

REINSURANCE GROUP OF AMERICA INC

Form 10-Q

August 03, 2007

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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 June 30, 2007**

**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)**

<b>MISSOURI</b> (State or other jurisdiction of incorporation or organization)	<b>43-1627032</b> (IRS employer identification number)
<b>1370 Timberlake Manor Parkway</b> <b>Chesterfield, Missouri 63017</b> (Address of principal executive offices) <b>(636) 736-7000</b> (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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Common stock outstanding (\$.01 par value) as of July 31, 2007: 61,993,139 shares.

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

	June 30, 2007	December 31, 2006
	(Dollars in thousands)	
<b>Assets</b>		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$8,419,503 and \$7,867,932 at June 30, 2007 and December 31, 2006, respectively)	\$ 8,716,124	\$ 8,372,173
Mortgage loans on real estate	802,168	735,618
Policy loans	1,018,215	1,015,394
Funds withheld at interest	4,498,524	4,129,078
Short-term investments	178,668	140,281
Other invested assets	283,226	220,356
Total investments	15,496,925	14,612,900
Cash and cash equivalents	414,888	160,428
Accrued investment income	95,330	68,292
Premiums receivable and other reinsurance balances	668,216	695,307
Reinsurance ceded receivables	599,767	563,570
Deferred policy acquisition costs	2,945,325	2,808,053
Other assets	113,984	128,287
Total assets	\$ 20,334,435	\$ 19,036,837
<b>Liabilities and Stockholders Equity</b>		
Future policy benefits	\$ 5,784,128	\$ 5,315,428
Interest sensitive contract liabilities	6,427,896	6,212,278
Other policy claims and benefits	1,909,720	1,826,831
Other reinsurance balances	174,018	145,926
Deferred income taxes	667,245	828,848
Other liabilities	529,025	177,490
Short-term debt	30,132	29,384
Long-term debt	908,658	676,165
Collateral finance facility	850,265	850,402
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company	158,779	158,701
Total liabilities	17,439,866	16,221,453
Commitments and contingent liabilities (See Note 5)		
Stockholders Equity:		
Preferred stock (par value \$.01 per share; 10,000,000 shares authorized; no shares issued or outstanding)	631	631

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Common stock (par value \$.01 per share; 140,000,000 shares authorized; 63,128,273 shares issued at June 30, 2007 and December 31, 2006)		
Warrants	66,915	66,915
Additional paid-in-capital	1,090,648	1,081,433
Retained earnings	1,412,105	1,307,743
Accumulated other comprehensive income:		
Accumulated currency translation adjustment, net of income taxes	181,956	109,067
Unrealized appreciation of securities, net of income taxes	204,108	335,581
Pension and postretirement benefits, net of income taxes	(11,610)	(11,297)
Total stockholders' equity before treasury stock	2,944,753	2,890,073
Less treasury shares held of 1,135,134 and 1,717,722 at cost at June 30, 2007 and December 31, 2006, respectively	(50,184)	(74,689)
Total stockholders' equity	2,894,569	2,815,384
Total liabilities and stockholders' equity	\$ 20,334,435	\$ 19,036,837

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

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

	Three months ended June 30,		Six months ended June 30,	
	2007	2006	2007	2006
	(Dollars in thousands, except per share data)			
<b>Revenues:</b>				
Net premiums	\$ 1,207,646	\$ 1,076,603	\$ 2,333,096	\$ 2,069,045
Investment income, net of related expenses	274,902	168,605	490,645	355,546
Investment related losses, net	(7,092)	(5,314)	(15,576)	(4,682)
Change in value of embedded derivatives	(7,126)	(11,075)	(4,288)	(6,523)
Other revenues	20,446	13,717	39,548	28,247
<b>Total revenues</b>	<b>1,488,776</b>	<b>1,242,536</b>	<b>2,843,425</b>	<b>2,441,633</b>
<b>Benefits and Expenses:</b>				
Claims and other policy benefits	980,338	874,531	1,883,148	1,686,044
Interest credited	113,652	44,732	174,718	106,261
Policy acquisition costs and other insurance expenses	183,561	172,700	364,435	324,504
Change in deferred acquisition costs associated with change in value of embedded derivatives	(5,545)	(7,982)	(3,438)	(5,225)
Other operating expenses	56,619	45,830	112,041	92,357
Interest expense	23,232	15,014	43,685	31,781
Collateral finance facility expense	13,206	277	25,893	277
<b>Total benefits and expenses</b>	<b>1,365,063</b>	<b>1,145,102</b>	<b>2,600,482</b>	<b>2,235,999</b>
Income from continuing operations before income taxes	123,713	97,434	242,943	205,634
Provision for income taxes	44,676	33,645	86,969	71,265
<b>Income from continuing operations</b>	<b>79,037</b>	<b>63,789</b>	<b>155,974</b>	<b>134,369</b>
Discontinued operations:				
Loss from discontinued accident and health operations, net of income taxes	(1,562)	(158)	(2,247)	(1,668)
<b>Net income</b>	<b>\$ 77,475</b>	<b>\$ 63,631</b>	<b>\$ 153,727</b>	<b>\$ 132,701</b>
<b>Basic earnings per share:</b>				
Income from continuing operations	\$ 1.28	\$ 1.04	\$ 2.53	\$ 2.20
Discontinued operations	(0.03)		(0.04)	(0.03)
<b>Net income</b>	<b>\$ 1.25</b>	<b>\$ 1.04</b>	<b>\$ 2.49</b>	<b>\$ 2.17</b>

**Diluted earnings per share:**

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Income from continuing operations	\$ 1.22	\$ 1.02	\$ 2.43	\$ 2.14
Discontinued operations	(0.02)	(0.01)	(0.04)	(0.02)
Net income	\$ 1.20	\$ 1.01	\$ 2.39	\$ 2.12
<b>Dividends declared per share</b>	\$ 0.09	\$ 0.09	\$ 0.18	\$ 0.18

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

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

	Six months ended June 30,	
	2007	2006
	(Dollars in thousands)	
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 153,727	\$ 132,701
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in:		
Accrued investment income	(26,440)	(18,680)
Premiums receivable and other reinsurance balances	42,087	(91,410)
Deferred policy acquisition costs	(82,761)	(152,112)
Reinsurance ceded balances	(36,197)	(13,392)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	373,895	384,937
Deferred income taxes	77,666	26,061
Excess tax benefits from share-based payment arrangement	(2,839)	
Other assets and other liabilities, net	16,477	58,886
Amortization of net investment discounts and other	(29,674)	(26,624)
Investment related losses, net	15,576	4,682
Other, net	9,656	2,870
Net cash provided by operating activities	511,173	307,919
<b>Cash Flows from Investing Activities:</b>		
Sales of fixed maturity securities available for sale	1,132,529	879,617
Maturities of fixed maturity securities available for sale	106,051	133,734
Purchases of fixed maturity securities available for sale	(1,531,894)	(1,273,922)
Cash invested in mortgage loans on real estate	(91,194)	(46,189)
Cash invested in policy loans	(8,750)	(8,579)
Cash invested in funds withheld at interest	(46,636)	(29,765)
Net increase in securitized lending activities	90,398	76,508
Principal payments on mortgage loans on real estate	24,818	43,575
Principal payments on policy loans	5,929	13,822
Change in short-term investments and other invested assets	(124,582)	(725,033)
Net cash used in investing activities	(443,331)	(936,232)
<b>Cash Flows from Financing Activities:</b>		
Dividends to stockholders	(11,097)	(11,007)
Proceeds from long-term debt issuance	295,311	
Principal payments on debt		(100,000)
Net repayments under credit agreements	(66,602)	
Net proceeds from collateral finance facility		837,500
Purchases of treasury stock	(3,611)	



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Excess tax benefits from share-based payment arrangement	2,839	
Exercise of stock options, net	12,146	2,933
Excess deposits (payments) on universal life and other investment type policies and contracts	(45,155)	49,831
Net cash provided by financing activities	183,831	779,257
Effect of exchange rate changes	2,787	(616)
Change in cash and cash equivalents	254,460	150,328
Cash and cash equivalents, beginning of period	160,428	128,692
Cash and cash equivalents, end of period	\$ 414,888	\$ 279,020
Supplementary information:		
Cash paid for interest	\$ 50,267	\$ 33,334
Cash paid (received) for income taxes, net of refunds	\$ 22,440	\$ (12,931)

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

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

**1. Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of Reinsurance Group of America, Incorporated ( RGA ) and its subsidiaries (collectively, the Company ) have been prepared in conformity with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the six-month period ended June 30, 2007 are not necessarily indicative of the results that may be expected for the year ending December 31, 2007. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s 2006 Annual Report on Form 10-K ( 2006 Annual Report ) filed with the Securities and Exchange Commission on February 26, 2007.

The accompanying unaudited condensed consolidated financial statements include the accounts of Reinsurance Group of America, Incorporated and its subsidiaries. All intercompany accounts and transactions have been eliminated. The Company has reclassified the presentation of certain prior-period information to conform to the 2007 presentation.

**2. Earnings Per Share**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
Earnings:				
Income from continuing operations (numerator for basic and diluted calculations)	\$79,037	\$ 63,789	\$155,974	\$134,369
Shares:				
Weighted average outstanding shares (denominator for basic calculation)	61,898	61,185	61,710	61,162
Equivalent shares from outstanding stock options	2,643	1,524	2,509	1,501
Denominator for diluted calculation	64,541	62,709	64,219	62,663
Earnings per share:				
Basic	\$ 1.28	\$ 1.04	\$ 2.53	\$ 2.20
Diluted	\$ 1.22	\$ 1.02	\$ 2.43	\$ 2.14

The calculation of common equivalent shares does not include the impact of options or warrants having a strike or conversion price that exceeds the average stock price for the earnings period, as the result would be antidilutive. The calculation of common equivalent shares also excludes the impact of outstanding performance contingent shares, as the conditions necessary for their issuance have not been satisfied as of the end of the reporting period. For the three and six month periods ended June 30, 2007 and 2006, 0.4 million performance contingent shares were excluded from the calculation.

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
Net income	\$ 77,475	\$ 63,631	\$ 153,727	\$ 132,701
Accumulated other comprehensive income (expense), net of income tax:				
Unrealized losses, net of reclassification adjustment for losses, net included in net income	(136,116)	(116,249)	(131,473)	(230,879)
Foreign currency items	58,832	34,756	72,889	32,719
Pension and postretirement benefit adjustments	(283)		(313)	
Comprehensive income (loss)	\$ (92)	\$ (17,862)	\$ 94,830	\$ (65,459)

**4. 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 2006 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 other than internally developed software. Investment income is allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes.

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

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Total revenues</b>				
U.S.	\$ 927,982	\$ 782,387	\$1,767,063	\$1,547,939
Canada	156,684	126,230	285,478	245,738
Europe & South Africa	171,242	149,587	344,719	298,255
Asia Pacific	209,665	177,163	406,922	324,797
Corporate & Other	23,203	7,169	39,243	24,904
Total	\$1,488,776	\$1,242,536	\$2,843,425	\$2,441,633

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	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30, 2007</b>	<b>June 30, 2006</b>	<b>June 30, 2007</b>	<b>June 30, 2006</b>
<b>Income (loss) from continuing operations before income taxes</b>				
U.S.	\$ 86,215	\$ 70,935	\$ 179,392	\$ 151,271
Canada	24,202	11,074	39,236	19,505
Europe & South Africa	11,846	17,269	32,970	32,066
Asia Pacific	15,609	7,725	25,941	14,339
Corporate & Other	(14,159)	(9,569)	(34,596)	(11,547)
Total	\$ 123,713	\$ 97,434	\$ 242,943	\$ 205,634

	<b>Total assets</b>	
	<b>June 30, 2007</b>	<b>December 31, 2006</b>
U.S.	\$ 13,180,208	\$ 12,387,202
Canada	2,263,833	2,182,712
Europe & South Africa	1,352,023	1,140,374
Asia Pacific	1,225,084	1,099,700
Corporate and Other	2,313,287	2,226,849
Total	\$ 20,334,435	\$ 19,036,837

**5. Commitments and Contingent Liabilities**

The Company has commitments to fund investments in mortgage loans and limited partnerships in the amount of \$132.8 million at June 30, 2007. The Company anticipates that the majority of these amounts will be invested over the next five years, however, contractually these commitments could become due at the request of the counterparties. Investments in mortgage loans and limited partnerships are carried at cost less any other-than-temporary impairment and are included in total investments in the condensed consolidated balance sheets.

The Company is currently a party to three arbitrations that involve its discontinued accident and health business, including personal accident business, which includes London market excess of loss business, and workers compensation carve-out business. The Company is also party to a threatened arbitration related to its life reinsurance business. As of June 30, 2007, the parties involved in these actions have raised claims, or established reserves that may result in claims, in the amount of \$23.9 million, which is \$23.2 million in excess of the amounts held in reserve by the Company. The Company generally has little information regarding any reserves established by the ceding companies, and must rely on management estimates to establish policy claim liabilities. It is possible that any such reserves could be increased in the future. The Company believes it has substantial defenses upon which to contest these claims, including but not limited to misrepresentation and breach of contract by direct and indirect ceding companies. See Note 20, *Discontinued Operations* in the Company's consolidated financial statements accompanying the 2006 Annual Report for more information. Additionally, from time to time, the Company is subject to litigation related to employment-related matters in the normal course of its business. The Company cannot predict or determine the ultimate outcome of the pending litigation or arbitrations or provide useful ranges of potential losses. It is the opinion of management, after consultation with counsel, that their outcomes, after consideration of the provisions made in the Company's condensed consolidated financial statements, would not have a material adverse effect on its consolidated financial position. However, it is possible that an adverse outcome could, from time to time, have a material adverse effect on the Company's consolidated net income in a particular quarter or year.

The Company has obtained letters of credit, issued by banks, in favor of various affiliated and unaffiliated insurance companies from which the Company assumes business. These letters of credit represent guarantees of performance under the reinsurance agreements and allow ceding companies to take statutory reserve credits. At June 30, 2007 and December 31, 2006, there were approximately \$20.9 million and \$19.4 million, respectively, of outstanding bank letters of credit in favor of third parties. Additionally, the Company utilizes letters of credit to secure reserve

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credits when it retrocedes business to its offshore subsidiaries, including RGA Americas Reinsurance Company, Ltd., RGA Reinsurance Company (Barbados) Ltd. and RGA Worldwide Reinsurance Company, Ltd. The Company cedes business to its offshore affiliates to help reduce the amount of regulatory capital required in certain jurisdictions, such as the U.S. and the United Kingdom. The capital required to support the business in the offshore affiliates reflects more realistic expectations than the original jurisdiction of the business, where capital requirements are often considered to be quite conservative. As of June 30, 2007 and December 31, 2006, \$459.2 million and \$437.7 million, respectively, in letters of credit from various banks were outstanding between the various subsidiaries of the Company. Applicable letter of credit fees and fees payable for the credit facility depend upon the Company's senior unsecured long-term debt rating. Fees associated with the Company's other letters of credit are not fixed for periods in excess of one year and are based on the Company's ratings and the general availability of these instruments in the marketplace.

RGA has issued guarantees to third parties on behalf of its subsidiaries' performance for the payment of amounts due under certain credit facilities, reinsurance treaties and office lease obligations, whereby if a subsidiary fails to meet an obligation, RGA or one of its other subsidiaries will make a payment to fulfill the obligation. In limited circumstances, treaty guarantees are granted to ceding companies in order to provide them additional security, particularly in cases where RGA's subsidiary is relatively new, unrated, or not of a significant size. Liabilities supported by the treaty guarantees, before consideration for any legally offsetting amounts due from the guaranteed party, totaled \$299.8 million and \$276.5 million as of June 30, 2007 and December 31, 2006, respectively, and are reflected on the Company's condensed consolidated balance sheets in future policy benefits. Potential guaranteed amounts of future payments will vary depending on production levels and underwriting results. Guarantees related to trust preferred securities and credit facilities provide additional security to third parties should a subsidiary fail to make principal and/or interest payments when due. As of June 30, 2007, RGA's exposure related to these guarantees was \$171.5 million.

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

**6. Employee Benefit Plans**

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

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Net periodic pension benefit cost:</b>				
Service cost	\$ 472	\$ 423	\$ 1,271	\$ 1,037
Interest cost	258	371	850	848
Expected return on plan assets	(483)	(411)	(938)	(758)
Amortization of prior service cost	79	6	174	15
Amortization of prior actuarial (gain) loss	(44)	78	69	184
Net periodic pension benefit cost	\$ 282	\$ 467	\$ 1,426	\$ 1,326
<b>Net periodic other benefits cost:</b>				
Service cost	\$ (63)	\$ 180	\$ 143	\$ 359
Interest cost	79	155	269	311
Expected return on plan assets				
Amortization of prior service cost	12		12	
Amortization of prior actuarial (gain) loss	(2)	66	82	132

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Net periodic other benefits cost	\$ 26	\$ 401	\$ 506	\$ 802
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The Company made \$1.9 million in pension contributions during the second quarter of 2007 and expects this to be the only contribution for the year.

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On March 6, 2007, RGA issued 5.625% Senior Notes due March 15, 2017 with a face amount of \$300.0 million. These senior notes have been registered with the Securities and Exchange Commission. The net proceeds from the offering were approximately \$295.3 million, a portion of which were used to pay down \$50.0 million of indebtedness under a U.S. bank credit facility. The remaining net proceeds are designated for general corporate purposes. Capitalized issue costs were approximately \$2.6 million.

**8. Equity Based Compensation**

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standard ( SFAS ) No. 123(r), Share-Based Payment ( SFAS 123(r) ). SFAS 123(r) requires that the cost of all share-based transactions be recorded in the financial statements. The Company has been recording compensation cost for all equity-based grants or awards after January 1, 2003 consistent with the requirement of SFAS No. 123 Accounting for Stock-Based Compensation , as amended by SFAS 148, Accounting for Stock-Based Compensation Transition and Disclosure An Amendment of SFAS No. 123 . Equity compensation expense was \$2.9 million and \$4.8 million in the second quarter of 2007 and 2006, respectively, and \$9.5 million and \$10.6 million in the first six months of 2007 and 2006, respectively. In the first quarter of 2007, the Company granted 0.3 million incentive stock options at \$59.63 weighted average per share and 0.1 million performance contingent units ( PCUs ) to employees. Additionally, non-employee directors were granted a total of 4,800 shares of common stock. As of June 30, 2007, the total compensation cost of non-vested awards not yet recognized in the financial statements was \$18.1 million with various recognition periods over the next five years.

**9. New Accounting Standards**

Effective January 1, 2007 the Company adopted Financial Accounting Standards Board ( FASB ) Interpretation ( FIN ) No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 ( FIN 48 ). FIN 48 clarifies the accounting for uncertainty in income tax recognized in a company s financial statements. FIN 48 requires companies to determine whether it is more likely than not that a tax position will be sustained upon examination by the appropriate taxing authorities before any part of the benefit can be recorded in the financial statements. It also provides guidance on the recognition, measurement and classification of income tax uncertainties, along with any related interest and penalties. Previously recorded income tax benefits that no longer meet this standard are required to be charged to earnings in the period that such determination is made.

As a result of implementation of FIN 48, the Company recognized a \$17.3 million increase in the liability for unrecognized tax benefits, a \$5.3 million increase in the interest liability for unrecognized tax benefits, and a corresponding reduction to the January 1, 2007 balance of retained earnings of \$22.6 million. The Company s total amount of unrecognized tax benefits upon adoption of FIN 48 was \$196.3 million. The Company reclassified, at adoption, \$9.1 million of current tax liabilities to the liability for unrecognized tax benefits. The Company also reclassified, at adoption, \$169.9 million of deferred income tax liabilities to the liability for unrecognized tax benefits for tax positions for which the ultimate deductibility is highly certain but for which there is uncertainty about the timing of such deductibility. Because of the impact of deferred tax accounting, other than interest and penalties, the disallowance of the shorter deductibility period would not affect the annual effective tax rate but would accelerate the payment of cash to the taxing authority to an earlier period. The total amount of unrecognized tax benefits as of January 1, 2007 that would affect the effective tax rate if recognized is \$26.4 million. The Company also had \$29.8 million of accrued interest, as of January 1, 2007. The Company classifies interest accrued related to unrecognized tax benefits in interest expense, while penalties are included within income tax expense.

The Company files income tax returns in the U.S. federal jurisdiction and various state and non U.S. jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local, or non U.S. income tax examinations by tax authorities for years before 2003. There were no significant changes in the liability for unrecognized tax benefits during the six months ended June 30, 2007.

Effective January 1, 2007, the Company adopted the provisions of the FASB s Emerging Issues Task Force ( EITF ) Issue 06-5. This issue, titled Accounting for the Purchases of Life Insurance Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin No. 85-4 , clarified that the amount of the DAC receivable beyond one year generally must be discounted to present value under Accounting Principles Board





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Opinion 21. The adoption of EITF Issue 06-05 did not have a material impact on the Company's condensed consolidated financial statements.

Effective January 1, 2007, the Company adopted Statement of Position ( SOP ) 05-1, Accounting by Insurance Enterprises for Deferred Acquisition Costs in Connection with Modifications or Exchanges of Insurance Contracts ( SOP 05-1 ). SOP 05-1 provides guidance on accounting by insurance enterprises for DAC on internal replacements of insurance and investment contracts other than those specifically described in SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments . SOP 05-1 defines an internal replacement as a modification in product benefits, features, rights, or coverages that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to a contract, or by the election of a feature or coverage within a contract. SOP 05-1 is effective for internal replacements occurring in fiscal years beginning after December 15, 2006. In addition, in February 2007, the American Institute of Certified Public Accountants ( AICPA ) issued related Technical Practice Aids ( TPAs ) to provide further clarification of SOP 05-1. The TPAs are effective concurrently with the adoption of the SOP. The adoption of SOP 05-1 and related TPAs did not have a material impact on the Company's condensed consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ). SFAS 159 permits all entities the option to measure most financial instruments and certain other items at fair value at specified election dates and to report related unrealized gains and losses in earnings. The fair value option will generally be applied on an instrument-by-instrument basis and is generally an irrevocable election. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is evaluating which eligible financial instruments, if any, it will elect to account for at fair value under SFAS 159 and the related impact on the Company's condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ). SFAS 157 defines fair value, establishes a framework for measuring fair value in GAAP and requires enhanced disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements. The pronouncement is effective for fiscal years beginning after November 15, 2007. The guidance in SFAS 157 will be applied prospectively with certain exceptions. The Company is currently evaluating the impact of SFAS 157 and does not expect that the pronouncement will have a material impact on the Company's condensed consolidated financial statements.

**Table of Contents****ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS****Overview**

The Company's primary business is life reinsurance, which involves reinsuring life insurance policies that are often in force for the remaining lifetime of the underlying individuals insured, with premiums earned typically over a period of 10 to 30 years. Each year, however, a portion of the business under existing treaties terminates due to, among other things, lapses or surrenders of underlying policies, deaths of policyholders, and the exercise of recapture options by ceding companies.

The Company derives revenues primarily from renewal premiums from existing reinsurance treaties, new business premiums from existing or new reinsurance treaties, income earned on invested assets, and fees earned from financial reinsurance transactions. The Company believes that industry trends have not changed materially from those discussed in its 2006 Annual Report.

The Company's profitability primarily depends on the volume and amount of death claims incurred and its ability to adequately price the risks it assumes. While death claims are reasonably predictable over a period of many years, claims become less predictable over shorter periods and are subject to significant fluctuation from quarter to quarter and year to year. The maximum amount of coverage the Company retains per life is \$6 million. Claims in excess of this retention amount are retroceded to retrocessionaires; however, the Company remains fully liable to the ceding company for the entire amount of risk it assumes. The Company believes its sources of liquidity are sufficient to cover potential claims payments on both a short-term and long-term basis.

The Company measures performance based on income or loss from continuing operations before income taxes for each of its five segments. The Company's U.S., Canada, Europe & South Africa and Asia Pacific operations provide traditional life reinsurance to clients. The Company's U.S. operations also provide asset-intensive and financial reinsurance products. The Company also provides insurers with critical illness reinsurance in its Canada, Europe & South Africa and Asia Pacific operations. Asia Pacific operations also provide financial reinsurance. The Corporate and Other segment results include the corporate investment activity, general corporate expenses, interest expense of RGA, operations of RGA Technology Partners, Inc., a wholly-owned subsidiary that develops and markets technology solutions for the insurance industry, Argentine business in run-off and the provision for income taxes. The Company's discontinued accident and health operations are not reflected in its results from continuing operations.

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

**Results of Operations**

Consolidated income from continuing operations before income taxes increased \$26.3 million, or 27.0%, and \$37.3 million, or 18.1%, for the second quarter and first six months of 2007, respectively, primarily due to increased premiums in all segments. Also, contributing to these increases were improved mortality experience in the Canada segment partially offset by adverse mortality experience in the Europe and South Africa segment. Consolidated net premiums increased \$131.0 million, or 12.2%, and \$264.1 million, or 12.8%, during the second quarter and first six months of 2007, respectively, due to growth in life reinsurance in force. Foreign currency fluctuations favorably affected net premiums by approximately \$21.2 million and \$34.3 million in the second quarter and first six months of 2007, respectively, as compared to the same periods in 2006.

Consolidated investment income, net of related expenses, increased \$106.3 million, or 63.0%, and \$135.1 million, or 38.0%, during the second quarter and first six months of 2007, respectively, primarily due to market value changes related to the Company's funds withheld at interest investment in certain equity index annuity products, which are substantially offset by a corresponding increase in interest credited to policyholder account balances resulting in a negligible effect on net income, a larger invested asset base, and a higher effective yield. Invested



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assets as of June 30, 2007 totaled \$15.5 billion, a 15.4% increase over June 30, 2006. A portion of the increase in invested assets is related to the Company's investment of the net proceeds from the issuance of senior notes in March 2007. The average yield earned on investments, excluding funds withheld, increased slightly from 5.72% in the second quarter of 2006 to 5.90% for the second quarter of 2007. 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 and changes in the mix of the underlying investments and the timing of dividends and distributions on certain investments. Net investment related losses totaled \$15.6 million for the first six months of 2007 as the Company recognized a \$10.5 million foreign currency translation loss related to its decision to sell its direct insurance operations in Argentina. The Company does not expect the ultimate sale of that subsidiary to generate a material financial impact. Investment income and a portion of investment related gains (losses) are allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes. The effective tax rate on a consolidated basis was 36.1% for the second quarter of 2007, compared to 34.5% for the prior-year period. The effective tax rates for the first and second quarters of 2007 were affected by the application of FIN 48. However, on an ongoing basis, the Company does not anticipate that this will have a material impact on its effective tax rate.

**Critical Accounting Policies**

The Company's accounting policies are described in Note 2 in the 2006 Annual Report. The Company believes its most critical accounting policies include the capitalization and amortization of deferred acquisition costs ( DAC ); the establishment of liabilities for future policy benefits, other policy claims and benefits, including incurred but not reported claims; the valuation of investment impairments; and the establishment of arbitration or litigation reserves. The balances of these accounts are significant to the Company's financial position and require extensive use of assumptions and estimates, particularly related to the future performance of the underlying business. Additionally, for each of the Company's reinsurance contracts, it must determine if the contract provides indemnification against loss or liability relating to insurance risk, in accordance with applicable accounting standards. The Company must review all contractual features, particularly those that may limit the amount of insurance risk to which the Company is subject or features that delay the timely reimbursement of claims. If the Company determines that the possibility of a significant loss from insurance risk will occur only under remote circumstances, it records the contract under a deposit method of accounting with the net amount receivable or payable reflected in premiums receivable and other reinsurance balances or other reinsurance liabilities on the condensed consolidated balance sheets. Fees earned on the contracts are reflected as other revenues, as opposed to net premiums, on the condensed consolidated statements of income.

Costs of acquiring new business, which vary with and are primarily related to the production of new business, have been deferred to the extent that such costs are deemed recoverable from future premiums or gross profits. Deferred policy acquisition costs reflect the Company's expectations about the future experience of the business in force and include commissions and allowances as well as certain costs of policy issuance and underwriting. Some of the factors that can affect the carrying value of DAC include mortality assumptions, interest spreads and policy lapse rates. The Company performs periodic tests to determine that DAC remains recoverable, and the cumulative amortization is re-estimated and, if necessary, adjusted by a cumulative charge or credit to current operations.

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

reported to the Company is in electronic format and is uploaded to its computer systems.

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

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

The Company primarily invests in fixed maturity securities, and monitors these fixed maturity securities to determine potential impairments in value. With the Company's external investment managers, it evaluates its intent and ability to hold securities, along with factors such as the financial condition of the issuer, payment performance, the extent to which the market value has been below amortized cost, compliance with covenants, general market and industry sector conditions, and various other factors. Securities, based on management's judgments, with an other-than-temporary impairment in value are written down to management's estimate of fair value.

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

The Company is currently a party to various litigation and arbitrations. While it is difficult to predict or determine the ultimate outcome of the pending litigation or arbitrations or even to provide useful ranges of potential losses, it is the opinion of management, after consultation with counsel, that the outcomes of such litigation and arbitrations, after consideration of the provisions made in the Company's condensed consolidated financial statements, would not have a material adverse effect on its consolidated financial position. However, it is possible that an adverse outcome could, from time to time, have a material adverse effect on the Company's consolidated net income in a particular quarter or year. See Note 20, "Discontinued Operations" of the consolidated financial statements accompanying the 2006 Annual Report for more information.

Further discussion and analysis of the results for 2007 compared to 2006 are presented by segment. References to income before income taxes exclude the effects of discontinued operations.

**Table of Contents****U.S. OPERATIONS**

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

**For the three months ended June 30, 2007 (dollars in thousands)**

	<b>Traditional</b>	<b>Non-Traditional</b>		<b>Total U.S. Operations</b>
		<b>Asset-Intensive</b>	<b>Financial Reinsurance</b>	
<b>Revenues:</b>				
Net premiums	\$718,753	\$ 1,598	\$	\$720,351
Investment income, net of related expenses	87,151	117,319	99	204,569
Investment related losses, net	(4,497)	(1,144)	(7)	(5,648)
Change in value of embedded derivatives		(7,126)		(7,126)
Other revenues	300	9,690	5,846	15,836
<b>Total revenues</b>	<b>801,707</b>	<b>120,337</b>	<b>5,938</b>	<b>927,982</b>
<b>Benefits and expenses:</b>				
Claims and other policy benefits	594,619	(553)		594,066
Interest credited	14,579	98,324		112,903
Policy acquisition costs and other insurance expenses	101,807	22,295	2,001	126,103
Change in deferred acquisition costs associated with change in value of embedded derivatives		(5,545)		(5,545)
Other operating expenses	11,604	1,705	931	14,240
<b>Total benefits and expenses</b>	<b>722,609</b>	<b>116,226</b>	<b>2,932</b>	<b>841,767</b>
Income before income taxes	\$ 79,098	\$ 4,111	\$ 3,006	\$ 86,215

**For the three months ended June 30, 2006 (dollars in thousands)**

	<b>Traditional</b>	<b>Non-Traditional</b>		<b>Total U.S. Operations</b>
		<b>Asset-Intensive</b>	<b>Financial Reinsurance</b>	
<b>Revenues:</b>				
Net premiums	\$662,301	\$ 1,605	\$	\$663,906
Investment income, net of related expenses	74,657	48,424	(152)	122,929
Investment related losses, net	(2,506)	(2,511)		(5,017)
Change in value of embedded derivatives		(11,075)		(11,075)
Other revenues	276	3,908	7,460	11,644
<b>Total revenues</b>	<b>734,728</b>	<b>40,351</b>	<b>7,308</b>	<b>782,387</b>



**Benefits and expenses:**

Claims and other policy benefits	545,640	727		546,367
Interest credited	11,796	31,930		43,726
Policy acquisition costs and other insurance expenses	101,229	14,539	2,326	118,094
Change in deferred acquisition costs associated with change in value of embedded derivatives		(7,982)		(7,982)
Other operating expenses	8,732	1,413	1,102	11,247
Total benefits and expenses	667,397	40,627	3,428	711,452
Income (loss) before income taxes	\$ 67,331	\$ (276)	\$ 3,880	\$ 70,935

**Table of Contents****For the six months ended June 30, 2007 (dollars in thousands)**

	<b>Traditional</b>	<b>Non-Traditional</b>		<b>Total</b>
		<b>Asset- Intensive</b>	<b>Financial Reinsurance</b>	<b>U.S. Operations</b>
<b>Revenues:</b>				
Net premiums	\$ 1,388,172	\$ 3,224	\$	\$ 1,391,396
Investment income, net of related expenses	172,079	185,271	119	357,469
Investment related losses, net	(4,835)	(1,927)	(7)	(6,769)
Change in value of embedded derivatives		(4,288)		(4,288)
Other revenues	406	17,114	11,735	29,255
<b>Total revenues</b>	<b>1,555,822</b>	<b>199,394</b>	<b>11,847</b>	<b>1,767,063</b>
<b>Benefits and expenses:</b>				
Claims and other policy benefits	1,137,205	3,970	1	1,141,176
Interest credited	28,849	144,482		173,331
Policy acquisition costs and other insurance expenses	201,187	42,481	4,195	247,863
Change in deferred acquisition costs associated with change in value of embedded derivatives		(3,438)		(3,438)
Other operating expenses	23,472	3,326	1,941	28,739
<b>Total benefits and expenses</b>	<b>1,390,713</b>	<b>190,821</b>	<b>6,137</b>	<b>1,587,671</b>
<b>Income before income taxes</b>	<b>\$ 165,109</b>	<b>\$ 8,573</b>	<b>\$ 5,710</b>	<b>\$ 179,392</b>

**For the six months ended June 30, 2006 (dollars in thousands)**

	<b>Traditional</b>	<b>Non-Traditional</b>		<b>Total</b>
		<b>Asset- Intensive</b>	<b>Financial Reinsurance</b>	<b>U.S. Operations</b>
<b>Revenues:</b>				
Net premiums	\$ 1,274,138	\$ 3,079	\$	\$ 1,277,217
Investment income, net of related expenses	145,699	119,321	(155)	264,865
Investment related losses, net	(3,735)	(5,844)		(9,579)
Change in value of embedded derivatives		(6,523)		(6,523)
Other revenues	(44)	7,197	14,806	21,959
<b>Total revenues</b>	<b>1,416,058</b>	<b>117,230</b>	<b>14,651</b>	<b>1,547,939</b>
<b>Benefits and expenses:</b>				
Claims and other policy benefits	1,053,786	(142)	1	1,053,645
Interest credited	23,283	81,467		104,750

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Policy acquisition costs and other insurance expenses	183,401	30,934	4,660	218,995
Change in deferred acquisition costs associated with change in value of embedded derivatives		(5,225)		(5,225)
Other operating expenses	18,858	3,189	2,456	24,503
Total benefits and expenses	1,279,328	110,223	7,117	1,396,668
Income before income taxes	\$ 136,730	\$ 7,007	\$ 7,534	\$ 151,271

Income before income taxes for the U.S. operations segment totaled \$86.2 million and \$179.4 million for the second quarter and first six months of 2007, respectively, compared to \$70.9 million and \$151.3 million for the same periods in the prior year. This increase in income can be primarily attributed to growth in total business in force and improved mortality experience over the first half of 2006.

*Traditional Reinsurance*

The U.S. Traditional sub-segment provides life reinsurance to domestic clients for a variety of life products through yearly renewable term, coinsurance and modified coinsurance agreements. These reinsurance arrangements may be

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either facultative or automatic agreements. During the second quarter and first six months of 2007, this sub-segment added \$44.1 billion and \$84.4 billion of new business in force, measured by face amount of insurance in force, respectively, compared to \$41.7 billion and \$89.6 billion during the same periods in 2006. Management believes industry consolidation and the established practice of reinsuring mortality risks should continue to provide opportunities for growth.

Income before income taxes for U.S. Traditional reinsurance increased \$11.8 million, or 17.5%, and \$28.4 million, or 20.8%, in the second quarter and first six months of the 2007, respectively. Stronger premiums and higher investment income were the primary contributors to the increase in net income. Mortality experience also improved compared to the comparable six month period.

Net premiums for U.S. Traditional reinsurance totaled \$718.8 and \$1,388.2 for the second quarter and first six months of 2007. Comparable prior year numbers were \$662.3 and \$1,274.1, respectively. The 9.0% increase in year to date net premiums was driven primarily by the growth of total U.S. business in force, which totaled just over \$1.2 trillion of face amount as of June 30, 2007. This represents a 7.2% increase over the amount in force on June 30, 2006.

Investment income and investment related gains and losses are allocated to the various operating segments based on average assets and related capital levels deemed appropriate to support the segment business volumes. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments. During the second quarter of 2007, investment income in the sub-segment totaled \$87.2 million, a 16.7% increase over the same period in the prior year. Year to date 2007, investment income grew 18.1% over the first six months of 2006. This increase can be primarily attributed to growth in the invested asset base.

Mortality experience for the first six months of 2007 improved over the same year prior period while quarter over quarter the experience was relatively consistent. Claims and other policy benefits, as a percentage of net premiums (loss ratios), were 82.7% for the second quarter and 81.9% for the first six months of 2007. The loss ratios for the same prior-year periods were 82.4% and 82.7%, respectively. Death claims are reasonably predictable over a period of many years, but are less predictable over shorter periods and are subject to significant fluctuation.

Interest credited relates to amounts credited on cash value products, which have a significant mortality component. The amount of interest credited fluctuates in step with changes in deposit levels, cash surrender values and investment performance. Income before income taxes is affected by the spread between the investment income and the interest credited on the underlying products. Interest credited expense for the second quarter and first six months of 2007 totaled \$14.6 million and \$28.8 million, respectively, compared to \$11.8 million and \$23.3 million for the same periods in 2006. The increase is primarily the result of one treaty in which the credited loan rate increased from 4.6% in 2006 to 5.6% in 2007 based on an increase in the related market index. A corresponding increase in investment income offset this additional expense.

Policy acquisition costs and other insurance expenses, as a percentage of net premiums, were 14.2% for the second quarter of 2007 and 14.5% for the first six months of 2007. Comparable ratios for the second quarter and first six months of 2006 were 15.3% and 14.4%, respectively. Overall, while these ratios are expected to remain in a certain range, they may fluctuate from period to period due to varying allowance levels within coinsurance-type arrangements. In addition, the amortization pattern of previously capitalized amounts, which are subject to the form of the reinsurance agreement and the underlying insurance policies, may vary. Finally, the mix of first year coinsurance business versus yearly renewable term business can cause the percentage to fluctuate from period to period.

Other operating expenses, as a percentage of net premiums, were 1.6% for the second quarter of 2007 and 1.7% year to date, compared to 1.3% and 1.5% for the second quarter and year to date, respectively, in 2006. The expense ratio can fluctuate slightly from period to period, however, the size and maturity of the U.S. operations segment indicates it should remain relatively constant over the long term.

*Asset-Intensive Reinsurance*

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



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In accordance with the provisions of SFAS No. 133 Implementation Issue No. B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments ( Issue B36 ), the Company recorded a change in value of embedded derivatives of \$(7.1) million and \$(4.3) million within revenues for the second quarter and first six months of 2007, respectively, and \$(5.5) million and \$(3.4) million of related deferred acquisition costs. Significant fluctuations may occur as the fair value of the embedded derivatives is tied primarily to the movements in credit spreads. These fluctuations have no impact on cash flows or interest spreads on the underlying treaties. Therefore, Company management believes it is helpful to distinguish between the effects of Issue B36 and the primary factors that drive profitability of the underlying treaties, namely investment income, fee income, and interest credited. Additionally, over the expected life of the underlying treaties, management expects the cumulative effect of Issue B36 to be immaterial.

The Asset-Intensive sub-segment reported income before income taxes equal to \$4.1 million for the second quarter of 2007 and \$8.6 million year to date. Comparable figures for 2006 were \$(0.3) million and \$7.0 million, respectively. Of the \$4.4 million increase quarter over quarter, Issue B36 contributed \$1.5 million. The remaining \$2.9 million can be attributed to both the improved spread between the investment income and the interest credited on the underlying deposit liabilities and a decrease in investment related losses. In 2006, an increased interest rate environment allowed the Company to sell bonds at lower book yields and reinvest in higher book yielding securities. This strategy resulted in investment losses at the time of sale, but should generate higher future investment income. The year over year increase in income before income taxes of \$1.1 million, excluding Issue B36, is primarily the result of smaller investment losses offset in part by higher benefits due to an increase in benefit claims on a single premium universal life reinsurance treaty.

Total revenues increased \$80.0 million for the second quarter of 2007 and \$82.2 million for the first six months of 2007. Issue B36 related revenues increased \$3.9 million for the second quarter of 2007 and \$2.2 million for the first six months of the year, resulting in revenue growth of \$76.1 and \$80.0 million, respectively, excluding Issue B36. The primary driver of this increase in revenue was a \$68.9 million increase in investment income quarter over quarter and \$66.0 million year over year. The majority of this variation can be attributed to market value changes related to the Company's funds withheld at interest investment in certain equity index annuity products. This increase in investment income is offset by an increase in interest credited expense, with minimal impact on income before income taxes. Also contributing to the overall growth in revenue are the mortality and expense charges earned on a variable annuity reinsurance treaty open for new business. Mortality and expense charges are included in other revenues. Additionally, as mentioned above, investment related losses decreased quarter over quarter and year over year.

The average invested asset base supporting this sub-segment grew from \$4.2 billion in the second quarter of 2006 to \$4.7 billion for the second quarter of 2007. The growth in the asset base is primarily driven by new business written on one existing annuity treaty. Invested assets outstanding as of June 30, 2007 were \$4.7 billion, of which \$3.4 billion were funds withheld at interest. Of the \$3.4 billion of total funds withheld balance as of June 30, 2007, 91.5% of the balance is associated with one client.

Total benefits and expenses, which are comprised primarily of interest credited and policy acquisition costs, increased \$75.6 million from the second quarter of 2006 and \$80.6 million year to date. Issue B36 related expenses contributed \$2.4 million and \$1.8 million to the second quarter and year to date increases, respectively, resulting in increased expenses of \$73.2 million and \$78.8 million, respectively, excluding Issue B36. The majority of the change in benefits and expenses relates to interest credited expense, which contributed \$66.4 million and \$63.0 million quarter over quarter and year over year, respectively. As mentioned above, a large part of this variance is offset in investment income. Also contributing to the increase in benefits and expenses year over year is an increase in benefit claims on a single premium universal life reinsurance treaty in the first quarter of 2007.

*Financial Reinsurance*

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



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paid to retrocessionaires are reflected in policy acquisition costs and other insurance expenses. Fees earned on brokered business are reflected in other revenues.

Income before income taxes decreased \$0.9 million and \$1.8 million in the second quarter and first six months of 2007, respectively, compared to the same periods in 2006. In 2006, both the domestic and a portion of various Asia Pacific financial reinsurance treaties were reflected in this segment. Beginning in 2007, the Asia Pacific-based treaties are included with the Company's Asia Pacific segment with reimbursement to the U.S. segment for costs incurred by U.S. personnel. Total U.S. financial reinsurance business remained consistent quarter over quarter and year over year. At June 30, 2007 and 2006, the amount of reinsurance provided, as measured by pre-tax statutory surplus, was \$1.1 billion and \$1.8 billion respectively. This decrease is a result of the aforementioned change in reporting for Asia Pacific-based treaties. The pre-tax statutory surplus includes 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 risk management, and is primarily engaged in traditional individual life reinsurance, as well as creditor, critical illness, and group life and health reinsurance. Creditor insurance covers the outstanding balance on personal, mortgage or commercial loans in the event of death, disability or critical illness and is generally shorter in duration than traditional life insurance.

(dollars in thousands)	<b>For the three months ended</b>		<b>For the six months ended</b>	
	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>	<b>June 30,</b>
	<b>2007</b>	<b>2006</b>	<b>2007</b>	<b>2006</b>
<b>Revenues:</b>				
Net premiums	\$ 122,580	\$ 97,120	\$ 222,072	\$ 191,522
Investment income, net of related expenses	32,363	25,998	58,795	51,303
Investment related gains, net	1,648	2,345	4,432	2,146
Other revenues	93	767	179	767
<b>Total revenues</b>	<b>156,684</b>	<b>126,230</b>	<b>285,478</b>	<b>245,738</b>
<b>Benefits and expenses:</b>				
Claims and other policy benefits	105,667	95,449	196,815	184,528
Interest credited	185	207	371	412
Policy acquisition costs and other insurance expenses	21,343	15,769	39,819	33,589
Other operating expenses	5,287	3,731	9,237	7,704
<b>Total benefits and expenses</b>	<b>132,482</b>	<b>115,156</b>	<b>246,242</b>	<b>226,233</b>
<b>Income before income taxes</b>	<b>\$ 24,202</b>	<b>\$ 11,074</b>	<b>\$ 39,236</b>	<b>\$ 19,505</b>

Income before income taxes increased by \$13.1 million or 118.5%, and \$19.7 million or 101.2%, in the second quarter and first six months of 2007, respectively. These increases were primarily the result of higher premium volume, favorable mortality experience in the current periods and an increase of \$2.3 million in investment related gains for the first six months.



Net premiums increased by \$25.5 million, or 26.2%, and \$30.6 million or 16.0% in the second quarter and first six months of 2007, respectively. The increase is primarily due to new business from new and existing treaties. In addition, an increase in premium from creditor treaties contributed \$6.9 million and \$13.3 million of the premium increase in the second quarter and first six months of 2007, respectively. Creditor and group life and health premiums represented 18.0% and 13.9% of net premiums in the first six months of 2007 and 2006, respectively. A stronger Canadian dollar resulted in an increase in net premiums of \$2.7 million and \$1.1 million in the second

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quarter and first six months of 2007, respectively, as compared to 2006. Premium levels are significantly influenced by large transactions, mix of business and reporting practices of ceding companies and therefore can fluctuate from period to period.

Net investment income increased \$6.4 million or 24.5%, and \$7.5 million or 14.6% in the second quarter and first six months of 2007, respectively. 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 business volumes. Investment performance varies with the composition of investments and the relative allocation of capital to the operating segments. The increase in investment income was mainly the result of an increase in the allocated asset base due to growth in the underlying business volume.

Loss ratios for this segment were 86.2% and 88.6% in the second quarter and first six months of 2007, respectively, compared to 98.3% and 96.3% in the comparable prior-year periods. During 2006 and 2005, the Company entered into three significant creditor reinsurance treaties. The loss ratios on this type of business are normally lower than traditional reinsurance, however, allowances are normally higher as a percentage of premiums. Excluding creditor business, the loss ratios for this segment were 94.8% and 97.5% in the second quarter and first six months of 2007, respectively, compared to 106.4% and 103.7% in the comparable prior-year periods. The lower loss ratios in 2007 are primarily due to favorable mortality experience compared to the prior year. Historically, the loss ratio increased primarily as the result of several large permanent level premium in-force blocks assumed in 1997 and 1998. These blocks are mature blocks of permanent level premium business in which mortality as a percentage of net premiums is expected to be higher than historical ratios. The nature of permanent level premium policies requires the Company to set up actuarial liabilities and invest the amounts received in excess of early-year mortality costs to fund claims in the later years when premiums, by design, continue to be level as compared to expected increasing mortality or claim costs. Claims and other policy benefits, as a percentage of net premiums and investment income were 68.2% and 70.1% in the second quarter and first six months of 2007, respectively, compared to 77.5% and 76.0% in the comparable prior-year periods. Death claims are reasonably predictable over a period of many years, but are less predictable over shorter periods and are subject to significant fluctuation.

Policy acquisition costs and other insurance expenses as a percentage of net premiums totaled 17.4% and 17.9% in the second quarter and first six months of 2007, respectively, compared to 16.2% and 17.5% in the comparable prior-year periods. Excluding creditor business, policy acquisition costs and other insurance expenses as a percentage of net premiums totaled 11.0% and 11.9% in the second quarter and first six months of 2007, respectively, compared to 11.3% and 13.0% in the comparable prior-year periods. Overall, while these ratios are expected to remain in a certain range, they may fluctuate from period to period due to varying allowance levels, significantly caused by the mix of first year coinsurance business versus yearly renewable term business. In addition, the amortization pattern of previously capitalized amounts, which are subject to the form of the reinsurance agreement and the underlying insurance policies, may vary.

Other operating expenses increased \$1.6 million, or 41.7%, and \$1.5 million, or 19.9%, in the second quarter and first six months of 2007, respectively. Other operating expenses as a percentage of net premiums totaled 4.3% and 4.2% in the second quarter and first six months of 2007, respectively, compared to 3.8% and 4.0% in the comparable prior-year periods.

**Table of Contents****EUROPE & SOUTH AFRICA OPERATIONS**

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

(dollars in thousands)	For the three months ended		For the six months ended	
	June 30, 2007	June 30, 2006	June 30, 2007	June 30, 2006
<b>Revenues:</b>				
Net premiums	\$ 164,796	\$ 146,073	\$ 332,592	\$ 291,224
Investment income, net of related expenses	7,103	3,873	12,877	7,265
Investment related losses, net	(630)	(181)	(854)	(147)
Other revenues	(27)	(178)	104	(87)
Total revenues	171,242	149,587	344,719	298,255
<b>Benefits and expenses:</b>				
Claims and other policy benefits	128,828	101,034	242,982	206,680
Interest credited	564	156	1,016	346
Policy acquisition costs and other insurance expenses	17,129	21,821	43,189	41,078
Other operating expenses	12,875	9,307	24,562	18,085
Total benefits and expenses	159,396	132,318	311,749	266,189
Income (loss) before income taxes	\$ 11,846	\$ 17,269	\$ 32,970	\$ 32,066

Income before income taxes was \$11.8 million in the second quarter of 2007 as compared to \$17.3 million for the second quarter of 2006, and \$33.0 million for the first six months of 2007 as compared to \$32.1 million for the first six months of 2006. The decrease for the second quarter was primarily due to an increase in the loss ratio for the second quarter of 2007 compared to the second quarter of 2006, as mortality experience for the segment was favorable in the second quarter 2006. The six month increase in 2007 over 2006 was due to growth in net premiums and investment income which was partially offset by an increase in the loss ratio for the first six months of 2007 compared to 2006. Foreign currency exchange fluctuations resulted in an increase to income before income taxes totaling approximately \$0.1 million for the second quarter and approximately \$0.8 million during the first six months of 2007. Europe & South Africa net premiums increased \$18.7 million, or 12.8%, in the second quarter compared to the same period last year, and increased \$41.4 million or 14.2% during the six months ended June 30, 2007 compared to the same period last year. This increase was primarily the result of new business from both existing and new treaties. During the second quarter and for the first six months of 2007, several foreign currencies, particularly the British pound and the euro strengthened against the U.S. dollar and increased net premiums by approximately \$10.0 million and \$19.2 million for the second quarter and first six months of 2007, respectively, over the prior year. A significant portion of the net premiums were due 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 policies including this coverage totaled \$57.9 million and \$114.9 million during the second quarter and first six months of 2007, respectively, compared to \$52.4 million and \$101.6 million in the comparable prior-year periods. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and therefore can

fluctuate from period to period.

Investment income increased \$3.2 million for the second quarter compared to the same period in 2006 and increased \$5.6 million for the six months ended June 30, 2007 compared to the same period in 2006. This increase was

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

Loss ratios increased from 69.2% for the second quarter of 2006 to 78.2% for the second quarter of 2007, and from 71.0% for the six months ended June 30, 2006 to 73.1% for the six months ended June 30, 2007. The increase in loss ratios is due primarily to favorable claims experience in the UK during 2006. Death claims are reasonably predictable over a period of many years, but are less predictable over shorter periods and are subject to significant fluctuation.

Policy acquisition costs and other insurance expenses as a percentage of net premiums were 10.4% in the second quarter of 2007 compared to 14.9% in the second quarter of 2006, and 13.0% for the six months ended June 30, 2007 compared to 14.1% for the six months ended June 30, 2006. 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 for the quarter increased from 6.4% of premiums in 2006 to 7.8% in 2007, and for the first six months it increased from 6.2% to 7.4%. This increase was due to higher costs associated with maintaining and supporting the increase in business over the past several years. The Company believes that sustained growth in net premiums should lessen the burden of start-up expenses and expansion costs over time.

**ASIA PACIFIC OPERATIONS**

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