a blanket lien on RGA Reinsurance s commercial and residential mortgage-backed securities and commercial mortgage loans used to collateralize RGA Reinsurance s obligations under the funding agreements. RGA Reinsurance maintains control over these pledged assets, and may use, commingle, encumber or dispose of any portion of the collateral as long as there is no event of default and the remaining qualified collateral is sufficient to satisfy the collateral maintenance level. The funding agreements and the related security agreements represented by this blanket lien provide that upon any event of default by RGA Reinsurance, the FHLB s recovery is limited to the amount of RGA Reinsurance s liability under the outstanding funding agreements. The amount of the Company s liability for the funding agreements with the FHLB under guaranteed investment contracts was \$199.3 million at both September 30, 2011 and December 31, 2010, which is included in interest sensitive contract liabilities. The advances on these agreements are collateralized primarily by commercial and residential mortgage-backed securities and commercial mortgage loans.

**Investments**

The Company had total cash and invested assets of \$25.1 billion and \$23.1 billion at September 30, 2011 and December 31, 2010, respectively, as illustrated below (dollars in thousands):

|   | September 30, 2011   | December 31, 2010    |
|---|----------------------|----------------------|
| Fixed maturity securities, available-for-sale | \$ 15,557,032        | \$ 14,304,597        |
| Mortgage loans on real estate                 | 934,694              | 885,811              |
| Policy loans                                  | 1,228,890            | 1,228,418            |
| Funds withheld at interest                    | 5,445,886            | 5,421,952            |
| Short-term investments                        | 81,747               | 118,387              |
| Other invested assets                         | 1,020,043            | 707,403              |
| Cash and cash equivalents                     | 802,651              | 463,661              |
| <b>Total cash and invested assets</b>         | <b>\$ 25,070,943</b> | <b>\$ 23,130,229</b> |

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 substantially offset by a corresponding adjustment to the interest credited on the liabilities (dollars in thousands).

|  | Three months ended September 30, |               |                         | Nine months ended September 30, |               |                         |
|--|----------------------------------|---------------|-------------------------|---------------------------------|---------------|-------------------------|
|  | 2011                             | 2010          | Increase/<br>(Decrease) | 2011                            | 2010          | Increase/<br>(Decrease) |
| Average invested assets at amortized cost                                    | \$ 17,683,301                    | \$ 15,763,396 | 12.2%                   | \$ 17,071,468                   | \$ 15,205,358 | 12.3%                   |
| Net investment income  | 229,373                          | 218,546       | 5.0%                    | 678,009                         | 642,144       | 5.6%                    |
| Investment yield (ratio of net investment income to average invested assets) | 5.29%                            | 5.66%         | (37) bps                | 5.33%                           | 5.67%         | (34) bps                |

The current interest rate environment is negatively affecting the Company s earnings. Investment yield decreased for the three months ended September 30, 2011 due primarily to slightly lower yields on several asset classes including fixed maturity securities, mortgage loans and policy loans. The lower yields are due primarily to a lower interest rate environment which decreases the yield on new investment purchases. 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 companies boards of directors periodically review their

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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 average duration for all portfolios, when consolidated, ranges between eight and ten

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years. See Note 4 Investments in the Notes to Consolidated Financial Statements of the 2010 Annual Report for additional information regarding the Company's investments.

*Fixed Maturity and Equity Securities Available-for-Sale*

The following tables provide information relating to investments in fixed maturity securities and equity securities by sector as of September 30, 2011 and December 31, 2010 (dollars in thousands):

| <b>September 30, 2011:</b>                   | Amortized<br>Cost    | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value | % of<br>Total | Other-than-<br>temporary<br>impairments<br>in<br>AOCI |
|--|----------------------|---------------------|----------------------|----------------------------|---------------|---|
| <b>Available-for-sale:</b>                   |                      |                     |                      |                            |               |   |
| Corporate securities                         | \$ 7,277,255         | \$ 642,734          | \$ 139,062           | \$ 7,780,927               | 50.0%         | \$  |
| Canadian and Canadian provincial governments | 2,371,738            | 1,021,793           | 17                   | 3,393,514                  | 21.8          |   |
| Residential mortgage-backed securities       | 1,238,863            | 84,856              | 15,945               | 1,307,774                  | 8.4           | (740)   |
| Asset-backed securities                      | 412,468              | 12,638              | 52,149               | 372,957                    | 2.4           | (5,602)   |
| Commercial mortgage-backed securities        | 1,330,302            | 79,539              | 82,847               | 1,326,994                  | 8.5           | (11,638)  |
| U.S. government and agencies                 | 224,704              | 33,444              | 65                   | 258,083                    | 1.7           |   |
| State and political subdivisions             | 182,570              | 23,061              | 2,297                | 203,334                    | 1.3           |   |
| Other foreign government securities          | 888,999              | 25,943              | 1,493                | 913,449                    | 5.9           |   |
| <b>Total fixed maturity securities</b>       | <b>\$ 13,926,899</b> | <b>\$ 1,924,008</b> | <b>\$ 293,875</b>    | <b>\$ 15,557,032</b>       | <b>100.0%</b> | <b>\$ (17,980)</b>                                    |
| Non-redeemable preferred stock               | \$ 97,391            | \$ 3,599            | \$ 7,399             | \$ 93,591                  | 73.9%         |   |
| Other equity securities                      | 33,604               | 963                 | 1,566                | 33,001                     | 26.1          |   |
| <b>Total equity securities</b>               | <b>\$ 130,995</b>    | <b>\$ 4,562</b>     | <b>\$ 8,965</b>      | <b>\$ 126,592</b>          | <b>100.0%</b> |   |

| <b>December 31, 2010:</b>                    | Amortized<br>Cost    | Unrealized<br>Gains | Unrealized<br>Losses | Estimated<br>Fair<br>Value | % of<br>Total | Other-than-<br>temporary<br>impairments<br>in<br>AOCI |
|--|----------------------|---------------------|----------------------|----------------------------|---------------|---|
| <b>Available-for-sale:</b>                   |                      |                     |                      |                            |               |   |
| Corporate securities                         | \$ 6,826,937         | \$ 436,384          | \$ 107,816           | \$ 7,155,505               | 50.0%         | \$  |
| Canadian and Canadian provincial governments | 2,354,418            | 672,951             | 3,886                | 3,023,483                  | 21.1          |   |
| Residential mortgage-backed securities       | 1,443,892            | 55,765              | 26,580               | 1,473,077                  | 10.3          | (1,650)   |
| Asset-backed securities                      | 440,752              | 12,001              | 61,544               | 391,209                    | 2.7           | (4,963)   |
| Commercial mortgage-backed securities        | 1,353,279            | 81,839              | 97,265               | 1,337,853                  | 9.4           | (10,010)  |
| U.S. government and agencies                 | 199,129              | 7,795               | 708                  | 206,216                    | 1.4           |   |
| State and political subdivisions             | 170,479              | 2,098               | 8,117                | 164,460                    | 1.2           |   |
| Other foreign government securities          | 556,136              | 4,304               | 7,646                | 552,794                    | 3.9           |   |
| <b>Total fixed maturity securities</b>       | <b>\$ 13,345,022</b> | <b>\$ 1,273,137</b> | <b>\$ 313,562</b>    | <b>\$ 14,304,597</b>       | <b>100.0%</b> | <b>\$ (16,623)</b>                                    |
| Non-redeemable preferred stock               | \$ 100,718           | \$ 4,130            | \$ 5,298             | \$ 99,550                  | 71.0%         |   |
| Other equity securities                      | 34,832               | 6,100               | 271                  | 40,661                     | 29.0          |   |

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|                         |    |         |    |        |    |       |    |         |        |
|-------------------------|----|---------|----|--------|----|-------|----|---------|--------|
| Total equity securities | \$ | 135,550 | \$ | 10,230 | \$ | 5,569 | \$ | 140,211 | 100.0% |
|-------------------------|----|---------|----|--------|----|-------|----|---------|--------|

The tables above exclude fixed maturity securities posted by the Company as collateral to counterparties with an amortized cost of \$19.1 million and \$46.9 million, and an estimated fair value of \$21.3 million and \$48.2 million, as of September 30, 2011 and December 31, 2010 respectively, which are included in other invested assets in the consolidated balance sheets.

The Company's fixed maturity securities are invested primarily in corporate bonds, mortgage- and asset-backed securities, and U.S. and Canadian government securities. As of September 30, 2011 and December 31, 2010, approximately 95.5% and 95.0%, respectively, of the Company's consolidated investment portfolio of fixed maturity securities were 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 primarily invested in high-grade money market instruments. The largest asset class in which fixed maturity securities were invested was corporate securities, which represented approximately 50.0% of total fixed maturity securities as of September 30, 2011 and December 31, 2010. The tables below show the industry types and weighted average credit ratings, which comprise the corporate fixed maturity holdings at September 30, 2011 and December 31, 2010 (dollars in thousands):

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| September 30, 2011: | Amortized<br>Cost   | Estimated<br>Fair Value | % of Total    | Average Credit |
|---------------------|---------------------|-------------------------|---------------|----------------|
|                     |                     |                         |               | Ratings        |
| Finance             | \$ 2,730,488        | \$ 2,766,683            | 35.6%         | A              |
| Industrial          | 3,410,481           | 3,745,251               | 48.1          | BBB+           |
| Utility             | 1,128,226           | 1,260,178               | 16.2          | BBB+           |
| Other               | 8,060               | 8,815                   | 0.1           | AA             |
| <b>Total</b>        | <b>\$ 7,277,255</b> | <b>\$ 7,780,927</b>     | <b>100.0%</b> | <b>A</b>       |

| December 31, 2010: | Amortized<br>Cost   | Estimated<br>Fair<br>Value | % of Total    | Average Credit |
|--------------------|---------------------|----------------------------|---------------|----------------|
|                    |                     |                            |               | Ratings        |
| Finance            | \$ 2,782,936        | \$ 2,833,022               | 39.6%         | A              |
| Industrial         | 3,121,326           | 3,341,104                  | 46.7          | BBB+           |
| Utility            | 908,737             | 967,017                    | 13.5          | BBB+           |
| Other              | 13,938              | 14,362                     | 0.2           | AA+            |
| <b>Total</b>       | <b>\$ 6,826,937</b> | <b>\$ 7,155,505</b>        | <b>100.0%</b> | <b>A</b>       |

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 statutory filings. 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).

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 September 30, 2011 and December 31, 2010 was as follows (dollars in thousands):

| NAIC<br>Designation | Rating Agency<br>Designation | September 30, 2011   |                         |               | December 31, 2010    |                         |               |
|---------------------|------------------------------|----------------------|-------------------------|---------------|----------------------|-------------------------|---------------|
|                     |                              | Amortized<br>Cost    | Estimated<br>Fair Value | % of Total    | Amortized Cost       | Estimated<br>Fair Value | % of Total    |
| 1                   | AAA/AA/A                     | \$ 9,959,250         | \$ 11,450,842           | 73.6%         | \$ 9,697,515         | \$ 10,556,941           | 73.8%         |
| 2                   | BBB                          | 3,187,296            | 3,402,993               | 21.9          | 2,860,603            | 3,035,593               | 21.2          |
| 3                   | BB                           | 444,042              | 423,559                 | 2.7           | 460,675              | 450,368                 | 3.2           |
| 4                   | B                            | 229,658              | 196,617                 | 1.3           | 239,604              | 191,287                 | 1.3           |
| 5                   | CCC and lower                | 78,310               | 60,014                  | 0.4           | 63,859               | 47,493                  | 0.3           |
| 6                   | In or near default           | 28,343               | 23,007                  | 0.1           | 22,766               | 22,915                  | 0.2           |
| <b>Total</b>        |                              | <b>\$ 13,926,899</b> | <b>\$ 15,557,032</b>    | <b>100.0%</b> | <b>\$ 13,345,022</b> | <b>\$ 14,304,597</b>    | <b>100.0%</b> |

The Company's fixed maturity portfolio includes structured securities. The following table shows the types of structured securities the Company held at September 30, 2011 and December 31, 2010 (dollars in thousands):

|   | September 30, 2011 |                         | December 31, 2010 |                         |
|---|--------------------|-------------------------|-------------------|-------------------------|
|   | Amortized Cost     | Estimated<br>Fair Value | Amortized Cost    | Estimated<br>Fair Value |
| Residential mortgage-backed securities: |                    |                         |                   |                         |



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|  |                     |                     |                     |                     |
|--|---------------------|---------------------|---------------------|---------------------|
| Agency                                       | \$ 596,072          | \$ 660,833          | \$ 636,931          | \$ 668,405          |
| Non-agency                                   | 642,791             | 646,941             | 806,961             | 804,672             |
| Total residential mortgage-backed securities | 1,238,863           | 1,307,774           | 1,443,892           | 1,473,077           |
| Commercial mortgage-backed securities        | 1,330,302           | 1,326,994           | 1,353,279           | 1,337,853           |
| Asset-backed securities                      | 412,468             | 372,957             | 440,752             | 391,209             |
| <b>Total</b>                                 | <b>\$ 2,981,633</b> | <b>\$ 3,007,725</b> | <b>\$ 3,237,923</b> | <b>\$ 3,202,139</b> |

The residential mortgage-backed securities include agency-issued pass-through securities and collateralized mortgage obligations. A majority of the agency-issued pass-through securities are guaranteed or otherwise supported by the Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, or the Government National Mortgage Association. As of September 30, 2011 and December 31, 2010, the weighted average credit rating was AA and AA+, respectively. 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 September 30, 2011 and December 31, 2010, the Company had exposure to commercial mortgage-backed securities with amortized costs totaling \$1,674.4 million and \$1,834.6 million, and estimated fair values of \$1,678.7 million and

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\$1,818.2 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 generally highly rated with weighted average S&P credit ratings of approximately AA- at both September 30, 2011 and December 31, 2010. During the current quarter, commercial mortgage-backed securities were sold in the portfolios held by ceding companies supporting the funds withheld at interest investments in an effort to reduce exposure to subordinated senior commercial mortgage-backed securities. Reinvestments in the funds withheld at interest portfolios were primarily in collateralized loan obligations and corporate securities. Approximately 43.1% and 54.5%, based on estimated fair value, were classified in the AAA category at September 30, 2011 and December 31, 2010, respectively. The decrease in the ratings was primarily attributable to the downgrade by S&P of U.S. government agency securities. The Company recorded \$6.6 million and \$9.3 million of other-than-temporary impairments in its direct investments in commercial mortgage-backed securities for the third quarter and first nine months ended September 30, 2011, respectively. The Company recorded \$2.6 million and \$6.6 million of other-than-temporary impairments in its direct investments in commercial mortgage-backed securities for the third quarter and first nine months of 2010, respectively. The following tables summarize the securities by rating and underwriting year at September 30, 2011 and December 31, 2010 (dollars in thousands):

**September 30, 2011:**

| Underwriting Year | AAA               |                      | AA                |                      | A                 |                      |
|-------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|                   | Amortized Cost    | Estimated Fair Value | Amortized Cost    | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
|                   | 2005 & Prior      | \$ 144,277           | \$ 152,768        | \$ 105,813           | \$ 116,562        | \$ 34,150            |
| 2006              | 275,552           | 287,943              | 55,990            | 61,997               | 54,778            | 55,814               |
| 2007              | 213,210           | 225,289              | 28,104            | 23,053               | 118,465           | 120,281              |
| 2008              | 9,133             | 9,261                | 54,813            | 64,141               | 7,577             | 8,256                |
| 2009              |                   |                      | 12,379            | 13,541               | 6,997             | 9,354                |
| 2010              | 27,939            | 28,206               | 56,262            | 60,540               | 19,475            | 20,737               |
| 2011              | 20,048            | 19,348               | 11,922            | 12,917               | 5,761             | 5,961                |
| <b>Total</b>      | <b>\$ 690,159</b> | <b>\$ 722,815</b>    | <b>\$ 325,283</b> | <b>\$ 352,751</b>    | <b>\$ 247,203</b> | <b>\$ 253,433</b>    |

| Underwriting Year | BBB               |                      | Below Investment Grade |                      | Total               |                      |
|-------------------|-------------------|----------------------|------------------------|----------------------|---------------------|----------------------|
|                   | Amortized Cost    | Estimated Fair Value | Amortized Cost         | Estimated Fair Value | Amortized Cost      | Estimated Fair Value |
|                   | 2005 & Prior      | \$ 32,416            | \$ 30,680              | \$ 52,459            | \$ 40,472           | \$ 369,115           |
| 2006              | 27,841            | 25,093               | 55,134                 | 45,747               | 469,295             | 476,594              |
| 2007              | 102,387           | 104,444              | 116,843                | 85,783               | 579,009             | 558,850              |
| 2008              |                   |                      | 24,682                 | 17,481               | 96,205              | 99,139               |
| 2009              |                   |                      |                        |                      | 19,376              | 22,895               |
| 2010              |                   |                      |                        |                      | 103,676             | 109,483              |
| 2011              |                   |                      |                        |                      | 37,731              | 38,226               |
| <b>Total</b>      | <b>\$ 162,644</b> | <b>\$ 160,217</b>    | <b>\$ 249,118</b>      | <b>\$ 189,483</b>    | <b>\$ 1,674,407</b> | <b>\$ 1,678,699</b>  |

**December 31, 2010:**

| Underwriting Year | AAA               |                      | AA                |                      | A                 |                      |
|-------------------|-------------------|----------------------|-------------------|----------------------|-------------------|----------------------|
|                   | Amortized Cost    | Estimated Fair Value | Amortized Cost    | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
|                   | 2005 & Prior      | \$ 261,763           | \$ 282,522        | \$ 81,795            | \$ 85,675         | \$ 63,234            |
| 2006              | 314,043           | 328,422              | 46,372            | 50,217               | 48,851            | 49,949               |
| 2007              | 255,589           | 270,731              | 29,493            | 23,512               | 92,910            | 96,790               |
| 2008              | 29,547            | 33,115               | 37,291            | 39,657               | 7,495             | 7,886                |
| 2009              | 8,020             | 7,877                | 3,088             | 3,505                | 6,834             | 9,675                |
| 2010              | 69,580            | 68,879               | 5,193             | 4,800                | 10,970            | 10,928               |
| <b>Total</b>      | <b>\$ 938,542</b> | <b>\$ 991,546</b>    | <b>\$ 203,232</b> | <b>\$ 207,366</b>    | <b>\$ 230,294</b> | <b>\$ 238,719</b>    |

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| Underwriting Year | BBB               |                      | Below Investment Grade |                      | Total               |                      |
|-------------------|-------------------|----------------------|------------------------|----------------------|---------------------|----------------------|
|                   | Amortized Cost    | Estimated Fair Value | Amortized Cost         | Estimated Fair Value | Amortized Cost      | Estimated Fair Value |
| 2005 & Prior      | \$ 67,341         | \$ 66,392            | \$ 56,882              | \$ 44,770            | \$ 531,015          | \$ 542,850           |
| 2006              | 32,651            | 31,646               | 56,636                 | 39,127               | 498,553             | 499,361              |
| 2007              | 99,796            | 105,962              | 125,123                | 77,459               | 602,911             | 574,454              |
| 2008              |                   |                      | 24,085                 | 15,234               | 98,418              | 95,892               |
| 2009              |                   |                      |                        |                      | 17,942              | 21,057               |
| 2010              |                   |                      |                        |                      | 85,743              | 84,607               |
| <b>Total</b>      | <b>\$ 199,788</b> | <b>\$ 204,000</b>    | <b>\$ 262,726</b>      | <b>\$ 176,590</b>    | <b>\$ 1,834,582</b> | <b>\$ 1,818,221</b>  |

Asset-backed securities include credit card and automobile receivables, subprime 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 September 30, 2011 and AA at December 31, 2010. The Company owns floating rate securities that represent approximately 15.7% and 17.6% of

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the total fixed maturity securities at September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010, the Company held investments in securities with subprime mortgage exposure with amortized costs totaling \$143.6 million and \$155.3 million, and estimated fair values of \$106.1 million and \$115.8 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 weighted average S&P credit ratings on these securities was approximately BBB- at September 30, 2011 and December 31, 2010, respectively. Historically, these securities have been highly rated; however, in recent years have been downgraded by rating agencies. 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. While ratings and vintage year are important factors to consider, the tranche seniority and evaluation of forecasted future losses within a tranche is critical to the valuation of these types of securities. The Company recorded \$1.1 million and \$1.8 million in other-than-temporary impairments in its subprime portfolio during the third quarter and first nine months of 2011, respectively. The Company recorded \$2.3 million and \$2.7 million in other-than-temporary impairments in its subprime portfolio during the third quarter and first nine months of 2010. The following tables summarize the securities by rating and underwriting year at September 30, 2011 and December 31, 2010 (dollars in thousands):

**September 30, 2011:**

| Underwriting Year | AAA             |                      | AA               |                      | A               |                      |
|-------------------|-----------------|----------------------|------------------|----------------------|-----------------|----------------------|
|                   | Amortized Cost  | Estimated Fair Value | Amortized Cost   | Estimated Fair Value | Amortized Cost  | Estimated Fair Value |
| 2005 & Prior      | \$ 6,924        | \$ 6,196             | \$ 23,312        | \$ 21,468            | \$ 9,599        | \$ 8,773             |
| 2006              |                 |                      | 2,271            | 2,109                |                 |                      |
| 2007              |                 |                      |                  |                      |                 |                      |
| 2008 - 2011       |                 |                      |                  |                      |                 |                      |
| <b>Total</b>      | <b>\$ 6,924</b> | <b>\$ 6,196</b>      | <b>\$ 25,583</b> | <b>\$ 23,577</b>     | <b>\$ 9,599</b> | <b>\$ 8,773</b>      |

| Underwriting Year | BBB              |                      | Below Investment Grade |                      | Total             |                      |
|-------------------|------------------|----------------------|------------------------|----------------------|-------------------|----------------------|
|                   | Amortized Cost   | Estimated Fair Value | Amortized Cost         | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
| 2005 & Prior      | \$ 15,199        | \$ 13,253            | \$ 72,718              | \$ 41,815            | \$ 127,752        | \$ 91,505            |
| 2006              |                  |                      | 2,074                  | 3,088                | 4,345             | 5,197                |
| 2007              |                  |                      | 4,602                  | 2,643                | 4,602             | 2,643                |
| 2008 - 2011       | 6,893            | 6,748                |                        |                      | 6,893             | 6,748                |
| <b>Total</b>      | <b>\$ 22,092</b> | <b>\$ 20,001</b>     | <b>\$ 79,394</b>       | <b>\$ 47,546</b>     | <b>\$ 143,592</b> | <b>\$ 106,093</b>    |

**December 31, 2010:**

| Underwriting Year | AAA              |                      | AA               |                      | A                |                      |
|-------------------|------------------|----------------------|------------------|----------------------|------------------|----------------------|
|                   | Amortized Cost   | Estimated Fair Value | Amortized Cost   | Estimated Fair Value | Amortized Cost   | Estimated Fair Value |
| 2005 & Prior      | \$ 13,343        | \$ 12,079            | \$ 29,809        | \$ 27,746            | \$ 10,504        | \$ 9,573             |
| 2006              |                  |                      |                  |                      |                  |                      |
| 2007              |                  |                      |                  |                      |                  |                      |
| 2008 - 2010       |                  |                      |                  |                      |                  |                      |
| <b>Total</b>      | <b>\$ 13,343</b> | <b>\$ 12,079</b>     | <b>\$ 29,809</b> | <b>\$ 27,746</b>     | <b>\$ 10,504</b> | <b>\$ 9,573</b>      |

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| Underwriting Year | BBB              |                      | Below Investment Grade |                      | Total             |                      |
|-------------------|------------------|----------------------|------------------------|----------------------|-------------------|----------------------|
|                   | Amortized Cost   | Estimated Fair Value | Amortized Cost         | Estimated Fair Value | Amortized Cost    | Estimated Fair Value |
| 2005 & Prior      | \$ 22,608        | \$ 19,213            | \$ 71,582              | \$ 41,308            | \$ 147,846        | \$ 109,919           |
| 2006              |                  |                      | 2,152                  | 2,508                | 2,152             | 2,508                |
| 2007              |                  |                      | 5,279                  | 3,329                | 5,279             | 3,329                |
| 2008 - 2010       |                  |                      |                        |                      |                   |                      |
| <b>Total</b>      | <b>\$ 22,608</b> | <b>\$ 19,213</b>     | <b>\$ 79,013</b>       | <b>\$ 47,145</b>     | <b>\$ 155,277</b> | <b>\$ 115,756</b>    |

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 September 30, 2011 and December 31, 2010, the Company s Alt-A residential mortgage-backed securities had an amortized cost of \$129.8 million and \$145.4 million, respectively, with an unrealized loss

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of \$3.6 million and \$2.8 million, respectively. As of September 30, 2011 and December 31, 2010, 37.7% and 54.7%, respectively, of the Alt-A securities were rated AA or better. This amount includes securities directly held by the Company and securities backing the Company's funds withheld at interest investment. The Company recorded \$0.1 million in other-than-temporary impairments in its Alt-A portfolio in the first nine months of 2011. The Company recorded \$1.7 million of other-than-temporary impairments in the first nine months ended September 30, 2010, 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.

At September 30, 2011 and December 31, 2010, the Company's fixed maturity and funds withheld portfolios included approximately \$613.2 million and \$640.7 million, respectively, in estimated fair value, of securities that are insured by various financial guarantors, or less than five percent of consolidated investments. The securities are diversified between state and political subdivision bonds and asset-backed securities with well diversified collateral pools. The Company held investment-grade securities issued by financial guarantors totaling \$4.3 million and \$8.3 million in amortized cost at September 30, 2011 and December 31, 2010, respectively.

The Company does not invest in the common equity securities of Fannie Mae and Freddie Mac, both government sponsored entities; however, as of September 30, 2011 and December 31, 2010, the Company held in its general portfolio \$51.0 million and \$60.1 million, amortized cost in direct exposure in the form of senior unsecured agency and preferred securities. Additionally, as of September 30, 2011 and December 31, 2010, the portfolios held by the Company's ceding companies that support its funds withheld asset contain approximately \$260.8 million and \$461.4 million, respectively, in amortized cost of unsecured agency bond holdings and no equity exposure. As of September 30, 2011 and December 31, 2010, indirect exposure in the form of secured, structured mortgaged securities issued by Fannie Mae and Freddie Mac totaled approximately \$656.2 million and \$859.2 million, respectively, 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 had a total amortized cost of \$0.7 million at September 30, 2011 and December 31, 2010, respectively.

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 \$8.8 million and \$19.3 million in other-than-temporary impairments in its fixed maturity and equity securities, including \$7.7 million and \$14.1 million of other-than-temporary impairment losses on Subprime / Alt-A / Other structured securities, in the third quarter and first nine months of 2011, respectively, primarily due to a decline in value of structured securities with exposure to mortgages. The impairment losses on equity securities of \$3.7 million in the first nine months of 2011 are primarily due to the financial condition of European financial institutions. The impaired equity securities are hybrid securities that contain equity-like features. The Company recorded \$4.9 million and \$13.6 million in other-than-temporary impairments in its fixed maturity and equity securities, including \$4.9 million and \$13.0 million of other-than-temporary impairment losses on Subprime / Alt-A / Other structured securities, in the third quarter and first nine months of 2010, respectively, primarily due to a decline in value of structured securities with exposure to mortgages. The table below summarizes other-than-temporary impairments, net of non-credit adjustments, for the third quarter and first nine months of 2011 (dollars in thousands):

| Asset Class  | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|--|-------------------------------------|-----------------|------------------------------------|------------------|
|  | 2011                                | 2010            | 2011                               | 2010             |
| Subprime / Alt-A / Other structured securities                 | \$ 7,732                            | \$ 4,867        | \$ 14,064                          | \$ 12,999        |
| Corporate / Other fixed maturity securities                    | 1,090                               | 11              | 1,604                              | 593              |
| Equity securities  |                                     |                 | 3,680                              | 32               |
| Other impairments, including change in mortgage loan provision | 2,370                               | 5,087           | 4,980                              | 7,482            |
| <b>Total</b>   | <b>\$ 11,192</b>                    | <b>\$ 9,965</b> | <b>\$ 24,328</b>                   | <b>\$ 21,106</b> |

During the three months ended September 30, 2011 and 2010, the Company sold fixed maturity securities and equity securities with fair values of \$57.2 million and \$97.6 million at gross losses of \$7.2 million and \$7.8 million, respectively, or at 88.9% and 92.6% of amortized cost, respectively. During the nine months ended September 30, 2011 and 2010, the Company sold fixed maturity securities and equity securities with fair values of \$388.9 million and \$497.0 million at gross losses of \$20.7 million and \$22.0 million, respectively, or at 94.9% and 95.8% of amortized cost, respectively. The Company generally does not engage in short-term buying and selling of securities.



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At September 30, 2011 and December 31, 2010, the Company had \$302.8 million and \$319.1 million, respectively, of gross unrealized losses related to its fixed maturity and equity securities. The distribution of the gross unrealized losses related to these securities is shown below:

|  | September 30,<br>2011 | December 31,<br>2010 |
|--|-----------------------|----------------------|
| <b>Sector:</b>                             |                       |                      |
| Corporate securities                       | 49%                   | 36%                  |
| Canadian and Canada provincial governments | 1                     | 1                    |
| Residential mortgage-backed securities     | 5                     | 8                    |
| Asset-backed securities                    | 17                    | 19                   |
| Commercial mortgage-backed securities      | 27                    | 31                   |
| State and political subdivisions           | 1                     | 3                    |
| Other foreign government securities        |                       | 2                    |
| <b>Total</b>                               | <b>100%</b>           | <b>100%</b>          |
| <b>Industry:</b>                           |                       |                      |
| Finance                                    | 37%                   | 25%                  |
| Asset-backed                               | 17                    | 19                   |
| Industrial                                 | 10                    | 8                    |
| Mortgage-backed                            | 33                    | 39                   |
| Government                                 | 1                     | 6                    |
| Utility                                    | 2                     | 3                    |
| <b>Total</b>                               | <b>100%</b>           | <b>100%</b>          |

The following table presents total gross unrealized losses for fixed maturity and equity securities as of September 30, 2011 and December 31, 2010, respectively, where the estimated fair value had declined and remained below amortized cost by the indicated amount (dollars in thousands):

|                                       | September 30, 2011      |                               |               | December 31, 2010       |                               |               |
|---------------------------------------|-------------------------|-------------------------------|---------------|-------------------------|-------------------------------|---------------|
|                                       | Number of<br>Securities | Gross<br>Unrealized<br>Losses | % of Total    | Number of<br>Securities | Gross<br>Unrealized<br>Losses | % of Total    |
| Less than 20%                         | 908                     | \$ 144,445                    | 47.7%         | 908                     | \$ 146,404                    | 45.9%         |
| 20% or more for less than six months  | 49                      | 53,176                        | 17.6          | 14                      | 18,114                        | 5.7           |
| 20% or more for six months or greater | 54                      | 105,219                       | 34.7          | 106                     | 154,613                       | 48.4          |
| <b>Total</b>                          | <b>1,011</b>            | <b>\$ 302,840</b>             | <b>100.0%</b> | <b>1,028</b>            | <b>\$ 319,131</b>             | <b>100.0%</b> |

As of September 30, 2011 and December 31, 2010, respectively, 67.6% and 66.1% of these gross unrealized losses were associated with investment grade securities. The unrealized losses on these securities decreased as credit spreads have widened and interest rates have declined since December 31, 2010.

The Company's determination of whether a decline in value is other-than-temporary includes analysis of the underlying credit and the extent and duration of a decline in value. The Company's credit analysis of an investment includes determining whether the issuer is current on its contractual payments, evaluating whether it is probable that the Company will be able to collect all amounts due according to the contractual terms of the security and analyzing the overall ability of the Company to recover the amortized cost of the investment. The Company continues to consider valuation declines as a potential indicator of credit deterioration. The Company believes that due to fluctuating market conditions and an extended period of economic uncertainty, the extent and duration of a decline in value have become less indicative of when there has been credit deterioration with respect to an issuer.



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The following tables present the estimated fair values and gross unrealized losses, including other-than-temporary impairment losses reported in AOCI, for fixed maturity securities and equity securities that have estimated fair values below amortized cost as of September 30, 2011 and December 31, 2010, respectively (dollars in thousands). 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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|  | Less than 12 months     |                               | 12 months or greater    |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| <b>September 30, 2011:</b>                                       |                         |                               |                         |                               |                         |                               |
| <b>Investment grade securities:</b>                              |                         |                               |                         |                               |                         |                               |
| Corporate securities   | \$ 928,293              | \$ 43,765                     | \$ 304,544              | \$ 70,847                     | \$ 1,232,837            | \$ 114,612                    |
| Canadian and Canadian provincial governments                     | 1,982                   | 17                            |                         |                               | 1,982                   | 17                            |
| Residential mortgage-backed securities                           | 117,719                 | 3,135                         | 57,179                  | 10,396                        | 174,898                 | 13,531                        |
| Asset-backed securities  | 63,953                  | 1,558                         | 80,006                  | 30,065                        | 143,959                 | 31,623                        |
| Commercial mortgage-backed securities                            | 156,938                 | 10,681                        | 68,236                  | 23,134                        | 225,174                 | 33,815                        |
| U.S. government and agencies                                     | 1,164                   | 62                            |                         | 3                             | 1,164                   | 65                            |
| State and political subdivisions                                 | 13,811                  | 967                           | 12,476                  | 1,067                         | 26,287                  | 2,034                         |
| Other foreign government securities                              | 85,992                  | 657                           | 30,493                  | 836                           | 116,485                 | 1,493                         |
| <b>Total investment grade securities</b>                         | <b>1,369,852</b>        | <b>60,842</b>                 | <b>552,934</b>          | <b>136,348</b>                | <b>1,922,786</b>        | <b>197,190</b>                |
| <b>Non-investment grade securities:</b>                          |                         |                               |                         |                               |                         |                               |
| Corporate securities   | 271,597                 | 15,453                        | 72,395                  | 8,997                         | 343,992                 | 24,450                        |
| Residential mortgage-backed securities                           | 13,809                  | 1,149                         | 10,824                  | 1,265                         | 24,633                  | 2,414                         |
| Asset-backed securities  | 2,542                   | 719                           | 21,943                  | 19,807                        | 24,485                  | 20,526                        |
| Commercial mortgage-backed securities                            | 32,657                  | 6,571                         | 69,674                  | 42,461                        | 102,331                 | 49,032                        |
| State and political subdivisions                                 | 3,965                   | 263                           |                         |                               | 3,965                   | 263                           |
| <b>Total non-investment grade securities</b>                     | <b>324,570</b>          | <b>24,155</b>                 | <b>174,836</b>          | <b>72,530</b>                 | <b>499,406</b>          | <b>96,685</b>                 |
| <b>Total fixed maturity securities</b>                           | <b>\$ 1,694,422</b>     | <b>\$ 84,997</b>              | <b>\$ 727,770</b>       | <b>\$ 208,878</b>             | <b>\$ 2,422,192</b>     | <b>\$ 293,875</b>             |
| Non-redeemable preferred stock                                   | \$ 20,705               | \$ 2,565                      | \$ 18,453               | \$ 4,834                      | \$ 39,158               | \$ 7,399                      |
| Other equity securities  | 2,184                   | 806                           | 6,081                   | 760                           | 8,265                   | 1,566                         |
| <b>Total equity securities</b>                                   | <b>\$ 22,889</b>        | <b>\$ 3,371</b>               | <b>\$ 24,534</b>        | <b>\$ 5,594</b>               | <b>\$ 47,423</b>        | <b>\$ 8,965</b>               |
| <b>Total number of securities in an unrealized loss position</b> | <b>606</b>              |                               | <b>405</b>              |                               | <b>1,011</b>            |                               |

|  | Less than 12 months     |                               | 12 months or greater    |                               | Total                   |                               |
|--|-------------------------|-------------------------------|-------------------------|-------------------------------|-------------------------|-------------------------------|
|  | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses | Estimated<br>Fair Value | Gross<br>Unrealized<br>Losses |
| <b>December 31, 2010:</b>                    |                         |                               |                         |                               |                         |                               |
| <b>Investment grade securities:</b>          |                         |                               |                         |                               |                         |                               |
| Corporate securities                         | \$ 1,170,016            | \$ 34,097                     | \$ 368,128              | \$ 61,945                     | \$ 1,538,144            | \$ 96,042                     |
| Canadian and Canadian provincial governments | 118,585                 | 3,886                         |                         |                               | 118,585                 | 3,886                         |
| Residential mortgage-backed securities       | 195,406                 | 4,986                         | 105,601                 | 13,607                        | 301,007                 | 18,593                        |
| Asset-backed securities                      | 23,065                  | 570                           | 131,172                 | 38,451                        | 154,237                 | 39,021                        |
| Commercial mortgage-backed securities        | 132,526                 | 4,143                         | 109,158                 | 29,059                        | 241,684                 | 33,202                        |
| U.S. government and agencies                 | 11,839                  | 708                           |                         |                               | 11,839                  | 708                           |
| State and political subdivisions             | 68,229                  | 2,890                         | 31,426                  | 5,227                         | 99,655                  | 8,117                         |
| Other foreign government securities          | 322,363                 | 3,142                         | 43,796                  | 4,504                         | 366,159                 | 7,646                         |
| <b>Total investment grade securities</b>     | <b>2,042,029</b>        | <b>54,422</b>                 | <b>789,281</b>          | <b>152,793</b>                | <b>2,831,310</b>        | <b>207,215</b>                |
| <b>Non-investment grade securities:</b>      |                         |                               |                         |                               |                         |                               |
| Corporate securities                         | 58,420                  | 1,832                         | 91,205                  | 9,942                         | 149,625                 | 11,774                        |
| Residential mortgage-backed securities       | 1,162                   | 605                           | 38,206                  | 7,382                         | 39,368                  | 7,987                         |
| Asset-backed securities                      |                         |                               | 23,356                  | 22,523                        | 23,356                  | 22,523                        |

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|   |              |           |              |            |              |            |
|---|--------------|-----------|--------------|------------|--------------|------------|
| Commercial mortgage-backed securities                     |              |           | 89,170       | 64,063     | 89,170       | 64,063     |
| Total non-investment grade securities                     | 59,582       | 2,437     | 241,937      | 103,910    | 301,519      | 106,347    |
| Total fixed maturity securities                           | \$ 2,101,611 | \$ 56,859 | \$ 1,031,218 | \$ 256,703 | \$ 3,132,829 | \$ 313,562 |
| Non-redeemable preferred stock                            | \$ 15,987    | \$ 834    | \$ 28,549    | \$ 4,464   | \$ 44,536    | \$ 5,298   |
| Other equity securities                                   | 6,877        | 271       | 318          |            | 7,195        | 271        |
| Total equity securities                                   | \$ 22,864    | \$ 1,105  | \$ 28,867    | \$ 4,464   | \$ 51,731    | \$ 5,569   |
| Total number of securities in an unrealized loss position | 520          |           | 508          |            | 1,028        |            |

As of September 30, 2011, the Company does not intend to sell these fixed maturity securities and does not believe it is more likely than not that it will be required to sell these fixed maturity securities before the recovery of the fair value up to the current amortized cost of the investment, which may be maturity. However, unforeseen facts and circumstances may cause the Company to sell fixed maturity securities in the ordinary course of managing its portfolio to meet diversification, credit quality, asset-liability management and liquidity guidelines.

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As of September 30, 2011, the Company has the ability and intent to hold the equity securities until the recovery of the fair value up to the current cost of the investment. However, unforeseen facts and circumstances may cause the Company to sell equity securities in the ordinary course of managing its portfolio to meet diversification, credit quality and liquidity guidelines.

As of September 30, 2011 and December 31, 2010, respectively, the Company classified approximately 8.4% and 10.1% of its fixed maturity securities in the Level 3 category (refer to Note 6 Fair Value of Financial Instruments 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, below investment grade commercial mortgage-backed securities, residential mortgage-backed securities and 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.

*Mortgage Loans on Real Estate*

Mortgage loans represented approximately 3.7% and 3.8% of the Company's cash and invested assets as of September 30, 2011 and December 31, 2010, 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 credit quality indicators for the recorded investment in mortgage loans gross of valuation allowances as of September 30, 2011 and 2010 are as follows (dollars in thousands):

|                              | Three Months Ended September 30, |           | Nine Months Ended September 30, |           |
|------------------------------|----------------------------------|-----------|---------------------------------|-----------|
|                              | 2011                             | 2010      | 2011                            | 2010      |
| Balance, beginning of period | \$ 7,692                         | \$ 8,179  | \$ 6,239                        | \$ 5,784  |
| Charge-offs                  |                                  |           | (1,157)                         |           |
| Provision                    | 2,370                            | 5,089     | 4,980                           | 7,484     |
| Balance, end of period       | \$ 10,062                        | \$ 13,268 | \$ 10,062                       | \$ 13,268 |

Information regarding the portion of the Company's mortgage loans that were impaired as of September 30, 2011 and December 31, 2010 is as follows (dollars in thousands):

|  | Unpaid<br>Principal<br>Balance | Recorded<br>Investment | Related<br>Allowance | Carrying<br>Value |
|--|--------------------------------|------------------------|----------------------|-------------------|
| <b>September 30, 2011:</b>                                   |                                |                        |                      |                   |
| Impaired mortgage loans with no valuation allowance recorded | \$ 2,572                       | \$ 2,572               | \$                   | \$ 2,572          |
| Impaired mortgage loans with valuation allowance recorded    | 33,623                         | 33,623                 | 6,623                | 27,000            |
| Total impaired mortgage loans                                | \$ 36,195                      | \$ 36,195              | \$ 6,623             | \$ 29,572         |
| <b>December 31, 2010:</b>                                    |                                |                        |                      |                   |
| Impaired mortgage loans with no valuation allowance recorded | \$ 16,901                      | \$ 16,901              | \$                   | \$ 16,901         |
| Impaired mortgage loans with valuation allowance recorded    | 18,745                         | 18,745                 | 6,239                | 12,506            |
| Total impaired mortgage loans                                | \$ 35,646                      | \$ 35,646              | \$ 6,239             | \$ 29,407         |



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The Company's average investment in impaired mortgage loans and the related interest income are reflected in the table below for the periods indicated (dollars in thousands):

|  | Three Months Ended                |                 |                                   |                 |
|--|-----------------------------------|-----------------|-----------------------------------|-----------------|
|  | September 30, 2011                |                 | September 30, 2010                |                 |
|  | Average Investment <sup>(1)</sup> | Interest Income | Average Investment <sup>(1)</sup> | Interest Income |
| Impaired mortgage loans with no valuation allowance recorded | \$ 4,706                          | \$ 32           | \$ 19,253                         | \$ 159          |
| Impaired mortgage loans with valuation allowance recorded    | 31,351                            | 202             | 26,994                            | 253             |
| <b>Total</b>   | <b>\$ 36,057</b>                  | <b>\$ 234</b>   | <b>\$ 46,247</b>                  | <b>\$ 412</b>   |

|  | Nine Months Ended                 |                 |                                   |                 |
|--|-----------------------------------|-----------------|-----------------------------------|-----------------|
|  | September 30, 2011                |                 | September 30, 2010                |                 |
|  | Average Investment <sup>(1)</sup> | Interest Income | Average Investment <sup>(1)</sup> | Interest Income |
| Impaired mortgage loans with no valuation allowance recorded | \$ 11,228                         | \$ 102          | \$ 18,607                         | \$ 418          |
| Impaired mortgage loans with valuation allowance recorded    | 25,046                            | 678             | 20,980                            | 253             |
| <b>Total</b>   | <b>\$ 36,274</b>                  | <b>\$ 780</b>   | <b>\$ 39,587</b>                  | <b>\$ 671</b>   |

(1) Average recorded investment represents the average loan balances as of the beginning of period and all subsequent quarterly end of period balances.

The Company did not acquire any impaired mortgage loans during the nine months ended September 30, 2011. The Company had \$17.4 million and \$15.6 million of mortgage loans, gross of valuation allowances, that were on nonaccrual status at September 30, 2011 and December 31, 2010, respectively.

*Policy Loans*

Policy loans comprised approximately 4.9% and 5.3% of the Company's cash and invested assets as of September 30, 2011 and December 31, 2010, 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*

Funds withheld at interest comprised approximately 21.7% and 23.4% of the Company's cash and invested assets as of September 30, 2011 and December 31, 2010, 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. Additionally, under certain treaties 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

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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 September 30, 2011 and December 31, 2010. Certain ceding companies maintain segregated portfolios for the benefit of the Company.

### *Other Invested Assets*

Other invested assets represented approximately 4.1% and 3.1% of the Company's cash and invested assets as of September 30, 2011 and December 31, 2010, 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 September 30, 2011 and December 31, 2010 are as follows (dollars in thousands):

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|                                    | September 30, 2011  | December 31, 2010 |
|------------------------------------|---------------------|-------------------|
| Equity securities                  | \$ 33,001           | \$ 40,661         |
| Non-redeemable preferred stock     | 93,591              | 99,550            |
| Limited partnerships               | 237,966             | 214,105           |
| Structured loans                   | 289,054             | 229,583           |
| Derivatives                        | 248,320             | 34,929            |
| Other                              | 118,111             | 88,575            |
| <b>Total other invested assets</b> | <b>\$ 1,020,043</b> | <b>\$ 707,403</b> |

The Company recorded \$3.7 million of other-than-temporary impairments on equity securities in the first nine months of 2011. The Company did not record any other-than-temporary impairments on other invested assets in the first nine months of 2010. The Company may be exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. Generally, the credit exposure of the Company's derivative contracts is limited to the fair value at the reporting date plus or minus any collateral posted or held by the Company. The Company had credit exposure related to its derivative contracts, excluding futures, of \$15.8 million and \$6.3 million at September 30, 2011 and December 31, 2010, respectively.

**Contractual Obligations**

From December 31, 2010 to September 30, 2011, the Company's obligation related to its Fixed Rate Trust Preferred Securities, including interest, was reduced by \$745.7 million due to the remarketing and subsequent maturity of the securities in 2011. See Note 14 Financing Activities and Stock Transactions in the Notes to Condensed Consolidated Financial Statements for additional information on the Fixed Rate Trust Preferred Securities. In addition, the Company's obligation related to its collateral finance facility, including interest, was reduced by \$182.3 million since December 31, 2010, related to the repurchase of a portion of the outstanding notes as previously discussed. The Company's obligation for long-term debt, including interest, increased by \$582.7 million since December 31, 2010 primarily related to the May 2011 issuance of senior notes as previously discussed. The Company's obligation for payables for collateral received under derivative transactions increased by \$163.3 million since December 31, 2010 due to cash received as collateral on derivative positions. There were no other material changes in the Company's contractual obligations from those reported in the 2010 Annual Report.

**Enterprise Risk Management**

RGA maintains an Enterprise Risk Management (ERM) program, which is responsible for consistently identifying, assessing, mitigating, monitoring, and reporting material risks facing the enterprise. This includes development and implementation of mitigation strategies to reduce exposures to these risks to acceptable levels. Risk management is an integral part of the Company's culture and is interwoven in day to day activities. It includes guidelines, risk appetites, risk limits, and other controls in areas such as pricing, underwriting, currency, administration, investments, asset liability management, counterparty exposure, financing, regulatory change, business continuity planning, human resources, liquidity, sovereign risks and information technology development.

The Chief Risk Officer (CRO), aided by Business Unit Chief Risk Officers and Risk Management Officers, is responsible for ensuring, on an ongoing basis, that objectives of the ERM framework are met; this includes ensuring proper risk controls are in place, that risks are effectively identified and managed, and that key risks to which the firm is exposed are disclosed to appropriate stakeholders. For each Business Unit and key risk, a Risk Management Officer is assigned. In addition to this network of Risk Management Officers, the Company also has risk focused committees such as the Business Continuity Management Steering Committee, Consolidated Investment Committee, and the Asset and Liability Management Committee. These committees are comprised of various risk experts and have overlapping membership, enabling consistent and holistic management of risks. These committees report directly or indirectly to the Risk Management Steering Committee. The Risk Management Steering Committee, which includes senior management executives, including the Chief Executive Officer, the Chief Financial Officer and the CRO, is the primary source of risk management of the Company.

The Risk Management Steering Committee, through the CRO, reports regularly to the Finance, Investments, and Risk Management (FIRM) Committee, a committee of the Board of Directors responsible for overseeing the management of RGA's ERM programs and policies. The Board has other committees, such as the Audit Committee, whose responsibilities include aspects of risk management. The CRO reports to the CEO and has a direct access to the Board of the company through the FIRM Committee.

Specific risk assessments and descriptions can be found below and in Item 1A Risk Factors the 2010 Annual Report.

*Mortality Risk Management*



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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 the

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Company'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 individual life markets, 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 life. In total, the Company has identified 16 such cases of over-retained lives, for a total amount of \$37.4 million over the Company's normal retention limit. These amounts include seven cases with \$21.1 million of exposure related to second to die policies with coverages split between multiple insureds. The largest amount in excess of the Company's retention on any one life is \$11.5 million. The Company enters into agreements with other reinsurers to mitigate the residual risk related to the over-retained policies. Additionally, due to some lower face amount reinsurance coverages provided by the Company in addition to individual life, such as group life, disability and health, under certain circumstances, the Company could potentially incur claims totaling more than \$8.0 million per individual life.

The Company maintains a catastrophe insurance program ( Program ) that renews on September 7th of each year. The current Program began September 7, 2011, and covers events involving 10 or more insured deaths from a single occurrence. The Company retains the first \$50 million in claims, the Program covers the next \$100 million in claims, and the Company retains all claims in excess of \$150 million. The Program covers reinsurance programs worldwide and includes losses due to natural causes and acts of terrorism, including terrorism losses due to nuclear, chemical and/or biological events, but excludes, among other things, losses from pandemics. The Program is insured by 18 insurance companies and Lloyd's Syndicates, with two entities individually providing more than \$10 million of coverage.

### *Insurance Counterparty Risk*

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. In addition, certain reinsurance structures can lead to counterparty risk to the Company's clients.

Generally, RGA's insurance subsidiaries retrocede amounts in excess of their retention to RGA Reinsurance, Parkway Reinsurance Company, 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 September 30, 2011, 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 were 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 fluctuation in interest and currency exchange rates and equity and commodity prices change the value of a financial instrument. Both derivative and non-derivative financial instruments have market risk so the Company's risk management extends beyond derivatives to encompass all financial instruments held that are sensitive to market risk. The Company is primarily exposed to interest rate risk and foreign currency risk.

#### **Interest Rate Risk:**

This 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 effect of sudden and/or sustained changes in interest rates on fair value, cash flows, and net interest income.

#### **Foreign Currency Risk:**

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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. The Company has in place net investment hedges for a portion of its investments in its Canada and Australia operations.

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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.

**Market Risk Associated with Annuities with Guaranteed Minimum Benefits:**

The Company reinsures variable annuities including those with guaranteed minimum death benefits ( GMDB ), guaranteed minimum income benefits ( GMIB ), guaranteed minimum accumulation benefits ( GMAB ) and guaranteed minimum withdrawal benefits ( GMWB ). Strong equity markets, increases in interest rates and decreases in volatility will generally decrease the fair value of the liabilities underlying the benefits. Conversely, a decrease in the equity markets along with a decrease in interest rates and an increase in volatility will generally result in an increase in the fair value of the liabilities underlying the benefits, which has the effect of increasing reserves and lowering earnings. The Company maintains a customized dynamic hedging program that is designed to mitigate the risks associated with income volatility around the change in reserves on guaranteed benefits. However, the hedge positions may not fully offset the changes in the carrying value of the guarantees due to, among other things, time lags, high levels of volatility in the equity and derivative markets, extreme swings in interest rates, unexpected contract holder behavior, and divergence between the performance of the underlying funds and hedging indices. These factors, individually or collectively, may have a material adverse effect on the Company's net income, financial condition or liquidity. The table below provides a summary of variable annuity account values and the fair value of the guaranteed benefits as of September 30, 2011 and December 31, 2010.

| (dollars in millions)  | September 30, 2011 | December 31, 2010 |
|--|--------------------|-------------------|
| No guarantee minimum benefits  | \$ 979.0           | \$ 1,156.3        |
| GMDB only  | 76.1               | 89.9              |
| GMIB only  | 5.4                | 6.3               |
| GMAB only  | 53.6               | 64.2              |
| GMWB only  | 1,523.8            | 1,735.3           |
| GMDB / WB  | 428.3              | 491.6             |
| Other  | 30.0               | 35.7              |
| <b>Total variable annuity account values</b>                           | <b>\$ 3,096.2</b>  | <b>\$ 3,579.3</b> |
| <b>Fair value of liabilities associated with living benefit riders</b> | <b>\$ 306.0</b>    | <b>\$ 52.5</b>    |

There has been no significant change in the Company's quantitative or qualitative aspects of market risk during the quarter ended September 30, 2011 from that disclosed in the 2010 Annual Report.

**New Accounting Standards**

Changes to the general accounting principles are established by the Financial Accounting Standards Board ( FASB ) in the form of accounting standards updates to the FASB Accounting Standards Codification . Accounting standards updates not listed below were assessed and determined to be either not applicable or are expected to have minimal impact on the Company's consolidated financial statements.

*Consolidation and Business Combinations*

In December 2010, the FASB amended the general accounting principles for *Business Combinations* as it relates to the disclosure of supplementary pro forma information for business combinations. The amendment requires the disclosure of pro forma information for business combinations that occurred in the current reporting period. The disclosures include pro forma revenue and earnings of the combined entity for the current reporting period as though the acquisition date for all business combinations that occurred during the year had been as of the beginning of the annual reporting period. This amendment also explains that if comparative financial statements are presented, the pro forma revenue and earnings of the combined entity for the comparable prior reporting period should be reported as though the acquisition date for all business combinations that occurred during the current year had been as of the beginning of the comparable prior annual reporting period. The amendment is effective for interim and annual reporting periods beginning on or after December 15, 2010. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

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In February 2010, the FASB amended the general accounting principles for *Consolidation* as it relates to the assessment of a variable interest entity for potential consolidation. The amendment defers the effective date of the Consolidation amendment made in June 2009 for certain variable interest entities. This update also clarifies how a related party's interest should be considered when evaluating variable interests. The amendment is effective for interim and annual reporting periods beginning after January 31, 2010. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

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In January 2010, the FASB amended the general accounting principles for *Consolidation* as it relates to decreases in ownership of a subsidiary. This amendment clarifies the scope of the decrease in ownership provisions. This amendment also requires additional disclosures about the deconsolidation of a subsidiary or derecognition of a group of assets. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB amended the general accounting principles for *Consolidation* as it relates to the assessment of a variable interest entity for potential consolidation. This amendment also requires additional disclosures to provide transparent information regarding the involvement in a variable interest entity. The amendment is effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

### *Investments*

In April 2011, the FASB amended the general accounting principles for *Receivables* as it relates to a creditor's determination of whether a restructuring is a troubled debt restructuring. This amendment clarifies the guidance related to the creditor's evaluation of whether it has granted a concession and whether the debtor is experiencing financial difficulties. It also clarifies that the creditor is precluded from using the effective interest rate test when evaluating whether a restructuring constitutes a troubled debt restructuring. The amendment is effective for interim and annual reporting periods beginning on or after June 15, 2011, and is to be applied retrospectively to restructurings occurring on or after the beginning of the annual period of adoption. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

In July 2010, the FASB amended the general accounting principles for *Receivables* as it relates to the disclosures about the credit quality of financing receivables and the allowance for credit losses. This amendment requires additional disclosures that provide a greater level of disaggregated information about the credit quality of financing receivables and the allowance for credit losses. It also requires the disclosure of credit quality indicators, past due information, and modifications of financing receivables. The amendment is effective for interim and annual reporting periods ending on or after December 15, 2010, except for disclosures about activity that occurs during the reporting period. Those disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted this amendment and the required disclosures are provided in Note 4 Investments and in Note 12 Retrocession Arrangements and Reinsurance Ceded Receivables in the Notes to Condensed Consolidated Financial Statements.

### *Transfers and Servicing*

In April 2011, the FASB amended the general accounting principles for *Transfers and Servicing* as it relates to the reconsideration of effective control for repurchase agreements. This amendment removes from the assessment of effective control the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets and also removes the collateral maintenance implementation guidance related to that criterion. The amendment is effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

In June 2009, the FASB amended the general accounting principles for *Transfers and Servicing* as it relates to the transfers of financial assets. This amendment also requires additional disclosures to address concerns regarding the transparency of transfers of financial assets. The amendment is effective for interim and annual reporting periods beginning after November 15, 2009. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

### *Derivatives and Hedging*

In March 2010, the FASB amended the general accounting principles for *Derivatives and Hedging* as it relates to embedded derivatives. This amendment clarifies the scope exception for embedded credit derivative features related to the transfer of credit risk in the form of subordination of a financial instrument to another. The amendment is effective for financial statements issued for interim and annual reporting periods beginning after June 15, 2010. The adoption of this amendment did not have a material impact on the Company's condensed consolidated financial statements.

### *Fair Value Measurements and Disclosures*

In May 2011, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the measurement and disclosure requirements about fair value measurements. This amendment clarifies the FASB's intent about the application of existing fair value measurement requirements. It also changes particular principles and requirements for measuring fair value and for disclosing

information about fair value measurements. The amendment is

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effective for interim and annual periods beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its condensed consolidated financial statements.

In January 2010, the FASB amended the general accounting principles for *Fair Value Measurements and Disclosures* as it relates to the disclosures about fair value measurements. This amendment requires new disclosures about the transfers in and out of Level 1 and 2 measurements and also enhances disclosures about the activity within the Level 3 measurements. It also clarifies the required level of disaggregation and the disclosures regarding valuation techniques and inputs to fair value measurements. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009, except for the enhanced Level 3 disclosures. Those disclosures are effective for interim and annual reporting periods beginning after December 15, 2010. The Company adopted this amendment and the required disclosures are provided in Note 6 – Fair Value of Financial Instruments in the Notes to Condensed Consolidated Financial Statements.

*Deferred Policy Acquisition Costs*

In October 2010, the FASB amended the general accounting principles for Financial Services – Insurance as it relates to accounting for costs associated with acquiring or renewing insurance contracts. This amendment clarifies that only those costs that result directly from and are essential to the contract transaction and that would not have been incurred had the contract transaction not occurred can be capitalized. It also defines acquisitions costs as costs that are related directly to the successful acquisitions of new or renewal insurance contracts. The amendment is effective for interim and annual reporting periods beginning after December 15, 2011. The retrospective adoption of this update on January 1, 2012, is expected to result in a reduction in the Company’s deferred acquisition cost asset as well as a decrease in amortization subsequent to adoption due to the reduced deferred acquisition cost asset. There will also be a reduction in the level of future costs the Company defers. The Company is evaluating the full effects of implementing this update, but currently estimates that the retrospective adoption will result in a cumulative effect decrease to the opening balance of retained earnings between 6 and 9 percent of stockholders’ equity in the year of adoption. The Company estimates the adoption of this update will result in a decrease in income before income taxes between 7 and 14 percent in 2012 and in the years preceding to which the retrospective adoption will be applied. The effect of net investment related gains and losses, as well as changes in certain embedded derivatives, including embedded derivatives associated with reinsurance treaties structured on a modified coinsurance or funds withheld basis, as well as embedded derivatives associated with the Company’s reinsurance of equity-indexed annuities and variable annuities with guaranteed minimum benefit riders, can have a volatile effect on income before income taxes. Excluding these items, the Company estimates the adoption of this update will result in a decrease in income before income taxes between 6 and 10 percent in 2012 and in the years preceding to which retrospective adoption will be applied. The estimates of the impact are preliminary and therefore subject to change.

*Compensation*

In April 2010, the FASB amended the general accounting principles for *Compensation* as it relates to stock compensation. This amendment clarifies that an employee share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity’s equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. The amendment is effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this amendment did not have an impact on the Company’s condensed consolidated financial statements.

*Debt*

In October 2009, the FASB amended the general accounting principles for *Debt* as it relates to the accounting for own-share lending arrangements entered into in contemplation of a convertible debt issuance or other financing. This amendment provides accounting and disclosure guidance for own-share lending arrangements issued in contemplation of convertible debt issuance. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company’s condensed consolidated financial statements.

*Equity*

In January 2010, the FASB amended the general accounting principles for *Equity* as it relates to distributions to shareholders with components of stock and cash. This amendment clarifies that the stock portion of a distribution to shareholders, which allows them to elect to receive cash or stock with a limitation on the total amount of cash that shareholders can receive, is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend. The amendment is effective for interim and annual reporting periods beginning after December 15, 2009. The adoption of this amendment did not have an impact on the Company’s condensed consolidated financial statements.





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### *Comprehensive Income*

In June 2011, the FASB amended the general accounting principles for *Comprehensive Income* as it relates to the presentation of comprehensive income. This amendment requires entities to present the total of comprehensive income, the components of net income, and the components of other comprehensive income in either a continuous statement of comprehensive income or in two separate but consecutive statements. The amendment does not change the items that must be reported in other comprehensive income. The amendment is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company is currently evaluating the impact of this amendment on its 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 September 30, 2011, 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. A legal reserve is established when the Company is notified of an arbitration demand or litigation or is notified that an arbitration demand or litigation is imminent, it is probable that the Company will incur a loss as a result and the amount of the probable loss is reasonably capable of being estimated.

### **ITEM 1A. Risk Factors**

There have been no material changes from the risk factors previously disclosed in the Company's 2010 Annual Report.

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

The following table summarizes RGA's repurchase activity of its common stock during the quarter ended September 30, 2011:

|                    | Total Number<br>of Shares<br>Purchased<br>(1) | Average Price Paid<br>per<br>Share | Total Number of<br>Shares<br>Purchased as Part of<br>Publicly<br>Announced<br>Plans or Programs (1) | Maximum Number<br>(or<br>Approximate Dollar<br>Value) of Shares that May<br>Yet Be Purchased Under<br>the Plan or Program |
|--------------------|---|------------------------------------|---|---|
| August 1, 2011     |   |                                    |   |   |
| August 31, 2011    | 217,991                                       | \$ 51.97                           | 217,991   | \$ 32,076,744   |
| September 1, 2011  |   |                                    |   |   |
| September 30, 2011 | 620,371                                       | \$ 51.18                           | 620,371   | \$ 323,250  |

- (1) RGA had \$43.4 million remaining under its January 2002 board of directors approved stock repurchase program at the beginning of 2011. Under this repurchase program, RGA was authorized to purchase its common stock in the open market, including pursuant to the terms of a pre-set trading plan meeting the requirements of Rule 10b5-1 under the Exchange Act. During the third quarter of 2011, RGA repurchased 838,362 shares of common stock under this program for \$43.1 million.

**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      November 4, 2011  
A. Greig Woodring  
President & Chief Executive Officer

(Principal Executive Officer)

By: /s/ Jack B. Lay      November 4, 2011  
Jack B. Lay  
Senior Executive Vice President & Chief Financial Officer

(Principal Financial and Accounting Officer)

**Table of Contents****INDEX TO EXHIBITS**

| Exhibit<br>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 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 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 to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.  |
| 101               | Attached as Exhibit 101 to this report are the following documents formatted in XBRL (Extensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets at December 31, 2010 and September 30, 2011, (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2010 and 2011, (iii) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2010 and 2011, and (iv) Notes to Condensed Consolidated Financial Statements for the nine months ended September 30, 2011. In accordance with Rule 406T of Regulation S-T, the XBRL related information in Exhibit 101 to Quarterly Report on Form 10-Q shall not be deemed to be filed for purposes of Section 18 of the Exchange Act, and shall not be deemed filed or part of any registration statement or prospectus for purposes of Section 11 or 12 under the Securities Act or the Exchange Act, or otherwise subject to liability under those sections, except as shall be expressly set forth by specific reference in such filing. |
| 101.INS           | XBRL Instance Document  |
| 101.SCH           | XBRL Taxonomy Extension Schema Document   |
| 101.CAL           | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.LAB           | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE           | XBRL Taxonomy Extension Presentation Linkbase Document  |
| 101.DEF           | XBRL Taxonomy Extension Definition Linkbase Document  |