

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

REINSURANCE GROUP OF AMERICA INC  
Form 10-Q  
August 04, 2006

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, 2006

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) 736-7439

(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 X NO  
--- ---

INDICATE BY CHECK MARK WHETHER THE REGISTRANT IS A LARGE ACCELERATED FILER, AN ACCELERATED FILER, OR A NON-ACCELERATED FILER.

LARGE ACCELERATED FILER X 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 X  
--- ---

COMMON STOCK OUTSTANDING (\$.01 PAR VALUE) AS OF JULY 31, 2006: 61,223,901  
SHARES.

# Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

REINSURANCE GROUP OF AMERICA, INCORPORATED AND SUBSIDIARIES

## TABLE OF CONTENTS

ITEM		PAGE
----		----
PART I - FINANCIAL INFORMATION		
1	Financial Statements	
	Condensed Consolidated Balance Sheets (Unaudited) June 30, 2006 and December 31, 2005	3
	Condensed Consolidated Statements of Income (Unaudited) Three and six months ended June 30, 2006 and 2005	4
	Condensed Consolidated Statements of Cash Flows (Unaudited) Six months ended June 30, 2006 and 2005	5
	Notes to Condensed Consolidated Financial Statements (Unaudited)	6
2	Management's Discussion and Analysis of Financial Condition and Results of Operations	12
3	Quantitative and Qualitative Disclosures About Market Risk	32
4	Controls and Procedures	32
PART II - OTHER INFORMATION		
1	Legal Proceedings	33
1A	Risk Factors	33
2	Unregistered Sales of Equity Securities and Use of Proceeds	33
4	Submission of Matters to a Vote of Security Holders	33
6	Exhibits	33
	Signatures	34
	Index to Exhibits	35

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

	2006	
	-----	-----
	(Dollars in thousands)	
<b>ASSETS</b>		
Fixed maturity securities:		
Available-for-sale at fair value (amortized cost of \$6,760,170 and \$6,331,225 at June 30, 2006 and December 31, 2005, respectively)	\$ 6,949,932	\$
Mortgage loans on real estate	650,477	
Policy loans	982,199	
Funds withheld at interest	3,767,898	
Short-term investments	27,421	
Other invested assets	1,056,668	
	-----	-----
Total investments	13,434,595	1
Cash and cash equivalents	279,020	
Accrued investment income	81,367	
Premiums receivable and other reinsurance balances	687,291	
Reinsurance ceded receivables	555,336	
Deferred policy acquisition costs	2,674,888	
Other assets	104,170	
	-----	-----
Total assets	\$17,816,667	\$1
	=====	=====
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Future policy benefits	\$ 5,040,664	\$
Interest sensitive contract liabilities	5,806,953	
Other policy claims and benefits	1,665,071	
Other reinsurance balances	214,753	
Deferred income taxes	567,325	
Other liabilities	344,721	
Short-term debt	27,726	
Long-term debt	674,536	
Collateral finance facility	850,272	
Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company	158,625	
	-----	-----
Total liabilities	15,350,646	1
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)	--	
Common stock (par value \$.01 per share; 140,000,000 shares authorized; 63,128,273 shares issued at June 30, 2006 and December 31, 2005)	631	
Warrants	66,915	
Additional paid-in-capital	1,064,125	
Retained earnings	1,169,910	
Accumulated other comprehensive income:		
Accumulated currency translation adjustment, net of income taxes	117,846	
Unrealized appreciation of securities, net of income taxes	130,936	
	-----	-----
Total stockholders' equity before treasury stock	2,550,363	
Less treasury shares held of 1,940,109 and 2,052,316 at cost at June 30, 2006 and December 31, 2005, respectively	(84,342)	
	-----	-----
Total stockholders' equity	2,466,021	
	-----	-----
Total liabilities and stockholders' equity	\$17,816,667	\$1
	=====	=====

# Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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

3

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

	Three months ended June 30,		Six months June 30,
	2006	2005	2006
	(Dollars in thousands, except per share)		
<b>REVENUES:</b>			
Net premiums	\$1,076,603	\$ 931,354	\$2,069,045
Investment income, net of related expenses	168,605	146,284	355,546
Investment related gains (losses), net	(5,314)	12,950	(4,682)
Change in value of embedded derivatives	(11,075)	(19,917)	(6,523)
Other revenues	13,717	20,661	28,247
	1,242,536	1,091,332	2,441,633
<b>BENEFITS AND EXPENSES:</b>			
Claims and other policy benefits	874,531	827,930	1,686,044
Interest credited	44,732	38,615	106,261
Policy acquisition costs and other insurance expenses	172,700	157,855	324,504
Change in deferred acquisition costs associated with change in value of embedded derivatives	(7,982)	(13,604)	(5,225)
Other operating expenses	45,830	38,032	92,357
Interest expense	15,014	9,895	31,781
Collateral finance facility expense	277	--	277
	1,145,102	1,058,723	2,235,999
Total benefits and expenses			
Income from continuing operations before income taxes	97,434	32,609	205,634
Provision for income taxes	33,645	7,449	71,265
	63,789	25,160	134,369
Income from continuing operations			
Discontinued operations:			
Loss from discontinued accident and health operations, net of income taxes	(158)	(3,343)	(1,668)
	\$ 63,631	\$ 21,817	\$ 132,701
Net income	\$ 63,631	\$ 21,817	\$ 132,701
<b>BASIC EARNINGS PER SHARE:</b>			
Income from continuing operations	\$ 1.04	\$ 0.40	\$ 2.20
Discontinued operations	0.00	(0.05)	(0.03)
	\$ 1.04	\$ 0.35	\$ 2.17
Net income	\$ 1.04	\$ 0.35	\$ 2.17
<b>DILUTED EARNINGS PER SHARE:</b>			
Income from continuing operations	\$ 1.02	\$ 0.39	\$ 2.14
Discontinued operations	(0.01)	(0.05)	(0.02)
	\$ 1.01	\$ 0.34	\$ 2.12
Net income	\$ 1.01	\$ 0.34	\$ 2.12

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Net income	\$ 1.01	\$ 0.34	\$ 2.12
	=====	=====	=====
DIVIDENDS DECLARED PER SHARE	\$ 0.09	\$ 0.09	\$ 0.18
	=====	=====	=====

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

4

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

	Six months ended June 30,	
	2006	2005
	(Dollars in thousands)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 132,701	\$ 88,374
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in:		
Accrued investment income	(18,680)	(22,584)
Premiums receivable and other reinsurance balances	(91,410)	(72,993)
Deferred policy acquisition costs	(152,112)	(156,899)
Reinsurance ceded balances	(13,392)	(40,535)
Future policy benefits, other policy claims and benefits, and other reinsurance balances	384,937	447,292
Deferred income taxes	26,061	95,349
Other assets and other liabilities, net	58,886	(103,834)
Amortization of net investment discounts and other	(26,624)	(16,275)
Investment related losses (gains), net	4,682	(16,929)
Other, net	2,870	1,919
Net cash provided by operating activities	307,919	202,885
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Sales of fixed maturity securities - available for sale	879,617	816,369
Maturities of fixed maturity securities - available for sale	133,734	72,295
Purchases of fixed maturity securities - available for sale	(1,273,922)	(961,349)
Cash invested in mortgage loans on real estate	(46,189)	(28,496)
Cash invested in policy loans	(8,579)	(8,294)
Cash invested in funds withheld at interest	(29,765)	(35,831)
Principal payments on mortgage loans on real estate	43,575	9,719
Principal payments on policy loans	13,822	12,541
Change in short-term investments and other invested assets	(725,033)	(23,042)
Net cash used in investing activities	(1,012,740)	(146,088)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Dividends to stockholders	(11,007)	(11,262)
Principal payments on debt	(100,000)	--
Exercise of stock options, net	2,933	4,913

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Net proceeds from collateral finance facility	837,500	--
Net increase in securitized lending activities	76,508	6,309
Excess deposits (payments) on universal life and other investment type policies and contracts	49,831	(47,402)
	-----	-----
Net cash provided by financing activities	855,765	(47,442)
Effect of exchange rate changes	(616)	(2,339)
	-----	-----
Change in cash and cash equivalents	150,328	7,016
Cash and cash equivalents, beginning of period	128,692	152,095
	-----	-----
Cash and cash equivalents, end of period	\$ 279,020	\$ 159,111
	=====	=====
Supplementary information:		
Cash paid for interest	\$ 33,334	\$ 19,256
Cash paid (received) for income taxes, net of refunds	\$ (12,931)	\$ 77,805

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

5

### 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, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's 2005 Annual Report on Form 10-K ("2005 Annual Report") filed with the Securities and Exchange Commission on February 27, 2006.

The accompanying unaudited condensed consolidated financial statements include the accounts of Reinsurance Group of America, Incorporated and its subsidiaries. All material intercompany accounts and transactions have been eliminated. The Company has reclassified the presentation of certain prior-period information, including all segment information, to conform to the 2006 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):

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30,		JUNE 30,	
	2006	2005	2006	2005
<b>Earnings:</b>				
Income from continuing operations (numerator for basic and diluted calculations)	\$63,789	\$25,160	\$134,369	\$92,424
<b>Shares:</b>				
Weighted average outstanding shares (denominator for basic calculation)	61,185	62,628	61,162	62,591
Equivalent shares from outstanding stock options	1,524	1,136	1,501	1,215
Denominator for diluted calculation	62,709	63,764	62,663	63,806
<b>Earnings per share:</b>				
Basic	\$ 1.04	\$ 0.40	\$ 2.20	\$ 1.48
Diluted	\$ 1.02	\$ 0.39	\$ 2.14	\$ 1.45

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, 2006, 0.4 million performance contingent shares were excluded from the calculation. For the three and six months ended June 30, 2005, approximately 0.3 million stock options and 0.3 million performance contingent shares were excluded from the calculation.

6

3. COMPREHENSIVE INCOME

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

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006	JUNE 30, 2005
Net income	\$ 63,631	\$ 21,817	\$ 132,701	\$ 88,000
Accumulated other comprehensive income (expense), net of income tax:				
Unrealized gains (losses), net of reclassification adjustment for gains (losses) included in net income	(116,249)	178,605	(230,879)	144,000
Foreign currency items	34,756	(19,899)	32,719	(28,000)
Comprehensive income (loss)	\$ (17,862)	\$180,523	\$ (65,459)	\$204,000

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

### 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 2005 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. As of June 30, 2006, the carrying value of material internally developed software was approximately \$16.1 million. Investment income is allocated to the segments based upon average assets and related capital levels deemed appropriate to support the segment business volumes.

Effective January 1, 2006 the Company changed its method of allocating capital to its segments from a method based upon regulatory capital requirements to one based on underlying economic capital levels. The economic capital model is 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. This is in contrast to the standardized regulatory risk based capital formula, which is not as refined in its risk calculations with respect to each of the Company's businesses. As a result of the economic capital allocation process, a portion of investment income and investment related gains (losses) is 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. The prior period segment results have been adjusted to conform to the new allocation methodology.

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).

	THREE MONTHS ENDED		SIX MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006	JUNE 30, 2005
TOTAL REVENUES				
U.S	\$ 782,387	\$ 668,629	\$1,547,939	\$1,389,991
Canada	126,230	100,912	245,738	197,874
Europe & South Africa	149,587	135,363	298,255	279,364
Asia Pacific	177,163	152,523	324,797	275,237
Corporate & Other	7,169	33,905	24,904	45,082
	-----	-----	-----	-----
Total	\$1,242,536	\$1,091,332	\$2,441,633	\$2,187,548
	=====	=====	=====	=====

7

THREE MONTHS ENDED		SIX MONTHS ENDED	
JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006	JUNE 30, 2005



Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES				
U.S.	\$70,935	\$27,262	\$151,271	\$ 95,758
Canada	11,074	10,797	19,505	26,459
Europe & South Africa	17,269	(6,844)	32,066	7,669
Asia Pacific	7,725	11,376	14,339	14,286
Corporate & Other	(9,569)	(9,982)	(11,547)	(11,028)
	-----	-----	-----	-----
Total	\$97,434	\$32,609	\$205,634	\$133,144
	=====	=====	=====	=====

TOTAL ASSETS		
	JUNE 30, 2006	DECEMBER 31, 2005
	-----	-----
U.S.	\$11,539,289	\$11,049,424
Canada	2,087,110	1,954,612
Europe & South Africa	1,098,996	956,453
Asia Pacific	919,901	873,230
Corporate and Other	2,171,371	1,360,147
	-----	-----
Total	\$17,816,667	\$16,193,866
	=====	=====

5. COMMITMENTS AND CONTINGENT LIABILITIES

The Company has commitments to fund investments in limited partnerships in the amount of \$46.6 million at June 30, 2006. The Company anticipates that the majority of these amounts will be invested over the next five years, however, contractually these commitments could become due at the request of the counterparties. Investments in limited partnerships are carried at cost and are included in other invested assets 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 one pending and one threatened arbitration related to its life reinsurance business. In addition, the Company has been joined in a suit filed against one of its ceding companies alleging wrongful denial of a life insurance claim. As of June 30, 2006, the parties involved in these actions have raised claims, or established reserves that may result in claims, in the amount of \$32.0 million, which is \$27.9 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 2005 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. While it is difficult to predict or determine the ultimate outcome of the pending litigation or arbitrations or provide useful ranges of potential

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 or cash flows in particular quarterly or annual periods.

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, 2006

8

and December 31, 2005, there were approximately \$14.6 million and \$17.4 million, respectively, of outstanding bank letters of credit in favor of third parties. Additionally, the Company utilizes letters of credit to secure reserve credits when it retrocedes business to its offshore subsidiaries, including RGA Americas Reinsurance Company, Ltd., RGA Reinsurance Company (Barbados) Ltd. and RGA 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, 2006 and December 31, 2005, \$401.7 million and \$439.8 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 an office lease obligation, 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 \$252.7 million and \$256.2 million as of June 30, 2006 and December 31, 2005, 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 party banks should a subsidiary fail to make principal and/or interest payments when due. As of June 30, 2006, RGA's exposure related to these guarantees was \$184.6 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.

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

### 6. EMPLOYEE BENEFIT PLANS

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

	FOR THE THREE MONTHS ENDED JUNE 30,		FOR THE SIX MONTHS ENDED JUNE 30,	
	2006	2005	2006	2005
<b>NET PERIODIC PENSION BENEFIT COST:</b>				
Service cost	\$ 423	\$ 475	\$1,037	\$1,023
Interest cost	371	412	848	794
Expected return on plan assets	(411)	(278)	(758)	(578)
Amortization of prior service cost	6	6	15	15
Amortization of prior actuarial loss	78	137	184	177
	-----	-----	-----	-----
Net periodic pension benefit cost	\$ 467	\$ 752	\$1,326	\$1,431
	=====	=====	=====	=====
<b>NET PERIODIC OTHER BENEFITS COST:</b>				
Service cost	\$ 180	\$102	\$ 359	\$ 205
Interest cost	155	99	311	198
Expected return on plan assets	--	--	--	--
Amortization of prior service cost	--	--	--	--
Amortization of prior actuarial loss	66	18	132	35
	-----	-----	-----	-----
Net periodic other benefits cost	\$ 401	\$ 219	\$ 802	\$ 438
	=====	=====	=====	=====

9

The Company made \$3.8 million in pension contributions during the second quarter of 2006 and expects this to be the only contribution for the year.

### 7. COLLATERAL FINANCE FACILITY

On June 28, 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. Proceeds from the notes have been deposited into a series of trust accounts that collateralize the notes and are not available to satisfy the general obligations of the Company. Interest on the notes will accrue at an annual rate of 1-month LIBOR plus a base rate margin, payable monthly. The payment of interest and principal on the notes is insured through a financial guaranty insurance policy with a third party. The notes represent senior, secured indebtedness of Timberlake Financial and its assets with no 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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

payments on the surplus note and dividend payments to Timberlake Financial is contingent upon South Carolina regulatory approval and the performance of specified term life insurance policies with guaranteed level premiums retroceded by RGA's subsidiary, RGA Reinsurance Company, to Timberlake Re.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(r), "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51," Timberlake Financial is considered to be a variable interest entity and the Company is deemed to hold the primary beneficial interest. As a result, Timberlake Financial has been consolidated in the Company's condensed financial statements. The Company's condensed consolidated balance sheets include the assets of Timberlake Financial recorded as fixed maturity investments and other invested assets, which consists of restricted cash and cash equivalents, with the liability for the notes recorded as collateral finance facility. The Company's condensed consolidated statements of income include the investment return of Timberlake Financial as investment income and the cost of the facility is reflected in collateral finance facility expense.

### 8. EQUITY BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards 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, as amended by SFAS 148. Equity compensation expense was \$4.8 million and \$1.7 million in the second quarter of 2006 and 2005, respectively, and \$10.6 million and \$3.5 million in the first six months of 2006 and 2005, respectively. The adoption of SFAS 123(r) increased compensation expense recorded in the first quarter of 2006 by approximately \$1.7 million, primarily related to unvested options from the 2002 grants, which were previously reported under Accounting Principles Board Opinion No. 25, and the acceleration of compensation expense for certain retirement eligible employees. Compensation cost associated with grants issued to retirement eligible employees prior to January 1, 2006 continues to be recognized over the nominal vesting period. In the first quarter of 2006, the company granted 336,725 incentive stock options at \$47.47 weighted average per share and 144,097 performance contingent units ("PCUs") to employees. Additionally, non-employee directors were awarded a total of 4,800 shares of common stock. The remainder of the increase in compensation expense related to an increase in estimated shares required to settle PCUs granted in 2004 and the incremental expense from stock options and PCUs granted during the first quarter of 2006. As of June 30, 2006, the total compensation cost of non-vested awards not yet recognized in the financial statements was \$24.3 million with various recognition periods over the next five years. The effect of applying the provisions of SFAS 123(r) on a pro forma basis to the comparable 2005 period did not have material effect on net income or earnings per share.

10

### 9. NEW ACCOUNTING STANDARDS

In June, 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. FIN 48 will be applied prospectively and will be

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

effective for fiscal years beginning after December 31, 2006. The Company is currently evaluating the effect, if any, of FIN 48 on the Company's condensed consolidated financial statements.

Effective January 1, 2006, the Company prospectively adopted SFAS No. 155, "Accounting for Certain Hybrid Instruments" ("SFAS 155"). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to bifurcate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. In addition, among other changes, SFAS 155 (i) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (ii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iii) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (iv) eliminates the prohibition on a qualifying special-purpose entity ("QSPE") from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial interest. The adoption of SFAS 155 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2005, the FASB cleared SFAS 133 Implementation Issue No. B38, "Embedded Derivatives: Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option" ("Issue B38") and SFAS 133 Implementation Issue No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor" ("Issue B39"). Issue B38 clarified that the potential settlement of a debtor's obligation to a creditor occurring upon exercise of a put or call option meets the net settlement criteria of SFAS No. 133. Issue B39 clarified that an embedded call option, in which the underlying is an interest rate or interest rate index, that can accelerate the settlement of a debt host financial instrument should not be bifurcated and fair valued if the right to accelerate the settlement can be exercised only by the debtor (issuer/borrower) and the investor will recover substantially all of its initial net investment. Issues B38 and B39 were adopted by the Company during the first quarter of 2006 and did not have a material effect on the Company's condensed consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3" ("SFAS 154"). The statement requires retrospective application to prior periods' financial statements for corrections of errors or a voluntary change in accounting principle unless it is deemed impracticable. It also requires that a change in the method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate rather than a change in accounting principle. SFAS 154 was adopted by the Company during the first quarter of 2006 and did not have a material effect on the Company's condensed consolidated financial statements.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

### OVERVIEW

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 2005 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, Asia Pacific and Europe & South Africa 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, Asia Pacific and Europe & South Africa 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, 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.

Effective January 1, 2006 the Company changed its method of allocating capital to its segments from a method based upon regulatory capital requirements to one based on underlying economic capital levels. The economic capital model is 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. This is in contrast to the standardized regulatory risk based capital formula, which is not as refined in its risk calculations with respect to each of the Company's businesses. As a result of the economic capital allocation process, a portion of investment income and investment related gains (losses) is 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. The prior period segment results have been adjusted to conform to the new allocation methodology.

### RESULTS OF OPERATIONS

Consolidated income from continuing operations before income taxes increased \$64.8 million, or 198.8%, and \$72.5 million, or 54.4%, for the second quarter and first six months of 2006, respectively. These increases were primarily due to improved mortality results in the U.S. and Europe & South Africa segments, which experienced high claim levels in the comparable periods of 2005. These

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

increases were offset in part by adverse mortality experience in Canada. Consolidated net premiums increased \$145.2 million, or 15.6%, and \$235.9 million, or 12.9% during the second quarter and first six months of 2006, respectively, due to growth in life reinsurance in force.

Consolidated investment income, net of related expenses, increased \$22.3 million, or 15.3%, and \$52.2 million, or 17.2%, during the second quarter and first six months of 2006, respectively, primarily due to a larger invested asset base. Invested assets as of June 30, 2006 totaled \$13.4 billion, a 20.1% increase over June 30, 2005. The increase

12

in invested assets is largely due to an \$852.3 million increase in other invested assets related to the Company's collateral finance facility. While the Company's invested asset base has grown significantly since June 30, 2005, the average yield earned on investments, excluding funds withheld, decreased from 5.99% during the second quarter of 2005 to 5.72% for the second quarter of 2006. 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. 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 34.5% for the second quarter of 2006, compared to 22.8% for the prior-year period. The prior-year period effective tax rate included the utilization of tax loss carryforwards of \$2.7 million, for which no prior financial statement benefit had been taken.

### CRITICAL ACCOUNTING POLICIES

The Company's accounting policies are described in Note 2 in the 2005 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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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.

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

13

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 vary significantly by ceding company and business segment, but averages around 3.0 months on a consolidated basis. 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.



## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 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 or cash flows in a particular quarter or year. See Note 20, "Discontinued Operations" of the consolidated financial statements accompanying the 2005 Annual Report for more information.

Further discussion and analysis of the results for 2006 compared to 2005 are presented by segment. Certain prior-year period amounts have been reclassified to conform to the current-year presentation. Additionally, segment results for the prior-year period have been reclassified to conform to the economic capital process mentioned above. References to income before income taxes exclude the effects of discontinued operations.

14

### 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, 2006 (IN THOUSANDS)

		NON-TRADITIONAL	
	TRADITIONAL	ASSET- INTENSIVE	FINANCIAL REINSURANCE
REVENUES:			
Net premiums	\$662,301	\$ 1,605	\$ --
Investment income, net of related expenses	74,657	48,424	(152)
Investment related losses, net	(2,506)	(2,511)	--
Change in value of embedded derivatives	--	(11,075)	--

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Other revenues	276	3,908	7,460
	-----	-----	-----
Total revenues	734,728	40,351	7,308
BENEFITS AND EXPENSES:			
Claims and other policy benefits	545,640	727	--
Interest credited	11,796	31,930	--
Policy acquisition costs and other insurance expenses	101,229	14,539	2,326
Change in deferred acquisition costs associated with change in value of embedded derivatives	--	(7,982)	--
Other operating expenses	8,732	1,413	1,102
	-----	-----	-----
Total benefits and expenses	667,397	40,627	3,428
Income (loss) before income taxes	\$ 67,331	\$ (276)	\$3,880
	=====	=====	=====

FOR THE THREE MONTHS ENDED JUNE 30, 2005 (IN THOUSANDS)

		NON-TRADITIONAL	
	TRADITIONAL	ASSET- INTENSIVE	FINANCIAL REINSURANCE
	-----	-----	-----
REVENUES:			
Net premiums	\$574,695	\$ 1,117	\$ --
Investment income, net of related expenses	66,172	41,041	92
Investment related losses, net	(2,633)	(1,882)	(5)
Change in value of embedded derivatives	--	(19,917)	--
Other revenues	145	2,797	7,007
	-----	-----	-----
Total revenues	638,379	23,156	7,094
BENEFITS AND EXPENSES:			
Claims and other policy benefits	497,019	4,933	--
Interest credited	14,303	23,730	--
Policy acquisition costs and other insurance expenses	87,817	12,437	2,113
Change in deferred acquisition costs associated with change in value of embedded derivatives	--	(13,604)	--
Other operating expenses	10,038	1,236	1,345
	-----	-----	-----
Total benefits and expenses	609,177	28,732	3,458
Income (loss) before income taxes	\$ 29,202	\$ (5,576)	\$3,636
	=====	=====	=====

15

FOR THE SIX MONTHS ENDED JUNE 30, 2006 (IN THOUSANDS)

		NON-TRADITIONAL	
	TRADITIONAL	ASSET- INTENSIVE	FINANCIAL REINSURANCE
	-----	-----	-----

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

REVENUES:			
Net premiums	\$1,274,138	\$ 3,079	\$ --
Investment income, net of related expenses	145,699	119,321	(155)
Investment related losses, net	(3,735)	(5,844)	--
Change in value of embedded derivatives	--	(6,523)	--
Other revenues	(44)	7,197	14,806
Total revenues	1,416,058	117,230	14,651
BENEFITS AND EXPENSES:			
Claims and other policy benefits	1,053,786	(142)	1
Interest credited	23,283	81,467	--
Policy acquisition costs and other insurance expenses	183,401	30,934	4,660
Change in deferred acquisition costs associated with change in value of embedded derivatives	--	(5,225)	--
Other operating expenses	18,858	3,189	2,456
Total benefits and expenses	1,279,328	110,223	7,117
Income before income taxes	\$ 136,730	\$ 7,007	\$ 7,534

FOR THE SIX MONTHS ENDED JUNE 30, 2005 (IN THOUSANDS)

		NON-TRADITIONAL	
	TRADITIONAL	ASSET- INTENSIVE	FINANCIAL REINSURANCE
REVENUES:			
Net premiums	\$1,141,489	\$ 2,341	\$ --
Investment income, net of related expenses	129,497	97,695	162
Investment related gains (losses), net	(3,664)	1,634	(7)
Change in value of embedded derivatives	--	2,644	--
Other revenues	711	3,844	13,645
Total revenues	1,268,033	108,158	13,800
BENEFITS AND EXPENSES:			
Claims and other policy benefits	980,281	3,249	2
Interest credited	28,310	63,981	--
Policy acquisition costs and other insurance expenses	161,455	26,124	4,074
Change in deferred acquisition costs associated with change in value of embedded derivatives	--	2,104	--
Other operating expenses	19,297	2,574	2,782
Total benefits and expenses	1,189,343	98,032	6,858
Income before income taxes	\$ 78,690	\$ 10,126	\$ 6,942

Income before income taxes for the U.S. operations segment totaled \$70.9 million and \$151.3 million for the second quarter and first six months of 2006, respectively, compared to \$27.3 million and \$95.8 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 in the first half of 2006.

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

### 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 either facultative or automatic agreements. During the second quarter and first six months of 2006, this sub-segment added \$41.7 billion and \$89.6 billion of new business, respectively, compared to \$48.3 billion and \$84.3

16

billion during the same period in 2005. 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 130.6% and 73.8% for the second quarter and for the first six months of the 2006, respectively. Improved mortality experience in 2006 was the primary contributor to the overall growth in net income. Stronger premiums and higher investment income also contributed to the total increase in net income.

Net premiums for U.S. Traditional reinsurance totaled \$662.3 and \$1,274.1 for the second quarter and first six months of 2006. Comparable prior-year amounts were \$574.7 and \$1,141.5, respectively. The 11.6% increase in year to date net premiums was driven primarily by the growth of total U.S. business in force, which totaled just over \$1.1 trillion as of June 30, 2006, a 9.2% increase over the amount in force as of June 30, 2005.

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 2006, investment income in the segment totaled \$74.7 million, a 12.8% increase over same prior-year period. Year to date 2006, investment income grew 12.5% over the first six months of 2005. This increase can be primarily attributed to growth in the invested asset base.

Mortality experience for the second quarter and the first six months of 2006 improved significantly over the same prior-year periods. Claims and other policy benefits, as a percentage of net premiums (loss ratios), were 82.4% for the second quarter and 82.7% for the first six months of 2006. The loss ratios for the comparative prior periods were 86.5% and 85.9%, 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 2006 totaled \$11.8 million and \$23.3 million, respectively, compared to \$14.3 million and \$28.3 million for the same periods in 2005. The decrease is primarily the result of one treaty in which the credited loan rate decreased from 5.7% in 2005 to 4.6% in 2006.

Policy acquisition costs and other insurance expenses, as a percentage of net premiums, were 15.3% for the second quarter of 2006 and 14.4% for the first six

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

months of 2006. Comparable ratios for the second quarter and first six months of 2005 were 15.3% and 14.1% 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. Additionally, 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 1.3% for the second quarter of 2006 and 1.5% year to date. This is slightly lower than the 1.7% reported quarter to date and year to date in 2005, primarily due to the continued premium growth in this segment. 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.

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"),

17

the Company recorded a change in value of embedded derivatives of \$(11.1) million and \$(6.5) million within revenues for the second quarter and first six months of 2006 respectively and \$(8.0) million and \$(5.2) million of related deferred acquisition costs.

The Asset-Intensive sub-segment reported a loss before income taxes equal to \$0.3 million for the second quarter of 2006 and income before income taxes of \$7.0 million year to date. Compared to the prior year, income increased 95.1% over the second quarter, but decreased 30.8% from the first half of 2005. Investment related losses were the primary contributor to this decrease in income year over year. During the first half of 2006, the Company reported investment related losses of \$(5.8) million relating to this segment compared to the \$1.6 million of investment related gains recorded for the first half of 2005. The investment related losses were partially offset by higher interest rate spreads. Quarter over quarter, the 95.1% increase in income before income taxes is primarily the result of an increase in the fair value of embedded derivatives and strong fund performance in various annuity contracts.

Total revenues increased \$17.2 million for the second quarter of 2006 and \$9.1 million for the first six months of 2006. Contributing to this rise were an increase in investment income and an increase in the fair value of embedded derivatives. Investment income increased \$7.4 and the fair value of embedded derivatives increased \$8.8 million from the second quarter of 2005. Year to date, investment income is up \$21.6 million; however, this is offset by the

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

change in the embedded derivatives, which is down \$9.2 million from same prior-year period. The increase in investment income is primarily related to higher investment income earned on the funds withheld assets, however it is almost entirely offset by an increase in interest credited. The fair value of embedded derivatives is tied primarily to the movement in interest rates and credit spreads; therefore the value may fluctuate significantly.

The average invested asset base supporting this segment grew from \$3.7 billion in the second quarter of 2005 to \$4.2 billion for the second quarter of 2006. 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, 2006 were \$4.3 billion, of which \$2.7 billion were funds withheld at interest. Of the \$2.7 billion of total funds withheld balance as of June 30, 2006, 89.1% of the balance is associated with one client.

Total benefits and expenses, which are comprised primarily of interest credited and policy acquisition costs, increased 41.4% from the second quarter of 2005 and 12.4% year to date. Interest credited increased \$8.2 million and \$17.5 million for the second quarter and first six months of 2006, however this increase is primarily offset by the increase in investment income. The change in the amortization of deferred acquisition costs relating to Issue B36 increased \$5.6 million over second quarter 2005, but decreased \$7.3 million year to date. As stated above, significant fluctuations may occur as the fair value of the derivatives is tied primarily to the movements in the interest rates and credit spreads affecting the underlying funds withheld investment portfolios.

### 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 assumed by the Company are retroceded to other insurance companies. The fees earned from the assumption of the financial reinsurance contracts are reflected in other revenues, and the fees paid to retrocessionaires are reflected in policy acquisition costs and other insurance expenses. Fees are also earned on brokered business in which the Company does not participate in the assumption of the financial reinsurance. This income is reflected in other revenues.

Income before income taxes increased 6.7%, during the second quarter of 2006 and 8.5% for the first six months compared to the same periods in 2005. The increase in income primarily relates to several new transactions that were executed in late 2005.

At June 30, 2006 and 2005, the amount of reinsurance provided, as measured by pre-tax statutory surplus, was \$1.84 billion and \$1.77 billion respectively. The pre-tax statutory surplus includes all business assumed or brokered by the Company. 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 group reinsurance and non-guaranteed critical illness products.

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

(in thousands)	FOR THE THREE MONTHS ENDED		FOR THE SIX MO
	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006
<b>REVENUES:</b>			
Net premiums	\$ 97,120	\$ 76,854	\$191,522
Investment income, net of related expenses	25,998	22,372	51,303
Investment related gains, net	2,345	1,667	2,146
Other revenues	767	19	767
<b>Total revenues</b>	<b>126,230</b>	<b>100,912</b>	<b>245,738</b>
<b>BENEFITS AND EXPENSES:</b>			
Claims and other policy benefits	95,449	74,252	184,528
Interest credited	207	252	412
Policy acquisition costs and other insurance expenses	15,769	11,992	33,589
Other operating expenses	3,731	3,619	7,704
<b>Total benefits and expenses</b>	<b>115,156</b>	<b>90,115</b>	<b>226,233</b>
<b>Income before income taxes</b>	<b>\$ 11,074</b>	<b>\$ 10,797</b>	<b>\$ 19,505</b>

Income before income taxes increased by \$0.3 million or 2.6%, and decreased by \$7.0 million or 26.3%, in the second quarter and first six months of 2006, respectively. A stronger Canadian dollar resulted in an increase in income before income taxes of \$1.1 million and \$1.9 million in the second quarter and first six months of 2006, respectively, as compared to 2005. Results in 2006 reflect unfavorable mortality experience versus favorable mortality experience in 2005.

Net premiums increased by \$20.3 million, or 26.4%, and \$40.9 million or 27.2% for the second quarter and first six months of 2006, respectively. The increases are primarily due to new business from new and existing treaties. Approximately \$6.3 million of the premium increase in the second quarter, and \$13.7 million in the first six months of 2006, represents the effect of two inforce creditor treaties which were executed in late 2005. In addition, a stronger Canadian dollar resulted in an increase in net premiums of \$9.4 million and \$14.9 million in the second quarter and first six months of 2006, respectively, as compared to 2005. 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 \$3.6 million, or 16.2%, and \$6.4 million, or 14.2%, in the second quarter and first six months of 2006, respectively. A stronger Canadian dollar resulted in an increase in net investment income of \$2.3 million and \$3.9 million in the second quarter and first six months of 2006, respectively. Investment income represents an allocation 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 98.3% and 96.3% in the second quarter and first six months of 2006, respectively, compared to 96.6% and 94.9% in the comparable prior-year periods. Excluding creditor business, the loss ratios for

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

this segment were 106.3% and 104.0% in the second quarter and first six months of 2006, respectively, compared to

19

98.4% and 96.4% in the comparable prior-year periods. The higher loss ratios in 2006 are primarily due to unfavorable mortality experience compared to the prior year, as well as the strengthening of the Canadian dollar. 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 the 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 77.5% and 76.0% in the second quarter and first six months of 2006, respectively, compared to 74.8% and 73.1% 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 16.2% and 17.5% in the second quarter and first six months of 2006, respectively, compared to 15.6% and 13.8% in the comparable prior-year periods. Excluding the impact of the stronger Canadian dollar and creditor business, policy acquisition costs and other insurance expenses as a percentage of net premiums totaled 11.2% and 13.3% in the second quarter and first six months of 2006, respectively, compared to 14.8% 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 \$0.1 million, or 3.1%, and \$0.6 million or 8.8% in the second quarter and first six months of 2006, respectively. The increase in expenses is primarily due to the strengthening of the Canadian dollar. Other operating expenses as a percentage of net premiums totaled 3.8% and 4.0% in the second quarter and first six months of 2006, respectively, compared to 4.7% in each of the comparable prior-year periods.

EUROPE & SOUTH AFRICA OPERATIONS

The Europe & South Africa segment has operations in India, Mexico, Spain, South Africa and the United Kingdom. The segment provides life reinsurance for a variety of products through yearly renewable term and coinsurance agreements, and reinsurance of accelerated critical illness coverage, which pays on the earlier of death or diagnosis of a pre-defined critical illness. Reinsurance agreements may be either facultative or automatic agreements covering primarily individual risks and in some markets, group risks.

	FOR THE THREE MONTHS ENDED		FOR THE SIX MO	
	-----		-----	
(in thousands)	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006	J



Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

REVENUES:			
Net premiums	\$146,073	\$132,972	\$291,224
Investment income, net of related expenses	3,873	2,502	7,265
Investment related losses, net	(181)	(180)	(147)
Other revenues	(178)	69	(87)
	-----	-----	-----
Total revenues	149,587	135,363	298,255
BENEFITS AND EXPENSES:			
Claims and other policy benefits	101,034	112,117	206,680
Interest credited	156	190	346
Policy acquisition costs and other insurance expenses	21,821	22,782	41,078
Other operating expenses	9,307	7,118	18,085
	-----	-----	-----
Total benefits and expenses	132,318	142,207	266,189
Income (loss) before income taxes	\$ 17,269	\$ (6,844)	\$ 32,066
	=====	=====	=====

20

Income before income taxes was \$17.3 million during the second quarter of 2006 as compared to a loss before income taxes of \$6.8 million during the second quarter of 2005, and \$32.1 million for the first six months of 2006 as compared to \$7.7 million for the first six months of 2005. The increase for the second quarter and first six months of 2006 was primarily the result of favorable mortality experience in 2006 compared with adverse mortality experience in 2005 in the UK market. The increases in income before income taxes were partially offset due to adverse foreign currency exchange fluctuations totaling approximately \$0.3 million and \$1.5 million during the second quarter and first six months of 2006, respectively.

Net premiums increased \$13.1 million, or 9.9%, during the second quarter compared to the same period last year, and increased \$16.9 million or 6.2% during the six months ended June 30, 2006 compared to the same period last year. This increase was primarily the result of new business from both existing and new treaties. Several foreign currencies, particularly the British pound, the euro, and the South African rand weakened against the U.S. dollar and adversely affected net premiums by approximately \$1.8 million and \$11.5 million for the second quarter and first six months of 2006, respectively. A significant portion of the net premiums were due to reinsurance of accelerated critical illness, primarily in the UK. Net premiums earned during the second quarter and first six months associated with critical illness coverage totaled \$52.4 million and \$101.6 million, respectively, compared to \$49.3 million and \$100.2 million in the 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 \$1.4 million for the second quarter compared to the same period in 2005 and increased \$2.2 million for the six months ended June 30, 2006 compared to the same period in 2005. This increase was 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.

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Loss ratios decreased from 84.3% for the second quarter of 2005 to 69.2% for the second quarter of 2006, and from 76.0% for the six months ended June 30, 2005 to 71.0% for the six months ended June 30, 2006. As mentioned above, favorable mortality experience in the UK market contributed to the decrease in the loss ratio. 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 14.9% in the second quarter of 2006 compared to 17.1% in the second quarter of 2005, and 14.1% for the six months ended June 30, 2006 compared to 18.2% for the six months ended June 30, 2005. 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 5.4% of net premiums in 2005 to 6.4% in 2006, and for the first six months it increased from 4.7% to 6.2%. 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 care and illness, disability income, superannuation, and financial reinsurance. Superannuation is the Australian government mandated compulsory retirement savings program. Superannuation funds accumulate retirement funds for employees, and in addition, offer life and disability insurance coverage. Reinsurance agreements may be either facultative or automatic agreements covering primarily individual risks and in some markets, group risks.

21

(in thousands)	FOR THE THREE MONTHS ENDED		FOR THE SIX MONTHS ENDED	
	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006	JUNE 30, 2005
<b>REVENUES:</b>				
Net premiums	\$168,852	\$145,018	\$308,065	
Investment income, net of related expenses	6,822	5,269	13,318	
Investment related gains (losses), net	(92)	101	(77)	
Other revenues	1,581	2,135	3,491	
	177,163	152,523	324,797	
<b>BENEFITS AND EXPENSES:</b>				
Claims and other policy benefits	131,866	110,617	242,222	
Policy acquisition costs and other insurance expenses	27,567	23,371	49,572	
Other operating expenses	10,005	7,159	18,664	

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

	-----	-----	-----
Total benefits and expenses	169,438	141,147	310,458
Income before income taxes	\$ 7,725	\$ 11,376	\$ 14,339
	=====	=====	=====

Income before income taxes decreased \$3.7 million, or 32.1%, during the second quarter of 2006, but remained relatively consistent for the six months ended June 30, 2006, as compared to the same periods in 2005. The decrease in income before income taxes for the second quarter of 2006 was primarily the result of a higher claims level in the New Zealand market. Strong premium growth, particularly in Australia, Japan and Korea, and favorable overall results in certain markets, primarily Australia and Japan, partially offset the increased claims in New Zealand. Adverse foreign currency exchange fluctuations resulted in a decrease in income before income taxes totaling approximately \$0.3 million and \$1.0 million during the second quarter and first six months of 2006, respectively.

Net premiums grew \$23.8 million, or 16.4%, during the current quarter, and \$44.8 million, or 17.0%, for the six months ended June 30, 2006, as compared to the same periods in 2005. This premium growth was primarily the result of continued increases in the volume of business in Australia, Japan and Korea. Due to continued growth in its group business, premiums in Australia increased by \$9.4 million in the second quarter of 2006, and \$15.1 million for the six months ended June 30, 2006, as compared to the same periods in 2005. Japan premium increased by \$7.8 million in the second quarter of 2006, and \$12.1 million for the six months ended June 30, 2006, as compared to the same periods in 2005, primarily due to the growth of four significant clients. Korea's premium increased by \$9.1 million in the second quarter of 2006, and \$18.5 million for the six months ended June 30, 2006 as compared to the same periods in 2005, primarily due to the growth in business with three significant clients. Premium levels are significantly influenced by large transactions and reporting practices of ceding companies and can fluctuate from period to period.

A portion of the premiums for the segment during each period presented is due to reinsurance of critical illness as a stand alone benefit, or as an accelerated benefit on a life insurance policy. This coverage provides a benefit in the event of a death from, or the diagnosis of, a defined critical illness. Reinsurance of critical illness in the Asia Pacific operations is offered primarily in Australia and Korea. Premiums earned from this coverage totaled \$23.2 million and \$34.9 million during the second quarter and first six months of 2006, respectively, compared to \$19.9 million and \$37.0 million during the second quarter and first six months of 2005, respectively.

Foreign currencies in certain significant markets, particularly the Australian dollar and the Japanese Yen, began to weaken against the U.S. dollar during 2006. The overall effect of changes in local Asia Pacific segment currencies was a decrease in net premiums of approximately \$3.0 million in the second quarter of 2006 and a decrease of approximately \$8.8 million in net premiums for the six months ended June 30, 2006, as compared to the same periods in 2005.

Net investment income increased \$1.5 million in the current quarter compared to the prior-year quarter, and \$3.3

million for the six months ended June 30, 2006 compared to the six months ended June 30, 2005. This increase was primarily due to growth in the invested assets in Australia, along with an increase in allocated investment income. Investment

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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.

Other revenues decreased by \$0.5 million for the second quarter of 2006, as compared to the same period in 2005, but increased by \$1.5 million for the six months ended June 30, 2006, as compared to the same period in 2005. The primary source of other revenues during 2006 has been fees from three financial reinsurance treaties in the Japan market. Other revenue in the second quarter of 2005 includes the effect of the recapture of a significant client treaty in Hong Kong.

Loss ratios were 78.1% and 76.3% for the second quarter of 2006 and 2005, respectively, and 78.6% and 76.5% for the six months ended June 30, 2006 and June 30, 2005, respectively. The increased loss ratio for the second quarter was due to adverse experience in New Zealand's disability income products in 2006. Also contributing to the loss ratio increase for the six month period was adverse mortality experience in Korea during the first quarter of 2006. Loss ratios will fluctuate due to timing of client company reporting, variations in the mixture of business being reinsured and the relative maturity of the business. 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 16.3% during the second quarter of 2006, which is relatively consistent with the 16.1% ratio for the second quarter of 2005. The ratio of policy acquisition costs and other insurance expenses as a percentage of net premiums will generally decline as the business matures, however, the percentage does fluctuate periodically due to timing of client company reporting and variations in the mixture of business being reinsured. Policy acquisition costs and other insurance expenses as a percentage of net premiums were 16.1% during the six months ended June 30, 2006, as compared to an 18.2% ratio for the six months ended June 30, 2005. The ratio for the first six months of 2005 was affected by increased amortization of deferred policy acquisition costs associated with the recapture of a significant treaty in Hong Kong in the first quarter of 2005.

Other operating expenses increased to 5.9% of net premiums in the current quarter, and 6.1% of net premiums for the six months ended June 30, 2006, from 4.9% and 4.5% in the comparable prior-year periods. The timing of premium flows and the level of costs associated with the entrance into and development of new markets in the growing Asia Pacific segment may cause other operating expenses as a percentage of net premiums to fluctuate over periods of time.

### CORPORATE AND OTHER OPERATIONS

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

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

23

(in thousands)	FOR THE THREE MONTHS ENDED		FOR THE SIX MO
	JUNE 30, 2006	JUNE 30, 2005	JUNE 30, 2006
<b>REVENUES:</b>			
Net premiums	\$ 652	\$ 698	\$ 1,017
Investment income, net of related expenses	8,983	8,836	18,795
Investment related gains (losses), net	(2,369)	15,882	2,975
Other revenues	(97)	8,489	2,117
Total revenues	7,169	33,905	24,904
<b>BENEFITS AND EXPENSES:</b>			
Claims and other policy benefits	(185)	28,992	(1,031)
Interest credited	643	140	753
Policy acquisition costs and other insurance expenses	(10,551)	(2,657)	(18,730)
Other operating expenses	11,540	7,517	23,401
Interest expense	15,014	9,895	31,781
Collateral finance facility expense	277	--	277
Total benefits and expenses	16,738	43,887	36,451
Loss before income taxes	\$ (9,569)	\$ (9,982)	\$ (11,547)

Loss before income taxes decreased \$0.4 million and increased \$0.5 during the three and six month periods ended June 30, 2006, respectively. These variances are the net result of reduced claims and other policy benefits, offset by increased interest expense and operating expenses and a reduction in investment related gains. Investment income and investment related gains are the result of an allocation to other segments based upon average assets and related capital levels deemed appropriate to support their business volumes. The reduction in other revenues was attributable primarily to less favorable foreign currency adjustments. The reduction in claims and other policy benefits was due to a \$24.0 million increase in the reserves associated with the reinsurance of Argentine pension accounts during the second quarter of 2005. The increase in interest expense is due to the issuance of \$400 million in Junior Subordinated Debentures in the fourth quarter of 2005. The increase in operating expenses is largely due to additional expense related to equity based compensation plans.

DISCONTINUED OPERATIONS

The discontinued accident and health division reported a loss, net of taxes, of \$0.2 million for the second quarter of 2006 compared to a loss, net of taxes, of \$3.3 million for the second quarter of 2005. As of June 30, 2006, amounts in dispute or subject to audit exceed the Company's reserves by approximately \$23.8 million. The calculation of the claim reserve liability for the entire portfolio of accident and health business requires management to make estimates and assumptions that affect the reported claim reserve levels. Management must make estimates and assumptions based on historical loss experience, changes in the nature of the business, anticipated outcomes of claim disputes and claims for rescission, and projected future premium run-off, all of which may affect the

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

level of the claim reserve liability. Due to the significant uncertainty associated with the run-off of this business, net income in future periods could be affected positively or negatively.

### LIQUIDITY AND CAPITAL RESOURCES

#### The Holding Company

RGA is a holding company whose primary uses of liquidity include, but are not limited to, the immediate capital needs of its operating companies associated with the Company's primary businesses, dividends paid by RGA to its shareholders, interest payments on its indebtedness, and repurchases of RGA common stock under a plan approved

24

by the board of directors. The primary sources of RGA's liquidity include proceeds from its capital raising efforts, interest income on undeployed corporate investments, interest income received on surplus notes with two operating subsidiaries, and dividends from operating subsidiaries. As the Company continues its expansion efforts, RGA will continue to be dependent on these sources of liquidity.

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

#### Cash Flows

The Company's net cash flows provided by operating activities for the periods ended June 30, 2006 and 2005 were \$307.9 million and \$202.9 million, respectively. Cash flows from operating activities are affected by the timing of premiums received, claims paid, and working capital changes. The \$105.0 million net increase in operating cash flows during the six months of 2006 compared to the same period in 2005 was primarily a result of cash inflows related to premiums and investment income increasing more than cash outflows related to claims, acquisition costs, income taxes and other operating expenses. Cash from premiums and investment income increased \$217.4 million and \$56.1 million, respectively, and was offset by higher operating cash outlays of \$168.5 million during the current six 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 with positive liquidity characteristics. These securities are available for sale and could be sold if necessary to meet the Company's short and long-term obligations.

Net cash used in investing activities was \$1.0 billion and \$146.1 million in the first six months of 2006 and the comparable prior-year period, respectively. This change is primarily due to the increase in other invested assets, which includes \$852.3 million of restricted cash and cash equivalents, related to the Company's collateral finance facility. The sales and purchases of fixed maturity securities, are primarily related to the management of the Company's investment

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

portfolios and the investment of excess cash generated by operating and financing activities.

Net cash provided by financing activities was \$855.8 million in the first six months of 2006 and net cash used in financing activities was \$47.4 million in the same period of 2005. This change was due to the proceeds from the Company's collateral finance facility and an increase in securitized lending activities partially offset by \$100.0 million principal payments on debt. Also contributing to the change were excess deposits from universal life and other investment type policies and contracts of \$49.8 million during the current period compared to net withdrawals of \$47.4 million in 2005.

### Debt and Preferred Securities

As of June 30, 2006, the Company had \$702.3 million in outstanding borrowings under its debt agreements and was in compliance with all covenants under those agreements.

The Company maintains three revolving credit facilities. The largest is a syndicated credit facility with an overall capacity of \$600.0 million that expires in September 2010. The overall capacity available for issuance of letters of credit is reduced by any cash borrowings made by the Company against this credit facility. The Company may borrow up to \$300.0 million of cash under the facility. As of June 30, 2006 the Company's outstanding cash balance was \$50.0 million under this credit facility, with an average interest rate of 5.64%. The Company's other credit facilities consist of a £15.0 million credit facility that expires in May 2007 and an Australian \$50.0 million credit facility that expires in June 2011. The Company's foreign denominated credit facilities had a combined outstanding balance of \$53.7 million as of June 30, 2006.

The average interest rate on all long-term debt outstanding, excluding the Company-obligated mandatorily redeemable preferred securities of subsidiary trust holding solely junior subordinated debentures of the Company ("Trust Preferred Securities"), was 6.59%. Interest is expensed on the face amount, or \$225 million, of the Trust Preferred Securities at a rate of 5.75%.

### Collateral Finance Facility

On June 28, 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. Proceeds from the notes have been deposited into a series of trust accounts that collateralize the notes and are not available to satisfy the general obligations of the Company. Interest on the notes will accrue at an annual rate of 1-month LIBOR plus a base rate margin, payable monthly. The payment of interest and principal on the notes is insured through a financial guaranty insurance policy with a third party. The notes represent senior, secured indebtedness of Timberlake Financial and its assets with no 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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

payments on the surplus note and dividend payments to Timberlake Financial is contingent upon South Carolina regulatory approval and the performance of specified term life insurance policies with guaranteed level premiums retroceded by RGA's subsidiary, RGA Reinsurance Company, to Timberlake Re.

In accordance with Financial Accounting Standards Board ("FASB") Interpretation No. 46(r), "Consolidation of Variable Interest Entities - An Interpretation of ARB No. 51," Timberlake Financial is considered to be a variable interest entity and the Company is deemed to hold the primary beneficial interest. As a result, Timberlake Financial has been consolidated in the Company's condensed financial statements. The Company's condensed consolidated balance sheets include the assets of Timberlake Financial recorded as fixed maturity investments and other invested assets, which consists of restricted cash and cash equivalents, with the liability for the notes recorded as collateral finance facility. The Company's condensed consolidated statements of income include the investment return of Timberlake Financial as investment income and the cost of the facility is reflected in collateral finance facility expense.

### Asset / Liability Management

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

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

The Company's liquidity position (cash and cash equivalents and short-term investments) was \$306.4 million and \$255.0 million at June 30, 2006 and December 31, 2005, respectively. Liquidity needs are determined from valuation analyses conducted by operational units and are driven by product portfolios. Annual evaluations of demand liabilities and short-term liquid assets are designed to adjust specific portfolios, as well as their durations and maturities, in response to anticipated liquidity needs.

The Company occasionally enters into sales of investment securities under agreements to repurchase the same securities to help manage its short-term liquidity requirements. These transactions are reported as securitized lending obligations within other liabilities. There were \$76.5 million of these agreements outstanding at June 30, 2006 and there were no agreements outstanding at December 31, 2005.

### Future Liquidity and Capital Needs

Based on the historic cash flows and the current financial results of the Company, subject to any dividend limitations which may be imposed by various insurance regulations, management believes RGA's cash flows from operating activities, together with undeployed proceeds from its capital raising efforts, including interest and investment income on those proceeds, interest income received on surplus notes with two operating subsidiaries, and its ability to raise funds in the capital markets, will be sufficient to enable RGA to make dividend payments to



## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

its shareholders, to make interest payments on its senior indebtedness and junior subordinated notes, to repurchase RGA common stock under the plan approved by the board of directors, and to meet its other liquidity obligations.

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

### INVESTMENTS

The Company had total cash and invested assets of \$13.7 billion and \$11.3 billion at June 30, 2006 and 2005, respectively. All investments made by RGA and its subsidiaries conform to the qualitative and quantitative limits prescribed by the applicable jurisdiction's insurance laws and regulations. In addition, the Boards of Directors of the various operating companies periodically review the investment portfolios of their respective subsidiaries. RGA's Board of Directors also receives reports on material 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 earned yield on invested assets, excluding funds withheld, was 5.72% during the second quarter of 2006, compared with 5.99% for the second quarter of 2005. See "Note 5 - Investments" in the Notes to Consolidated Financial Statements of the 2005 Annual Report for additional information regarding the Company's investments.

The Company's fixed maturity securities are invested primarily in commercial and industrial bonds, public utilities, U.S. and Canadian government securities, as well as mortgage- and asset-backed securities. As of June 30, 2006, approximately 96.8% of the Company's consolidated investment portfolio of fixed maturity securities was investment grade. Important factors in the selection of investments include diversification, quality, yield, total rate of return potential and call protection. The relative importance of these factors is determined by market conditions and the underlying product or portfolio characteristics. Cash equivalents are invested in high-grade money market instruments. The largest asset class in which fixed maturities were invested was in corporate securities, including commercial, industrial, finance and utility bonds, which represented approximately 57.8% of fixed maturity securities as of June 30, 2006 and had an average Standard and Poor's ("S&P") rating of "A-".

Within the fixed maturity security portfolio, the Company holds approximately \$137.2 million in asset-backed securities at June 30, 2006, which include credit card and automobile receivables, home equity loans, manufactured housing bonds and collateralized bond obligations. The Company's asset-backed securities are diversified by issuer and contain both floating and fixed rate securities. 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.

The Company monitors its fixed maturity 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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 \$0.2 million in other-than-temporary write-downs on fixed maturity securities for the six months ending June 30, 2006. The Company did not record other-than-temporary write-downs on fixed maturity securities for the six months ending June 30, 2005. During the six months ended June 30, 2006, the Company sold fixed maturity securities with a fair value of \$472.1 million, which were below amortized cost, at a loss of \$17.3 million.

The following table presents the total gross unrealized losses for 1,366 fixed maturity securities and equity securities as of June 30, 2006, where the estimated fair value had declined and remained below amortized cost by the indicated amount (in thousands):

27

	AT JUNE 30, 2006	
	Gross Unrealized Losses	% of Total
	-----	-----
Less than 20%	\$181,240	100.0%
20% or more for less than six months	--	--
20% or more for six months or greater	--	--
	-----	-----
Total	\$181,240	100.0%
	=====	=====

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

The following tables present the estimated fair values and gross unrealized losses for the 1,366 fixed maturity securities and equity securities that have estimated fair values below amortized cost as of June 30, 2006. 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.

	AS OF JUNE 30, 2006			
	LESS THAN 12 MONTHS		EQUAL TO OR GREATER THAN 12 MONTHS	
	-----	-----	-----	-----
(in thousands)	Estimated Fair Value	Gross Unrealized Loss	Estimated Fair Value	Gross Unrealized Loss
	-----	-----	-----	-----

INVESTMENT GRADE SECURITIES:

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

COMMERCIAL AND INDUSTRIAL	\$1,044,948	\$ 47,523	\$104,437	\$ 6,173
PUBLIC UTILITIES	393,914	19,765	10,215	604
ASSET-BACKED SECURITIES	72,966	1,927	19,726	641
CANADIAN AND CANADIAN PROVINCIAL GOVERNMENTS	129,679	8,720	14,753	314
MORTGAGE-BACKED SECURITIES	1,057,637	36,270	202,663	9,734
FINANCE	808,312	25,415	82,704	4,593
U.S. GOVERNMENT AND AGENCIES	39,755	552	672	33
STATE AND POLITICAL SUBDIVISIONS	39,539	2,603	--	--
FOREIGN GOVERNMENTS	185,835	3,239	3,218	59
	-----	-----	-----	-----
INVESTMENT GRADE SECURITIES	3,772,585	146,014	438,388	22,151
	-----	-----	-----	-----
NON-INVESTMENT GRADE SECURITIES:				
COMMERCIAL AND INDUSTRIAL	113,872	4,978	1,966	74
FINANCE	3,625	277	1,939	101
ASSET-BACKED SECURITIES	3,277	22	--	--
PUBLIC UTILITIES	32,355	1,005	--	--
	-----	-----	-----	-----
NON-INVESTMENT GRADE SECURITIES	153,129	6,282	3,905	175
	-----	-----	-----	-----
TOTAL FIXED MATURITY SECURITIES	\$3,925,714	\$152,296	\$442,293	\$22,326
	=====	=====	=====	=====
EQUITY SECURITIES	\$ 92,292	\$ 4,528	\$ 30,738	\$ 2,090
	=====	=====	=====	=====

28

The Company believes that the analysis of each security whose price has been below market for twelve months or longer indicates that the financial strength, liquidity, leverage, future outlook and/or recent management actions support the view that the security was not other-than-temporarily impaired as of June 30, 2006. The unrealized losses did not exceed 17.6% on an individual security basis and are primarily a result of rising interest rates, changes in credit spreads and the long-dated maturities of the securities.

The Company's mortgage loan portfolio consists principally of investments in U.S.-based commercial offices and retail locations. The mortgage loan portfolio is diversified by geographic region and property type. All mortgage loans are performing and no valuation allowance has been established as of June 30, 2006.

Policy loans present no credit risk because the amount of the loan cannot exceed the obligation due the ceding company upon the death of the insured or surrender of the underlying policy. The provisions of the treaties in force and the underlying policies determine the policy loan interest rates. Because policy loans represent premature distributions of policy liabilities, they have the effect of reducing future disintermediation risk. In addition, the Company earns a spread between the interest rate earned on policy loans and the interest rate credited to corresponding liabilities.

Funds withheld at interest comprised approximately 27.5% and 27.8% of the Company's cash and invested assets as of June 30, 2006 and December 31, 2005, 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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

liabilities. However, the risk of loss to the Company is mitigated by its ability to offset amounts it owes the ceding company for claims or allowances with amounts owed to the Company from the ceding company. Interest accrues to these assets at rates defined by the treaty terms. The Company is subject to the investment performance on the withheld assets, although it does not directly control them. These assets are primarily fixed maturity investment securities and pose risks similar to the fixed maturity securities the Company owns. To mitigate this risk, the Company helps set the investment guidelines followed by the ceding company and monitors compliance. Ceding companies with funds withheld at interest had a minimum A.M. Best rating of "A-".

Other invested assets represented approximately 7.7% and 1.9% of the Company's cash and invested assets as of June 30, 2006 and December 31, 2005, respectively. Other invested assets include common stock, preferred stocks, restricted cash and cash equivalents and limited partnership interests. The increase in other invested assets from December 31, 2005 was primarily due to the inclusion of \$852.3 million of restricted cash and cash equivalents related to the Company's collateral finance facility at June 30, 2006. The Company did not record an other-than-temporary write-down on its investments in limited partnerships in the second quarter of 2006 or 2005. The Company recorded other-than-temporary writedowns of \$3.1 million and \$1.3 million on its investments in limited partnerships during the six months ended June 30, 2006 and 2005, respectively.

### CONTRACTUAL OBLIGATIONS

The following table displays the Company's contractual obligations that have materially changed since December 31, 2005 (in millions):

Contractual Obligations:	PAYMENT DUE BY PERIOD				
	Total	Less than 1 Year	1 - 3 Years	4 - 5 Years	After 5 Years
Short-term debt, including interest	\$ 29.0	\$ 29.0	\$ --	\$ --	\$ --
Collateral finance facility, including interest	1,333.3	48.5	97.3	96.9	1,090.6
Life claims payable	931.1	931.1	--	--	--
Operating leases	33.4	6.2	9.4	6.5	11.3
Limited partnerships	46.6	46.6	--	--	--
Mortgage purchase commitments	31.2	31.2	--	--	--

29

The Company's insurance liabilities, including future policy benefits and interest-sensitive contract liabilities, represent future obligations, where the timing of payment is unknown because the payment depends on an insurable event, such as the death of an insured, or policyholder behavior, such as the surrender or lapse of a policy. These future obligations are established based primarily on actuarial principles and are reflected on the Company's condensed consolidated balance sheet, but have been excluded from the table above due to the uncertain timing of payment.

### MORTALITY RISK MANAGEMENT

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 and coinsurance contracts. In the U.S., the Company retains a maximum of \$6.0 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 \$6.0 million per individual policy. In total, there are 29 such cases of over-retained policies, for amounts averaging \$3.1 million over the Company's normal retention limit. The largest amount over retained on any one life is \$13.1 million. For other countries, particularly those with higher risk factors or smaller books of business, the Company systematically reduces its retention. The Company has a number of retrocession arrangements whereby certain business in force is retroceded on an automatic or facultative basis.

Generally, RGA's insurance subsidiaries retrocede amounts in excess of their retention to RGA Reinsurance Company ("RGA Reinsurance"), RGA Reinsurance Company (Barbados) Ltd., or RGA Americas Reinsurance Company, Ltd. Retrocessions are arranged through the Company's retrocession pools for amounts in excess of its retention. The Company also retrocedes most of its financial reinsurance business to other insurance companies to alleviate the strain on statutory surplus created by this business. For a majority of the retrocessionaires that are not rated, letters of credit or trust assets have been given as additional security in favor of RGA Reinsurance. In addition, the Company performs annual financial and in force reviews of its retrocessionaires to evaluate financial stability and performance.

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

The Company maintains a catastrophe insurance program ("Program") that renews on August 13th of each year. The current Program began August 13, 2005, and covers events involving 10 or more insured deaths from a single occurrence. The Company retains the first \$25 million in claims, the Program covers the next \$50 million in claims, and the Company retains all claims in excess of \$75 million. The Program covers only losses under U.S. guaranteed issue (corporate owned life insurance, bank owned life insurance, etc.) reinsurance programs and includes losses due to acts of terrorism, but excludes losses due to nuclear, chemical and/or biological events. The Program is insured by several insurance companies and Lloyd's Syndicates, with no single entity providing more than \$10 million of coverage.

### 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.

### MARKET RISK

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

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Interest rate risk arises from many of the Company's primary activities, as the Company invests substantial funds in interest-sensitive assets and also has certain interest-sensitive contract liabilities. The Company manages interest rate risk and credit risk to maximize the return on the Company's capital effectively and to preserve the value

30

created by its business operations. As such, certain management monitoring processes are designed to minimize the impact of sudden and sustained changes in interest rates on fair value, cash flows, and net interest income.

The Company is subject to foreign currency translation, transaction, and net income exposure. The Company generally does not hedge the foreign currency translation exposure related to its investment in foreign subsidiaries as it views these investments to be long-term. Translation differences resulting from translating foreign subsidiary balances to U.S. dollars are reflected in equity. The Company generally does not hedge the foreign currency exposure of its subsidiaries transacting business in currencies other than their functional currency (transaction exposure).

There has been no significant change in the Company's quantitative or qualitative aspects of market risk during the quarter ended June 30, 2006 from that disclosed in the 2005 Annual Report.

### NEW ACCOUNTING STANDARDS

In June, 2006, the FASB issued FASB Interpretation ("FIN") No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, treatment of interest and penalties, and disclosure of such positions. FIN 48 will be applied prospectively and will be effective for fiscal years beginning after December 31, 2006. The Company is currently evaluating the effect, if any, of FIN 48 on the Company's condensed consolidated financial statements.

Effective January 1, 2006, the Company prospectively adopted SFAS No. 155, "Accounting for Certain Hybrid Instruments" ("SFAS 155"). SFAS 155 amends SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") and SFAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." SFAS 155 allows financial instruments that have embedded derivatives to be accounted for as a whole, eliminating the need to bifurcate the derivative from its host, if the holder elects to account for the whole instrument on a fair value basis. In addition, among other changes, SFAS 155 (i) clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; (ii) establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; (iii) clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and (iv) eliminates the prohibition on a qualifying special-purpose entity ("QSPE") from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial interest. The adoption of SFAS 155 did not have a material impact on the Company's condensed consolidated financial statements.

In June 2005, the FASB cleared SFAS 133 Implementation Issue No. B38, "Embedded

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

Derivatives: Evaluation of Net Settlement with Respect to the Settlement of a Debt Instrument through Exercise of an Embedded Put Option or Call Option" ("Issue B38") and SFAS 133 Implementation Issue No. B39, "Embedded Derivatives: Application of Paragraph 13(b) to Call Options That Are Exercisable Only by the Debtor" ("Issue B39"). Issue B38 clarified that the potential settlement of a debtor's obligation to a creditor occurring upon exercise of a put or call option meets the net settlement criteria of SFAS No. 133. Issue B39 clarified that an embedded call option, in which the underlying is an interest rate or interest rate index, that can accelerate the settlement of a debt host financial instrument should not be bifurcated and fair valued if the right to accelerate the settlement can be exercised only by the debtor (issuer/borrower) and the investor will recover substantially all of its initial net investment. Issues B38 and B39 were adopted by the Company during the first quarter of 2006 and did not have a material effect on the Company's condensed consolidated financial statements.

In May 2005, the FASB issued SFAS 154. The statement requires retrospective application to prior periods' financial statements for correction of errors or a voluntary change in accounting principle unless it is deemed impracticable. It also requires that a change in the method of depreciation, amortization, or depletion for long-lived, non-financial assets be accounted for as a change in accounting estimate rather than a change in accounting principle. SFAS 154 was adopted by the Company during the first quarter of 2006 and did not have a material effect on the Company's condensed consolidated financial statements.

31

### FORWARD-LOOKING AND CAUTIONARY STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 including, among others, statements relating to projections of the strategies, earnings, revenues, income or loss, ratios, future financial performance, and growth potential of the Company. The words "intend," "expect," "project," "estimate," "predict," "anticipate," "should," "believe," and other similar expressions also are intended to identify forward-looking statements. Forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. Future events and actual results, performance, and achievements could differ materially from those set forth in, contemplated by, or underlying the forward-looking statements.

Numerous important factors could cause actual results and events to differ materially from those expressed or implied by forward-looking statements including, without limitation, (1) adverse changes in mortality, morbidity or claims experience, (2) changes in the Company's financial strength and credit ratings or those of MetLife, Inc. ("MetLife"), the beneficial owner of a majority of the Company's common shares, or its subsidiaries, and the effect of such changes on the Company's future results of operations and financial condition, (3) inadequate risk analysis and underwriting, (4) general economic conditions or a prolonged economic downturn affecting the demand for insurance and reinsurance in the Company's current and planned markets, (5) the availability and cost of collateral necessary for regulatory reserves and capital, (6) market or economic conditions that adversely affect the Company's ability to make timely sales of investment securities, (7) 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, (8) fluctuations in U.S. or foreign currency exchange rates, interest rates, or securities and real estate markets, (9) adverse litigation or arbitration results, (10) the adequacy of reserves, resources and accurate information

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

relating to settlements, awards and terminated and discontinued lines of business, (11) the stability of and actions by governments and economies in the markets in which the Company operates, (12) competitive factors and competitors' responses to the Company's initiatives, (13) the success of the Company's clients, (14) successful execution of the Company's entry into new markets, (15) successful development and introduction of new products and distribution opportunities, (16) the Company's ability to successfully integrate and operate reinsurance business that the Company acquires, (17) regulatory action that may be taken by state Departments of Insurance with respect to the Company, MetLife, or its subsidiaries, (18) 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, (19) the threat of natural disasters, catastrophes, terrorist attacks, epidemics or pandemics anywhere in the world where the Company or its clients do business, (20) changes in laws, regulations, and accounting standards applicable to the Company, its subsidiaries, or its business, (21) 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 (22) 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 of the 2005 Annual Report.

### 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.

32

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 June 30, 2006, 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 currently a party to three arbitrations that involve its



## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

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 one pending and one threatened arbitration related to its life reinsurance business. In addition, the Company has been joined in a suit filed against one of its ceding companies alleging wrongful denial of a life insurance claim. As of June 30, 2006, the parties involved in these actions have raised claims, or established reserves that may result in claims, in the amount of \$32.0 million, which is \$27.9 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 2005 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. While it is not feasible to predict or determine the ultimate outcome of the pending litigation or arbitrations or provide reasonable 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 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 or cash flows in particular quarterly or annual periods.

### ITEM 1A. RISK FACTORS

There have been no material changes from the risk factors previously disclosed in the Company's 2005 Annual Report.

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Under a Board of Directors approved plan, the Company may purchase at its discretion up to \$50 million of its common stock on the open market. As of June 30, 2006, the Company had purchased 225,500 shares of treasury stock under this program at an aggregate price of \$6.6 million. All purchases were made during 2002. The Company generally uses treasury shares to support the future exercise of options granted under its stock option plans.

### ITEM 4.

#### SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The Company's Annual Meeting of Shareholders was held on May 24, 2006. At the Annual Meeting, the following proposal was voted upon by the shareholders as indicated below:

Election of the following Directors:

DIRECTORS -----	VOTED FOR -----	WITHHELD -----
Stuart I. Greenbaum	54,431,121	1,050,670
Leland C. Launer, Jr.	43,888,273	11,593,518
Georgette A. Piligian	43,825,198	11,656,593

### ITEM 6. EXHIBITS

Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

See index to exhibits.

33

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 August 4, 2006

-----  
A. Greig Woodring  
President & Chief Executive Officer  
(Principal Executive Officer)

By: /s/ Jack B. Lay August 4, 2006

-----  
Jack B. Lay  
Executive Vice President & Chief  
Financial Officer (Principal Financial  
and Accounting Officer)

34

INDEX TO EXHIBITS

Exhibit Number -----	Description -----
3.1	Restated Articles of Incorporation, incorporated by reference to Exhibit 3.1 of Current Report on Form 8-K filed June 30, 2004.
3.2	Bylaws of RGA, as amended, incorporated by reference to Exhibit 3.2 of Quarterly Report on Form 10-Q filed August 6, 2004.
10.1	Amendment No.2 dated as of June 22, 2006 to Credit Agreement dated as of September 29, 2005 among RGA and certain subsidiaries, as Account Parties, the financial institutions listed on the signature pages thereof, The Bank of New York, as Administrative Agent; Bank of America, N.A., as Syndication Agent; and KeyBank National Association, Wachovia Bank, National Association, and Deutsche Bank, AG New York Branch, as Co-Documentation Agents.
31.1	Certification of Chief Executive Officer pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Chief Financial Officer pursuant to section 302 of

## Edgar Filing: REINSURANCE GROUP OF AMERICA INC - Form 10-Q

the Sarbanes-Oxley Act of 2002.

- 32.1 Certification of Chief Executive Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Chief Financial Officer pursuant to section 906 of the Sarbanes-Oxley Act of 2002.