PARTNERRE LTD
Form 10-K
March 01, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

Bermuda **(State or other jurisdiction of** **incorporation or organization)**	**Not Applicable** **(I.R.S. Employer** **Identification No.)**
90 Pitts Bay Road, Pembroke, Bermuda **(Address of principal executive offices)**	**HM 08** **(Zip Code)**

(441) 292-0888

(Registrant s telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Shares, $1.00 par value	**New York Stock Exchange, NYSE Euronext Paris,** **Bermuda Stock Exchange**
6.75% Series C Cumulative Preferred Shares, **$1.00 par value**	**New York Stock Exchange**
6.50% Series D Cumulative Preferred Shares, **$1.00 par value**	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer	x	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of most recently completed second fiscal quarter (June 30, 2009) was $3,670,057,556 based on the closing sales price of the registrant s common shares of $64.95 on that date.

The number of the registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of February 22, 2010 was 81,202,954.

Documents Incorporated by Reference:

Document	**Part(s) Into Which Incorporated**
Portions of the registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, relating to the registrant s Annual General Meeting of Shareholders scheduled to be held May 12, 2010 are incorporated by reference into Part II and Part III of this report. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this report.	

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

PartnerRe Ltd. has made statements under the captions Business, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operation, and in other sections of this annual report on Form 10-K that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expects, plans, anticipates, believes, estimat potential, or continue, the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors described under the caption entitled Risk Factors. You should specifically consider the numerous risks outlined under Risk Factors.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this annual report on Form 10-K to conform our prior statements to actual results or revised expectations.

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PART I

ITEM 1. BUSINESS

General

PartnerRe Ltd. (the Company or PartnerRe), incorporated in Bermuda in August 1993, is an international reinsurance group. The Company provides reinsurance on a worldwide basis through its wholly owned subsidiaries, including Partner Reinsurance Company Ltd. (Partner Reinsurance), Partner Reinsurance Europe Limited (PartnerRe Europe), Partner Reinsurance Company of the U.S. (PartnerRe U.S.), PARIS RE SA (Paris Re France) and PARIS RE Switzerland AG (Paris Re Switzerland). Risks reinsured include, but are not limited to, property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines and life/annuity and health. The Company also offers alternative risk products that include weather and credit protection to financial, industrial and service companies on a worldwide basis.

The Company was initially formed to capitalize on a void of capacity in the catastrophe reinsurance market following the significant devastation wrought by Hurricane Andrew in 1992 and the concurrent difficulties being faced by Lloyds of London. After raising nearly $1 billion with its initial public offering, the Company became one of the premier catastrophe reinsurers on a global basis, with acknowledged underwriting skills and disciplined risk management principles.

In 1997, recognizing the limits of a continued monoline strategy, the Company shifted its strategic focus to execute a plan to become a leading multiline reinsurer. Through both organic growth and strategic acquisitions, the Company moved to capitalize on the benefits of diversification both in terms of geography and business lines. In July 1997, the Company completed the acquisition of SAFR (subsequently renamed PartnerRe SA), a well-established global professional reinsurer based in Paris. In December 1998, the Company completed the acquisition of the reinsurance operations of Winterthur Re, further enhancing the Company s expansion strategy.

In November 2005, the European Parliament adopted Directive 2005/68/EC, the European Union Reinsurance Directive (Reinsurance Directive). The Reinsurance Directive seeks to harmonize the supervision of reinsurance business within the European Union by creating a single regulated market. To ensure operational efficiency, the Company determined that it was in its best commercial interests to restructure its European operations to create a single operating platform in Europe and that the appropriate entity to operate as such single operating platform was its Irish reinsurance subsidiary, PartnerRe Europe. This reorganization occurred on January 1, 2008.

On July 4, 2009, the Company entered into definitive agreements (Transaction Agreements) to effect a multi-step acquisition of all of the outstanding common shares and warrants of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-based reinsurer.

On October 2, 2009, the Company caused a wholly-owned subsidiary (Merger Subsidiary) to complete the purchase (Block Purchase) in which the Company acquired approximately 57% of the outstanding Paris Re common shares and certain outstanding Paris Re warrants. These shares, when added together with the approximately 6% of the outstanding Paris Re common shares that the Company purchased in July 2009 and an additional approximately 20% of the outstanding Paris Re common shares that the Company subsequently committed to acquire simultaneously with the closing of the Block Purchase from certain other Paris Re shareholders, gave the Company an aggregate ownership of approximately 83% of the outstanding Paris Re common shares following the closing of the Block Purchase on October 2, 2009.

Following the closing of the Block Purchase, in late October 2009, the Company entered into a number of separate securities purchase agreements pursuant to which the Company acquired in the aggregate approximately 6% of the outstanding Paris Re common shares. As a result, the Company s ownership of Paris Re increased to approximately 89% of outstanding Paris Re common shares.

In each step of these purchases, the Company exchanged 0.300 Company common shares for each Paris Re common share and 0.167 Company common shares for each Paris Re warrant.

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On December 7, 2009, the Company completed its acquisition of Paris Re, achieving 100% ownership. The final step of the acquisition was effected by a merger under Swiss law, pursuant to which Paris Re was merged with and into the Merger Subsidiary, with the Merger Subsidiary continuing as the surviving entity, in accordance with the terms of the Transaction Agreements (Merger).

By virtue of the Merger, each issued and outstanding Paris Re common share (other than those already owned by the Company) was converted into the right to receive 0.3018 PartnerRe common shares, which is the same per share consideration paid by PartnerRe in connection with its previous purchases of Paris Re common shares, as adjusted upwards to account for the $0.47 per share cash dividend declared on the PartnerRe common shares on October 26, 2009 with a record date of November 20, 2009.

Paris Re s operating subsidiaries are in the process of being fully integrated into the Company s existing operating structure. The Company s Consolidated Statement of Operations for the year ended December 31, 2009, included in this report, reflects the results of Paris Re only from October 2, 2009, the date of acquisition (Acquisition Date), through December 31, 2009.

On December 7, 2009, PartnerRe successfully cross-listed PartnerRe common shares on NYSE Euronext Paris, under the ticker symbol PRE. As such the Company is subject to the rules and regulations of Autorité des Marches Financiers.

PartnerRe common shares will continue to be listed on the New York Stock Exchange (the NYSE) in the United States and the Bermuda Stock Exchange (the BSX) in Bermuda, and PartnerRe will remain subject to the rules and regulations of the NYSE, the U.S. Securities and Exchange Commission and the BSX.

Summary of certain agreements between AXA SA, Colisée Re and Paris Re

On December 21, 2006, Colisée Re (formerly known as AXA RE), a subsidiary of AXA SA (AXA) transferred substantially all of its assets and liabilities, other than specified reinsurance and retrocession agreements and certain other excluded assets and liabilities, to Paris Re France (AXA Transfer). The AXA Transfer was immediately followed by the acquisition, which consisted of the indirect acquisition by Paris Re of all the outstanding capital stock of Paris Re France (AXA Acquisition). In connection with the AXA Acquisition, AXA, Colisée Re and Paris Re entered into various agreements (2006 Acquisition Agreements).

2006 Acquisition Agreements

The following are the principal agreements entered into between Paris Re France, and its affiliates, and Colisée Re, and its affiliates, to give effect to the AXA Acquisition:

Quota Share Retrocession Agreement

In connection with the AXA Acquisition, the transfer of the benefits and risks of Colisée Re s reinsurance agreements to Paris Re France was effected by two 100% quota share retrocession agreements. One quota share retrocession agreement is between Colisée Re and Paris Re France, and the other, which relates exclusively to business written by the Canadian branch of Colisée Re, is between the Canadian branch of Colisée Re and the Canadian branch of Paris Re France. These two agreements, dated as of the closing of the AXA Acquisition, are effective as of January 1, 2006, and are on substantially similar terms (collectively, Quota Share Retrocession Agreement). The Quota Share Retrocession Agreement provides for the payment of premiums to Paris Re France (including its Canadian branch) by Colisée Re as consideration for reinsuring the covered liabilities. The Quota Share Retrocession Agreement provides that these premiums will be on a funds withheld basis. Paris Re France will receive any surplus, and be responsible for any deficits remaining with respect to the Funds Held Directly Managed Account discussed below, after all liabilities have been discharged and payments pursuant to the Reserve Agreement (defined below) have been settled. In addition, every quarter Colisée Re will release to Paris Re France any investment income, or Paris Re France will pay to Colisée Re an amount equal to any investment loss, as the case may be, generated by the funds held.

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Issuance Agreement and Claims Management and Services Agreement

To enable Paris Re France (including its Canadian branch) to write business after the closing of the AXA Acquisition, Colisée Re agreed, pursuant to an issuance agreement entered into between Colisée Re and Paris Re France on the closing of the AXA Acquisition (Issuance Agreement) to write business on behalf of Paris Re France for a specified period which ended on September 30, 2007. The Issuance Agreement provides for indemnification by Paris Re France to Colisée Re for any loss incurred by Colisée Re in connection with the performance of its obligations, except to the extent the loss results from fraud, willful misconduct or gross negligence of, or a material breach of the agreement by, Colisée Re. On the closing of the AXA Acquisition, Paris Re France and Colisée Re also entered into a claims management and services agreement (Claims Management and Services Agreement). The Claims Management and Services Agreement specifies certain services, including claims management, to be provided by Paris Re France in respect of the business that is covered by the Quota Share Retrocession Agreement and that was written by Colisée Re from January 1, 2006 to the closing of the AXA Acquisition as well as contracts Colisée Re has issued for the benefit of Paris Re France under the Issuance Agreement. Pursuant to the Claims Management and Services Agreement, Paris Re France manages the retrocession agreements that relate to this business.

Reserve Agreement and Run Off Services and Management Agreement

On the closing of the AXA Acquisition, AXA, Colisée Re and Paris Re France entered into a reserve agreement (Reserve Agreement). The Reserve Agreement provides that AXA and Colisée Re shall guarantee reserves in respect of Paris Re France and subsidiaries acquired in the AXA Acquisition. The Reserve Agreement covers losses incurred prior to December 31, 2005, including any adverse development in respect thereof, by Paris Re France, and the subsidiaries of Colisée Re transferred to Paris Re France as part of the 2006 Acquisition Agreements, in respect of reinsurance policies issued or renewed, and in respect of which premiums were earned, on or prior to December 31, 2005 (but excluding any amendments thereto effected after the closing of the 2006 Acquisition Agreements).

Pursuant to the Reserve Agreement, AXA has agreed to cause AXA Liabilities Managers, an affiliate of Colisée Re (AXA LM), to provide Paris Re France with periodic reports setting forth the amount of losses incurred in respect of the business guaranteed by AXA. The reserve guarantee provided by AXA and Colisée Re is conditioned upon, among other things, the guaranteed business, including all related ceded reinsurance, being managed by AXA LM. The Reserve Agreement further contemplates that Colisée Re or Paris Re France, as the case may be, shall pay to the other party amounts equal to any deficiency or surplus in the transferred reserves with respect to losses incurred, such losses being net of any recovery by Colisée Re including through retrocessional protection, salvage or subrogation.

The rights and obligations of AXA LM with respect to the management of this business are set forth in a run off services and management agreement among AXA LM, Colisée Re and Paris Re France (Run Off Services and Management Agreement). Under the Run Off Services and Management Agreement, Paris Re has agreed that AXA LM will manage claims arising from all reinsurance and retrocession contracts subject to the Reserve Agreement, either directly or, for contracts that were issued by certain Colisée Re entities identified in the agreement, by delegation to certain other specified entities, including Paris Re France. This includes contract administration, the administration of ceded reinsurance, claims handling, settlements and business commutations. Although Paris Re has certain consultation rights in connection with the management of the run-off of the contracts subject to the Reserve Agreement, AXA LM does not need to obtain Paris Re s prior consent in connection with claims handling and settlements, and no consent is required for business commutations if the amount of case reserves related to commuted contracts does not exceed 100 million in any twelve month period.

Funds Held Directly Managed Account

Following the AXA Acquisition, Paris Re and its subsidiaries entered into the Issuance Agreement and Quota Share Retrocession Agreement to assume business written by Colisée Re from January 1, 2006 to September 30, 2007 as well as the in-force business as of December 31, 2005. The agreements provided that the

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premium related to the transferred business was retained by Colisée Re and credited to a funds held account. The assets underlying the funds held directly managed account are maintained by Colisée Re in a segregated investment portfolio and managed by Paris Re. The segregated investment portfolio underlying the funds held directly managed account is carried at fair value. Realized and unrealized investment gains and losses and net investment income related to the underlying investment portfolio in the funds held directly managed account inure to the benefit of Paris Re. The composition of this portfolio at December 31, 2009 and realized and unrealized investment gains and losses and net investment income recognized from the Acquisition Date are discussed below.

Business Strategy

The Company assumes and manages global insurance and capital markets risks. Its strategy is founded on a capital-based risk appetite and the selected risks that Management believes will allow the Company to meet its goals for appropriate profitability and risk management within that appetite. Management believes that this construct allows the Company to balance cedants need for absolute certainty of claims payment with its shareholders need for an appropriate return on their capital. Operating Return on Equity (ROE) and growth in diluted book value per share are two of the principal metrics used by Management to measure the Company s results. Consequently, the Company has set a goal of an average 13% operating ROE and a compound annual growth rate of 10% in diluted book value per share after the payment of dividends over a reinsurance cycle. Operating ROE is obtained by dividing operating earnings by common shareholders equity at the beginning of the year. Operating earnings is defined as net income or loss available to common shareholders less after-tax net realized and unrealized investment gains or losses on investments, after-tax net realized gain on purchase of capital efficient notes (CENts), after-tax net interest in earnings or losses of equity investments, where the Company does not control the investee companies activities, and preferred share dividends. Diluted book value per share is calculated using common shareholders equity, defined as total shareholders equity less the aggregate liquidation value of the preferred shares, divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities).

The Company has adopted the following five-point strategy:

Diversify risk across products, assets and geographies: PartnerRe writes most lines of business in approximately 150 countries worldwide. The Company s geographic spread of premiums mirrors that of the global insurance industry. Management believes diversification is a competitive advantage, which increases return per unit of risk, provides access to reinsurance business opportunities worldwide, and reduces the overall volatility of results. It is also the cornerstone of the Company s risk management approach. The reinsurance business is cyclical, but cycles by line of business and by geography are rarely synchronized. This diversification strategy allows the Company to rapidly deploy capital to risk classes and geographies that offer the greatest return over time.

Maintain a risk appetite moderately above the market: PartnerRe is in the business of assuming risk for an appropriate return. The Company s products address accumulation risks, complex coverage issues and large exposures faced by clients. The Company s willingness and ability to assume these risks make PartnerRe an important reinsurer to many of the world s insurance companies. The Company seeks to focus its book of business on those lines of business and market segments where it perceives greatest potential for profit over time. This means a high proportion of the business written by the Company is in severity lines of business such as casualty, catastrophe, specialized property and aviation, although the Company also writes frequency lines of business such as property, motor and life, which have historically provided modestly lower levels of returns with less volatility.

Actively manage capital across the portfolio and over the cycle: PartnerRe seeks to manage its capital to optimize shareholder returns over the cycle. In order to manage capital across a portfolio and over a cycle, the Company believes two things are critical: an appropriate and common measure of risk-adjusted performance and the ability and willingness to redeploy capital for its most efficient and effective use, either within the business or by return to the shareholders. To achieve effective and efficient capital allocation, the Company has an intense focus on operating ROE. This discipline and focus, supported by strong actuarial and financial analysis, allows the Company to make well-informed decisions at the underwriting and pricing level, as well as in the allocation of capital within its portfolio of reinsurance businesses and within pre-established risk limits.

Add value through underwriting and transactional excellence: Underwriting and transactional excellence is achieved in three principal ways: through the quality of the Company s people, the structure they operate in, and the effectiveness of various processes and tools. Maintaining continuity and depth in the Company s management, underwriting, actuarial and financial areas is critical to maintaining an independent view of risk, a core part of the strategy. Equally important, the Company believes, is organizing its operations around geography, lines of business, distribution or client characteristics, and providing and building the right infrastructure to continually improve its capabilities in all transactional areas: underwriting, financial reporting and controls, reserving, pricing and claims.

Achieve superior returns on invested assets in the context of a disciplined risk framework: Strong underwriting must be complemented with prudent financial management, careful reserving and superior asset management in order to achieve the Company s targeted returns. The Company is committed to maintaining a strong and transparent balance sheet and achieving superior investment returns by gradually expanding its investment portfolio into new risk classes, many of which have more connection with capital markets than with traditional reinsurance markets. The Company assumes investment risk according to the same principles used for reinsurance underwriting, including diversification.

The Paris Re transaction does not change the Company s strategy and goals, fundamental values, or the way it thinks about, evaluates and values risk. Rather, the Company believes that the acquisition will help it be better positioned to achieve its strategy and goals in the future.

Reinsurance Operations

General

The Company provides reinsurance for its clients in approximately 150 countries around the world. Through its branches and subsidiaries, the Company provides reinsurance of non-life and life risks of ceding companies (primary insurers, cedants or reinsureds) on either a proportional or non-proportional basis through treaties or facultative reinsurance. The Company s offices are located in Beijing, Bermuda, Dublin, Greenwich (Connecticut), Hong Kong, Labuan, Mexico City, Miami, Montreal, New York, Paris, Santiago, Sao Paulo, Seoul, Singapore, Tokyo, Toronto, Washington, D.C., Zug and Zurich.

In a proportional reinsurance arrangement (also known as pro-rata reinsurance, quota-share reinsurance or participating reinsurance), the reinsurer shares a proportional part of the original premiums of the reinsured. In return, the reinsurer assumes a proportional share of the losses incurred by the cedant. The reinsurer pays the ceding company a commission, which is generally based on the ceding company s cost of acquiring the business being reinsured (including commissions, premium taxes, assessments and miscellaneous administrative expenses) and may also include a profit.

Non-proportional (or excess of loss) reinsurance indemnifies the reinsured against all or a specified portion of losses on underlying insurance policies in excess of a specified amount, which is called a level, retention or attachment point. Non-proportional business is written in layers and a reinsurer or group of reinsurers accepts a band of coverage up to a specified amount. The total coverage purchased by the cedant is referred to as a program and is typically placed with predetermined reinsurers in pre-negotiated layers. Any liability exceeding the upper limit of the program reverts to the ceding company.

Facultative reinsurance (proportional or non-proportional) is the reinsurance of individual risks. The reinsurer separately rates and underwrites each risk rather than assuming all or a portion of a class of risks as in the case of treaty reinsurance.

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The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other. The Non-life segment is further divided into five sub-segments, U.S., Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty, Catastrophe and Paris Re. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. The Company expects that over time the operations of Paris Re will be integrated with the operations of PartnerRe and that the sub-segment reporting will be adjusted accordingly.

The U.S. sub-segment includes property, casualty, motor, multiline, agriculture, surety and other risks generally originating in the United States. The Global (Non-U.S.) P&C sub-segment includes property, casualty and motor business generally originating outside of the United States. The Global (Non-U.S.) Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, credit/surety, engineering, energy, marine, specialty property, specialty casualty and other lines. The Catastrophe sub-segment is comprised of the Company s catastrophe line of business. The Paris Re sub-segment includes agriculture, aviation/space, catastrophe, credit/surety, energy, engineering, marine, motor, property, specialty casualty, specialty property and other lines underwritten by Paris Re. The Life segment includes life, health and annuity lines of business. Corporate and Other is comprised of the capital markets and investment related activities of the Company (including Paris Re), including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

Property Property business provides reinsurance coverage to insurers for property damage or business interruption losses resulting from fires, catastrophes and other perils covered in industrial and commercial property and homeowners policies and is written on both a proportional and non-proportional basis, including structured reinsurance of property risks. The Company s most significant exposure is typically to losses from windstorm and earthquake, although the Company is exposed to losses from sources as diverse as freezes, riots, floods, industrial explosions, fires, hail and a number of other loss events. The Company s predominant exposure under these property coverages is to property damage. However, other risks, including business interruption and other non-property losses may also be covered under a property reinsurance contract when arising from a covered peril. In accordance with market practice, the Company s property reinsurance treaties generally exclude certain risks such as war, nuclear, biological and chemical contamination, radiation and environmental pollution.

Casualty The Company s casualty business includes third party liability, employers liability, workers compensation and personal accident coverages written on both a proportional and non-proportional basis, including structured reinsurance of casualty risks.

Multiline The Company s multiline business provides both property and casualty reinsurance coverages written on both a proportional and non-proportional basis.

Motor The Company s motor business includes reinsurance coverages for third party liability and property damage risks arising from both passenger and commercial fleet automobile coverages written by cedants. This business is written predominantly on a proportional basis.

Agriculture The Company reinsures, primarily on a proportional basis, agricultural yield and price/revenue risks related to flood, drought, hail and disease related to crops, livestock and aquaculture.

Aviation/Space The Company provides specialized reinsurance protection for airline, general aviation and space insurance business primarily on a proportional basis and through facultative arrangements. Its space business relates to coverages for satellite assembly, launch and operation for commercial space programs.

Catastrophe The Company provides property catastrophe reinsurance protection, written primarily on a non-proportional basis, against the accumulation of losses caused by windstorm, earthquake, flood or by any

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other natural hazard that is covered under a comprehensive property policy. Through the use of underwriting tools based on proprietary computer models developed by its research team, the Company combines natural science with highly professional underwriting skills in order to offer capacity at a price commensurate with the risk.

Credit/Surety Credit reinsurance, written primarily on a proportional basis, provides coverage to commercial credit insurers, and the surety line relates primarily to bonds and other forms of security written by specialized surety insurers.

Engineering The Company provides reinsurance for engineering projects throughout the world, predominantly on a proportional treaty basis and through facultative arrangements.

Energy (Energy Onshore) The Company provides reinsurance coverage for the onshore oil and gas industry, mining, power generation and pharmaceutical operations primarily on a proportional basis and through facultative arrangements.

Marine (Marine/Energy Offshore) The Company provides reinsurance protection and technical services relating to marine hull, cargo, transit and offshore oil and gas operations on a proportional or non-proportional basis.

Specialty Property The Company provides specialized reinsurance protection for non-U.S. property business that requires specialized underwriting expertise due to the nature of the underlying risk or the complexity of the reinsurance treaty. This reinsurance protection is offered on a proportional, non-proportional or facultative basis.

Specialty Casualty The Company provides specialized reinsurance protection for non-U.S. casualty business that requires specialized underwriting expertise due to the nature of the underlying risk or the complexity of the reinsurance treaty. This reinsurance protection is offered on a proportional, non-proportional or facultative basis.

Life/Annuity and Health Life treaties provide reinsurance coverage to primary life insurers and pension funds with respect to individual and group life and health risks. Annuity treaties provide reinsurance coverage to insurers who issue annuity contracts offering long-term retirement benefits to consumers who seek protection against outliving their financial resources. Life business is written primarily on a proportional basis through treaty arrangements.

The Company s business is produced both through brokers and through direct relationships with insurance companies. In North America, business is primarily written through brokers, while in the rest of the world, the business is written on both a direct and broker basis.

For the year ended December 31, 2009, the Company had two brokers that individually accounted for 10% or more of its gross premiums written. The Aon Group (including the Benfield Group) accounted for approximately $997 million, or 25% of total gross premiums written, while Marsh (including Guy Carpenter) accounted for approximately $779 million, or 19% of total gross premiums written. The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the year ended December 31, 2009:

Non-life	
U.S.	78%
Global (Non-U.S.) P&C	29
Global (Non-U.S.) Specialty	26
Catastrophe	71
Paris Re	44
Life	18

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The Company s business is geographically diversified with premiums being written in approximately 150 countries. See Note 22 to Consolidated Financial Statements in Item 8 of Part II of this report for additional disclosure of the geographic distribution of gross premiums written and financial information about segments and sub-segments.

Risk Management, Underwriting, Underwriting Risk and Exposure Controls, Retrocessions and Claims

Risk Management

In the reinsurance industry, the core of the business model is the assumption of risk. Hence, risk management entails both the determination of an optimum risk-adjusted appetite for assumed business risks, and the reduction or mitigation of risks for which the organization is either not sufficiently compensated, or those risks that could threaten the ability of the Company to achieve its objectives.

All business decisions entail a risk/return trade-off. In the context of assumed business risks, this requires an accurate evaluation of risks to be assumed, and a determination of the appropriate economic returns required as fair compensation for such risks. For other than voluntarily assumed business risks, the decision relates to comparing the probability and potential severity of a risk event against the costs of risk mitigation strategies. In many cases, the potential impact of a risk event is so severe as to warrant significant, and potentially expensive, risk mitigation strategies. In other cases, the probability and potential severity of a risk does not warrant extensive risk mitigation.

The Company sets its appetite for assumed business risks in order to provide value to its clients and adequate risk-adjusted returns to its shareholders, without overexposing the Company to any one or series of related risks. Assumed business risks are mitigated to the extent the risk mitigation strategies provide a positive return on the Company s investment.

The Company utilizes a multi-level risk management structure, whereby critical exposure limits, return requirement guidelines, capital at risk and key policies are established by the Executive Management and Board of Directors (Board), but day-to-day execution of risk assumption activities and related risk mitigation strategies are delegated to the business units. Reporting on risk management activities is integrated within the Company s annual planning process, quarterly operations reports, periodic reports on exposures and large losses, and presentations to the Executive Management and Board. Individual business units employ, and are responsible for reporting on, operating risk management procedures and controls, while the Corporate Audit Group periodically tests these controls to ensure ongoing compliance. See Other Key Issues of Management Risk Management in Item 7 of Part II of this report for a detailed discussion of the Company s risk management.

Underwriting

The Company s underwriting is conducted through specialized underwriting teams with the support of technical staff in disciplines such as actuarial, claims, legal, risk management and finance.

The Company s underwriters generally speak the local language and/or are native to their country or area of specialization. They develop close working relationships with their ceding company counterparts and brokers through regular visits, gathering detailed information about the cedant s business and local market conditions and practices. As part of the underwriting process, the underwriters also focus on the reputation and quality of the proposed cedant, the likelihood of establishing a long-term relationship with the cedant, the geographic area in which the cedant does business and the cedant s market share, historical loss data for the cedant and, where available, historical loss data for the industry as a whole in the relevant regions, in order to compare the cedant s historical loss experience to industry averages, and to gauge the perceived insurance and reinsurance expertise and financial strength of the cedant. The Company trains its underwriters extensively and strives to maintain continuity of underwriters within specific geographic markets and areas of specialty.

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Underwriting Risk and Exposure Controls

Because the Company underwrites volatile lines of business, such as catastrophe reinsurance, the operating results and financial condition of the Company can be adversely affected by catastrophes and other large losses that may give rise to claims under reinsurance coverages provided by the Company. The Company manages its exposure to catastrophic and other large losses by (i) attempting to limit its aggregate exposure on catastrophe reinsurance in any particular geographic zone, (ii) selective underwriting practices, (iii) diversification of risks by geographic area and by lines and classes of business, and (iv) to a limited extent by purchasing retrocessional reinsurance.

The Company generally underwrites risks with specified limits per treaty program. Like other reinsurance companies, the Company is exposed to multiple insured losses arising out of a single occurrence, whether a natural event such as hurricane, windstorm, flood or earthquake, or other man-made events. Any such catastrophic event could generate insured losses in one or many of the Company s reinsurance treaties and facultative contracts in one or more lines of business. The Company considers such event scenarios as part of its evaluation and monitoring of its aggregate exposures to catastrophic events.

Retrocessions

The Company uses retrocessional agreements to a limited extent to reduce its exposure on certain specialty reinsurance risks assumed and to mitigate the effect of any single major event or the frequency of medium-sized events. These agreements provide for recovery of a portion of losses and loss expenses from retrocessionaires. The bulk of the retrocessional agreements currently in place cover the Paris Re sub-segment for property exposures, predominantly catastrophe risks. The Company also utilizes retrocessions in the Life segment to manage the amount of per-event and per-life risks to which it is exposed. Retrocessionaires are selected based on their financial condition and business practices, with stability, solvency and credit ratings being important criteria.

The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under retrocessional agreements, and therefore retrocessions are subject to credit risk in all cases and to aggregate loss limits in certain cases. The Company holds collateral, including escrow funds, securities and letters of credit under certain retrocessional agreements. Provisions are made for amounts considered potentially uncollectible and reinsurance losses recoverable from retrocessionaires are reported after allowances for uncollectible amounts. At December 31, 2009, the Company had $357 million of reinsurance recoverables under such arrangements, the majority of which relate to the Paris Re agreements described above.

In addition to the retrocessional agreements, Paris Re has a Reserve Agreement in place with Colisée Re. See Summary of certain agreements between AXA SA, Colisée Re and Paris Re above.

Claims

In addition to managing and settling reported claims and consulting with ceding companies on claims matters, the Company conducts periodic audits of specific claims and the overall claims procedures at the offices of ceding companies. The Company attempts to evaluate the ceding company s claim adjusting techniques and reserve adequacy and whether it follows proper claims processing procedures. The Company also provides recommendations regarding procedures and processes to the ceding company.

Reserves

General

Loss reserves represent estimates of amounts an insurer or reinsurer ultimately expects to pay in the future on claims incurred at a given time, based on facts and circumstances known at the time that the loss reserves are established. It is possible that the total future payments may exceed, or be less than, such estimates. The estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in claim severity, frequency and other variable factors such as inflation. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Despite such adjustments, the ultimate future liability may exceed or be less than the revised estimates.

As part of the reserving process, insurers and reinsurers review historical data and anticipate the impact of various factors such as legislative enactments and judicial decisions that may affect potential losses from casualty claims, changes in social and political attitudes that may increase exposure to losses, mortality and morbidity trends and trends in general economic conditions. This process assumes that past experience, adjusted for the effects of current developments, is an appropriate basis for anticipating future events.

See Critical Accounting Policies and Estimates in Item 7 of Part II of this report for a discussion of the Company s reserving process.

Reserve Agreement

See Summary of certain agreements between AXA SA, Colisée Re and Paris Re above.

Changes in Reserves

The following table shows the development of net reserves for unpaid losses and loss expenses for the Company s Non-life business. The table begins by showing the initial reported year-end gross and net reserves, including incurred but not reported (IBNR) reserves, recorded at the balance sheet date for each of the ten years presented, except for Paris Re s liability for unpaid losses and loss expenses, which is included as of December 31, 2009 for the first time. For years prior to 2009, this table excludes the reserves of the Paris Re companies acquired.

The next section of the table shows the re-estimated amount of the initial reported net reserves for up to ten subsequent years, based on experience at the end of each subsequent year. The re-estimated net liabilities reflect additional information, received from cedants or obtained through reviews of industry trends, regarding claims incurred prior to the end of the preceding financial year. A redundancy (or deficiency) arises when the re-estimation of reserves is less (or greater) than its estimation at the preceding year-end. The cumulative redundancies (or deficiencies) reflect cumulative differences between the initial reported net reserves and the currently re-estimated net reserves. Annual changes in the estimates are reflected in the income statement for each year as the liabilities are re-estimated. Reserves denominated in foreign currencies are revalued at each year-end s foreign exchange rates.

The lower section of the table shows the portion of the initial year-end net reserves that was paid (claims paid) as of the end of subsequent years. This section of the table provides an indication of the portion of the re-estimated net liability that is settled and is unlikely to develop in the future. Claims paid are converted to U.S. dollars at the average foreign exchange rates during the year of payment and are not revalued at the current year foreign exchange rates. Because claims paid in prior years are not revalued at the current year s foreign exchange rates, the difference between the cumulative claims paid at the end of any given year and the immediately previous year represents the claims paid during the year.

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Development of Loss and Loss Expense Reserves

(in thousands of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 (1)
Gross liability for unpaid losses and loss expenses	$ 2,616,556	$ 2,386,032	$ 3,005,628	$ 3,658,416	$ 4,755,059	$ 5,766,629	$ 6,737,661	$ 6,870,785	$ 7,231,436	$ 7,510,666	$ 10,811,483
Retroceded liability for unpaid losses and loss expenses	205,982	203,180	214,891	217,777	175,685	153,018	185,280	138,585	132,479	125,215	336,352
Net liability for unpaid losses and loss expenses	**$ 2,410,574**	**$ 2,182,852**	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**	**$ 7,385,451**	**$ 10,475,131**
Net liability re-estimated as of:											
One year later	2,376,763	2,111,483	3,035,309	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	6,343,714	7,076,796	
Two years later	2,205,861	2,302,284	3,310,898	3,975,926	4,301,161	5,044,922	6,618,112	6,165,297	6,009,194		
Three years later	2,316,164	2,489,601	3,456,250	3,781,574	4,373,992	5,092,289	6,168,445	5,897,044			
Four years later	2,448,562	2,611,045	3,326,527	3,894,500	4,494,182	4,845,644	6,002,031				
Five years later	2,540,927	2,513,123	3,433,887	4,019,813	4,315,702	4,731,856					
Six years later	2,461,178	2,617,775	3,528,665	3,918,380	4,264,865						
Seven years later	2,553,570	2,691,267	3,445,844	3,894,155							
Eight years later	2,626,386	2,624,838	3,446,683								
Nine years later	2,570,201	2,635,104									
Ten years later	2,588,571										
Cumulative net (deficiency) redundancy	**$ (177,997)**	**$ (452,252)**	**$ (655,946)**	**$ (453,516)**	**$ 314,509**	**$ 881,755**	**$ 550,350**	**$ 835,156**	**$ 1,089,763**	**$ 308,655**	
Cumulative amount of net liability paid through:											
One year later	$ 778,382	$ 615,276	$ 923,165	$ 1,126,882	$ 1,120,756	$ 1,250,534	$ 1,718,996	$ 1,473,964	$ 1,340,788	$ 1,716,798	
Two years later	1,060,797	960,288	1,391,301	1,713,953	1,573,312	1,821,773	2,482,695	2,116,025	1,971,376		
Three years later	1,260,298	1,163,105	1,740,277	1,993,947	1,948,203	2,207,692	2,948,837	2,581,022			
Four years later	1,373,693	1,354,886	1,924,833	2,248,980	2,219,506	2,511,446	3,273,808				
Five years later	1,508,343	1,465,515	2,086,252	2,433,223	2,439,361	2,721,266					
Six years later	1,580,951	1,566,719	2,215,412	2,580,225	2,589,798						

Seven years later	1,652,891	1,643,075	2,314,918	2,694,079
Eight years later	1,702,895	1,695,249	2,397,806	
Nine years later	1,756,579	1,756,028		
Ten years later	1,802,402			

(1) Paris Re s liability for unpaid losses and loss expenses is included as of December 31, 2009 for the first time. For years prior to 2009, this table excludes the reserves of the Paris Re companies acquired. Accordingly, the reserve development (net liability for unpaid losses and loss expenses at the end of the year, as originally estimated, less net liability for unpaid losses and loss expenses re-estimated as of subsequent years) for years prior to 2009 relates only to losses recorded by PartnerRe and subsidiaries not acquired in the Paris Re acquisition.

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The following table provides a reconciliation of the Company s re-estimated gross year-end reserves with the re-estimated net year-end reserves provided above (in thousands of U.S. dollars):

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Reconciliation of gross reserves:										
Gross liability re-estimated as of December 31, 2009	$ 2,813,559	$ 2,875,600	$ 3,688,236	$ 4,117,745	$ 4,415,042	$ 4,847,392	$ 6,182,029	$ 6,009,835	$ 6,110,705	$ 7,193,541
Re-estimated retroceded liability	224,988	240,496	241,553	223,590	150,177	115,536	179,998	112,791	101,511	116,744
Net liability re-estimated as of December 31, 2009	$ 2,588,571	$ 2,635,104	$ 3,446,683	$ 3,894,155	$ 4,264,865	$ 4,731,856	$ 6,002,031	$ 5,897,044	$ 6,009,194	$ 7,076,797
Cumulative gross (deficiency) redundancy	$ (197,003)	$ (489,568)	$ (682,608)	$ (459,329)	$ 340,017	$ 919,237	$ 555,632	$ 860,950	$ 1,120,731	$ 317,125

The Company s reserve development is composed of the change in ultimate losses from what the Company originally estimated as well as the impact of the foreign exchange revaluation on reserves. The Company conducts its reinsurance operations in a variety of non-U.S. currencies and records its net reserves in the currency of the treaty, with the principal exposures being the euro, British pound, Canadian dollar, Swiss franc and Singapore dollar. The impact of reporting the Company s net reserves based on the foreign exchange rates at the balance sheet date can be a significant component of the cumulative (deficiency) redundancy in net reserves and in some years can be the principal component. The following table provides the amount of foreign exchange included in the cumulative net (deficiency) redundancy reported above as well as the net (deficiency) redundancy excluding the impact of foreign exchange movements on net reserves (in thousands of U.S. dollars):

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Cumulative net (deficiency) redundancy	**$ (177,997)**	**$ (452,252)**	**$ (655,946)**	**$ (453,516)**	**$ 314,509**	**$ 881,755**	**$ 550,350**	**$ 835,156**	**$ 1,089,763**	**$ 308,655**
Less: Cumulative net (deficiency) redundancy due to foreign exchange	(137,104)	(305,244)	(511,384)	(475,802)	(252,073)	62,589	(480,997)	(256,564)	212,956	(177,154)
Cumulative net (deficiency) redundancy excluding the impact of foreign exchange	**$ (40,893)**	**$ (147,008)**	**$ (144,562)**	**$ 22,286**	**$ 566,582**	**$ 819,166**	**$ 1,031,347**	**$ 1,091,720**	**$ 876,807**	**$ 485,809**

Movements in foreign exchange rates between accounting periods have typically resulted in significant variations in the loss reserves of the Company as the U.S. dollar, the Company s reporting currency, appreciated/depreciated against multiple currencies. The Company, however, generally holds investments in the same currencies as its net reserves, with the intent of matching the foreign exchange movements on its assets and liabilities. See Quantitative and Qualitative Disclosures about Market Risk contained in Item 7A of Part II of this report for a discussion of the foreign currency risk of the Company s assets and liabilities.

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The Company believes that in order to enhance the understanding of its reserve development, it is useful for investors to evaluate the Company s reserve development excluding the impact of foreign exchange. The following table shows the development of initial net reserves converted at each year s average foreign exchange rates (in thousands of U.S. dollars). Using the historical average foreign exchange rates for the development lines of the table has the effect of linking each year s development with that year s income statement. This table should not be considered as a substitute for the table provided above as it does not reflect a significant portion of the initial net reserve development that is due to foreign exchange revaluation.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Net liability for unpaid losses and loss expenses	**$ 2,410,574**	**$ 2,182,852**	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**	**$ 7,385,451**
Net liability re-estimated as of:										
One year later	2,410,462	2,174,981	2,846,855	3,496,102	4,440,338	5,382,101	6,300,633	6,318,157	6,681,021	6,899,642
Two years later	2,359,852	2,240,526	2,921,908	3,513,647	4,298,493	5,232,707	6,023,025	6,014,782	6,222,150	
Three years later	2,384,937	2,283,941	2,956,308	3,483,720	4,223,937	5,076,765	5,774,643	5,640,480		
Four years later	2,400,881	2,322,084	2,964,307	3,491,033	4,178,131	4,972,632	5,521,034			
Five years later	2,422,798	2,331,252	2,982,347	3,498,703	4,118,436	4,794,445				
Six years later	2,431,416	2,362,941	2,979,426	3,480,094	4,012,792					
Seven years later	2,462,104	2,353,910	2,963,708	3,418,353						
Eight years later	2,460,794	2,345,737	2,935,299							
Nine years later	2,459,348	2,329,860								
Ten years later	2,451,467									
Cumulative net (deficiency) redundancy	**$ (40,893)**	**$ (147,008)**	**$ (144,562)**	**$ 22,286**	**$ 566,582**	**$ 819,166**	**$ 1,031,347**	**$ 1,091,720**	**$ 876,807**	**$ 485,809**

The following table summarizes the net incurred losses for the year ended December 31, 2009 relating to the current and prior accident years by sub-segment for the Company s Non-life operations (in millions of U.S. dollars):

	U.S.	**Global (Non-U.S.) P&C**	**Global (Non-U.S.) Specialty**	**Catastrophe**	**Paris Re**	**Total Non-life segment**
Net incurred losses related to:						
Current year	$ 828	$ 495	$ 763	$ 50	$ 208	$ 2,344
Prior years net favorable development	(168)	(154)	(115)	(49)		(486)
Total net incurred losses	$ 660	$ 341	$ 648	$ 1	$ 208	$ 1,858

The net favorable loss development on prior accident years of $486 million for the year ended December 31, 2009 resulted from a reassessment of the Company s total Non-life reserves of approximately $477 million, predominately due to favorable loss emergence, as losses reported by cedants, including treaties where the risk period expired, were lower than expected. The reserves were further reduced by approximately $9 million related to change in exposure due to downward premium adjustments during the year ended December 31, 2009.

See Management s Discussion and Analysis of Financial Condition and Results of Operations for a discussion of net prior year reserve development by sub-segment and Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report for a discussion of the net prior year reserve development by reserving lines for the Company s Non-life and Life operations.

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Other Exposures

The Company s reserve for unpaid losses and loss expenses as of December 31, 2009 includes reserves that are difficult to estimate using traditional reserving methodologies. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report for additional information regarding the Company s exposure to claims arising from the recent financial crisis, as well as asbestos and environmental exposures.

There can be no assurance that the reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurance that the reserves established by the Company will be adequate. However, they represent Management s best estimate for ultimate losses based on available information at this time.

Investments and Funds Held Directly Managed

The Company has developed specific investment objectives and guidelines for the management of its investment portfolio and the funds held directly managed account. These objectives and guidelines stress diversification of risk, matching of the underlying liability payments, low credit risk and stability of portfolio income. Despite the prudent focus of these objectives and guidelines, the Company s investments are subject to general market risk, as well as to risks inherent in particular securities.

The Company s investment strategy is largely consistent with previous years. To ensure that the Company will have sufficient assets to pay its clients claims, the Company s investment philosophy distinguishes between those assets, including the funds held directly managed account, that are matched against existing liabilities (liability funds) and those that represent shareholders equity (capital funds). Liability funds are invested in high-quality fixed income securities. Capital funds are available for investment in a broadly diversified portfolio, which includes investments in preferred and common stocks, private bond and equity investments, investment-grade and below-investment-grade securities and other asset classes that offer potentially higher returns.

The investment portfolio is divided and managed by strategy and legal entity. Each segregated portfolio is managed against a specific benchmark to properly control the risk of each portfolio as well as the aggregate risks of the combined portfolio. The performance of each portfolio and the aggregate investment portfolio is measured against several benchmarks to ensure that they have the appropriate risk and return characteristics.

In order to manage the risks of the investment portfolio, several controls are in place. First, the overall duration (interest rate risk) of the portfolio is managed relative to the duration of the net reinsurance liabilities, defined as reinsurance liabilities net of all reinsurance assets, so that the economic value of changes in interest rates have offsetting effects on the Company s assets and liabilities. To ensure diversification and avoid aggregation of risks, limits on assets types, economic sector exposure, industry exposure, and individual security exposure are placed on the investment portfolio. These exposures are monitored on an ongoing basis and reported at least quarterly to the Risk Management and Finance Committee of the Board.

See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of this report for a discussion of the Company s interest rate, equity and currency management strategies and Summary of certain agreements between AXA SA, Colisée Re and Paris Re above for a discussion of the funds held directly managed account.

Competition

The Company competes with other reinsurers, some of which have greater financial, marketing and management resources than the Company, and it also competes with new market entrants. Competition in the types of reinsurance that the Company underwrites is based on many factors, including the perceived financial strength of the reinsurer, pricing and other terms and conditions, services provided, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of reinsurance to be written.

The Company s competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, and reinsurance departments of certain primary insurance companies. Management believes that the Company s major competitors are the larger European, U.S. and Bermuda-based international reinsurance companies, as well as specialty reinsurers and regional companies in certain local markets.

Management believes the Company ranks among the world s largest professional reinsurers and is well positioned in terms of client services and underwriting expertise. Furthermore, the Company s capitalization and strong financial ratios allow the Company to offer security to its clients.

Employees

The Company had 1,406 employees at December 31, 2009. The increase of approximately 411 employees compared to the prior year was primarily related to the acquisition of Paris Re. The Company believes that its relations with its employees are good.

Regulation

The business of reinsurance is now regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. Some jurisdictions impose complex regulatory requirements on insurance businesses while other jurisdictions impose fewer requirements. In certain foreign countries, reinsurers are required to be licensed by governmental authorities. These licenses may be subject to modification, suspension or revocation dependent on such factors as amount and types of reserves and minimum capital and solvency tests. The violation of regulatory requirements may result in fines, censures and/or criminal sanctions in various jurisdictions. As a holding company, PartnerRe Ltd. is not subject to Bermuda insurance regulations, but its various material operating subsidiaries are subject to regulation as follows:

Bermuda

In July 2008, the Bermuda insurance supervisory framework underwent major revision with the passage of the Insurance Amendment Act 2008. This Amendment Act established new risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers. Prior to the passage of this Amendment Act, insurers in Bermuda were subject to regulation under The Insurance Act 1978 of Bermuda and related regulations, as amended. Both Acts (Insurance Acts) are now in operation and regulate the insurance business of our Bermuda operating subsidiary, Partner Reinsurance. The Insurance Acts make no distinction between insurance and reinsurance business and provide that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the BMA) under the Insurance Acts. The continued registration of an approved insurer is subject to the insurer s ongoing compliance with the terms of its registration and such other conditions as the BMA may impose from time to time. Material aspects of the Bermuda insurance regulatory framework are set forth below:

Under the new regulatory framework, the BMA promulgated the Insurance (Prudential Standards) (Class 4 Solvency Requirement) Order 2008 (the Order) which, *inter alia*, mandates that a Class 4 insurer s Enhanced Capital Requirement (ECR) be calculated by either (a) the model set out in Schedule 1 to the Order, or (b) an internal capital model which the BMA has approved for use for this purpose. Partner Reinsurance uses the BMA model in calculating its solvency requirements. More information on the ECR and the new risk-based regulatory capital adequacy and solvency margin regime can be found in the section below entitled Enhanced Capital Requirement, Minimum Solvency Margin and Restrictions on Dividends and Distributions .

Classification of Insurers: The Insurance Acts distinguish between insurers carrying on long-term business and insurers carrying on general business. There are six classifications of insurers carrying on general business, with Class 4 insurers subject to the strictest regulation. Partner Reinsurance is registered as both a Class 4 insurer and a long-term insurer, and is regulated under the Insurance Acts.

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Principal Representative: An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a principal representative in Bermuda. Partner Reinsurance s Chief Executive Officer has been appointed by the Board of Directors, with the approval of the BMA, as the principal representative for Partner Reinsurance.

Independent Approved Auditor: Every registered insurer must appoint an independent auditor who will audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which are required to be filed annually with the BMA.

Loss Reserve Specialist: As a registered Class 4 insurer, Partner Reinsurance is required to submit an opinion of its approved loss reserve specialist with its statutory financial return in respect of its losses and loss expenses provisions. The loss reserve specialist, who will normally be a qualified casualty actuary, must be approved by the BMA.

Statutory Financial Statements: An insurer must prepare annual statutory financial statements. The Insurance Acts prescribe rules for the preparation and content of these statutory financial statements and are distinct from the financial statements prepared for presentation to an insurer s shareholders under The Companies Act 1981 of Bermuda (the Companies Act). The insurer is required to give detailed information and analyses regarding premiums, claims, reinsurance and investments. The most significant aspect of the amended regulations in relation to the statutory balance sheet of Class 4 insurers is the reporting obligation to detail, on a line-by-line basis, specific asset and liability classes, as well as the requirement to identify and distinguish between what is or is not attributable to affiliates of the Class 4 insurer.

With effect from December 31, 2008, Class 4 insurers are also required to file with the BMA audited annual financial statements prepared in accordance with U.S. GAAP, International Financial Reporting Standards (IFRS) or such other GAAP as the BMA may recognize. These audited financials will be made public by the BMA.

Enhanced Capital Requirement, Minimum Solvency Margin and Restrictions on Dividends and Distributions: The new risk-based regulatory capital adequacy and solvency margin regime provides a risk-based capital model (termed the Bermuda Solvency Capital Requirement (BSCR)) as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to the capital that is dedicated to their business. The framework that has been developed applies a standard measurement format to the risk associated with an insurer s assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure.

In order to minimize the risk of a shortfall in capital arising from an unexpected adverse deviation and in moving towards the implementation of a risk-based capital approach, the BMA requires that insurers operate at or above a threshold capital level (termed the Target Capital Level (TCL)), which exceeds the BSCR or approved internal model minimum amounts.

The new capital requirements require Class 4 insurers to hold available statutory capital and surplus equal to or exceeding ECR and set TCL at 120% of ECR. The BMA also has a degree of discretion enabling it to impose ECR on insurers in particular cases, for instance where an insurer falls below the TCL. While it must calculate its ECR annually by reference to either the BSCR or an approved internal model, a Class 4 insurer such as Partner Reinsurance must also ensure that, at all times, its ECR is at least equal to the minimum solvency margin for a Class 4 insurer in respect of its general business, which is the greater of:

- $100,000,000;
- 50% of net premiums written (being gross premiums written less any reinsurance premiums ceded (not exceeding 25% of gross premiums written)); or
- 15% of net loss and loss expense provisions and other general business insurance reserves.

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Under the Insurance Acts, Class 4 insurers are prohibited from declaring or paying any dividends of more than 25% of its total statutory capital and surplus, as shown in its previous financial year statutory balance sheet, unless at least seven days before payment of the dividends it files with the BMA an affidavit that it will continue to meet its required solvency margins. In addition, Class 4 insurers must obtain the BMA s prior approval before reducing its total statutory capital, as shown in its previous financial year statutory balance sheet, by 15% or more.

Furthermore, under the Companies Act, Partner Reinsurance may only declare and pay a dividend from retained earnings, and a dividend or distribution from contributed surplus if it has no reasonable grounds for believing that it is, or would after the payment be, unable to pay its liabilities as they become due, or if the realizable value of its assets would not be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

Minimum Liquidity Ratio: An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable, reinsurance balances receivable and funds held by ceding reinsurers. There are certain categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined), letters of credit and guarantees.

Supervision, Investigation and Intervention: If it appears to the BMA that there is a risk of an insurer becoming insolvent, or is in breach of the Insurance Acts or any conditions imposed upon its registration, the BMA may, among other things, direct that insurer not to effect further contracts of insurance, or any contract of insurance of a specified description, not to make any investment of a specified class, not to declare or pay any dividends or any other distributions, or to restrict the making of such payments to such extent as the BMA thinks fit and to provide such written particulars relating to the financial circumstances of the insurer as the BMA thinks fit.

Pursuant to a reorganization of the Company, on January 1, 2008, the Swiss branch of Partner Reinsurance transferred substantially all of its reinsurance business, assets and liabilities to the Swiss branch of PartnerRe Europe, which continued to write substantially all of the transferred business. Foreign insurance entities that are effecting or carrying on exclusively reinsurance business in Switzerland are exempt from insurance and reinsurance supervision, provided such entities are not acting for that purpose through a Swiss subsidiary. The operations of the Swiss branch of Partner Reinsurance were exempt from insurance and reinsurance supervision in Switzerland, although they were subject to Bermuda regulations. As of January 1, 2008, the Swiss branch of Partner Reinsurance ceased its underwriting operations.

Partner Reinsurance has branches in Canada, Singapore, Hong Kong and Labuan and the operations of these branches are all subject to Bermuda regulations. In addition to Bermuda regulations, the Canadian branch is subject to regulation by The Office of the Superintendent of Financial Institutions, Canada, the Singapore branch is subject to regulation by the Monetary Authority of Singapore, the Hong Kong branch is subject to regulation under both the Insurance Companies Ordinance of Hong Kong and the Companies Ordinance of Hong Kong and the Labuan branch is subject to regulation by the Labuan Offshore Financial Services Authority, Malaysia. For a further discussion of the regulations pertaining to the Canadian branch see below.

Ireland

PartnerRe Holdings Europe Limited is a holding company for PartnerRe Europe and PartnerRe Ireland Insurance Limited (PartnerRe Ireland Insurance). As a holding company, PartnerRe Holdings Europe Limited is not subject to regulation by the Financial Regulator, Ireland (Financial Regulator).

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PartnerRe Ireland Insurance is a non-life insurance company incorporated under the laws of Ireland. It is subject to the regulation and supervision of the Financial Regulator pursuant to the Irish Insurance Acts 1909 to 2000, regulations relating to insurance business made under those Acts or under the European Communities Act, 1972 and the Central Bank Acts, 1942 to 1998 and the Central Bank and Financial Services Authority of Ireland Acts 2003 and 2004 (together, the Insurance Acts and Regulations). PartnerRe Ireland Insurance was authorized in April 2005 to undertake the business of non-life insurance in various classes of business. PartnerRe Ireland Insurance is required to maintain technical reserves as provided for in the Insurance Acts and Regulations. Assets representing its technical reserves are required to cover PartnerRe Ireland Insurance s calculated underwriting liabilities. In addition to filing various statutory returns with the Financial Regulator, PartnerRe Ireland Insurance is obligated to prepare annual accounts in accordance with the provisions of the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (the Insurance Accounts Regulations) as amended. The accounts must be filed with the Financial Regulator and with the Registrar of Companies in Ireland. Additionally, PartnerRe Ireland Insurance is required to establish and maintain an adequate solvency margin and a minimum guarantee fund, both of which must be free from all foreseeable liabilities.

PartnerRe Europe is a reinsurance company incorporated under the laws of Ireland. Legislation transposing the Reinsurance Directive was signed into Irish law on July 15, 2006 as the European Communities (Reinsurance) Regulations 2006 (the Regulations). Under the Regulations, all Irish reinsurers established before December 10, 2005 are deemed to be authorized under the Regulations, subject to complying with certain requirements not later than December 10, 2007. PartnerRe Europe has fully complied with the requirements set out in the Regulations and has received formal recognition from the Financial Regulator that it is duly authorized as a reinsurance undertaking to carry on reinsurance business in accordance with the Regulations. These requirements include, but are not limited to, the establishment of technical provisions and reserves, investment of assets, maintaining an appropriate solvency margin and maintenance of a guarantee fund. Effective January 1, 2008, the Company underwent a restructuring of its European operations and PartnerRe Europe became the single operating platform in Europe. Pursuant to this reorganization, PartnerRe SA transferred all of its reinsurance business, assets and liabilities to the French branch of PartnerRe Europe and ceased its underwriting operations. PartnerRe Europe has established branches in France, Switzerland and Canada and a representative office in Brazil. PartnerRe Europe and the Swiss, Canadian and French branches are subject to Irish insurance supervision regulations. The Canadian branch is also subject to regulation in Canada. For a further discussion of the regulations pertaining to the Canadian branch see below.

Pursuant to Irish company law, PartnerRe Europe is restricted to declaring dividends only out of profits available for distribution . Profits available for distribution are a company s accumulated realized profits less its accumulated realized losses. Such profits may not include profits previously utilized.

United States

PartnerRe U.S. Corporation is a Delaware domiciled holding company for its wholly owned reinsurance subsidiaries, PartnerRe U.S. and PartnerRe Insurance Company of New York (PRNY) (PartnerRe U.S. and PRNY together being the PartnerRe U.S. Insurance Companies). The PartnerRe U.S. Insurance Companies are subject to regulation under the insurance statutes and regulations of their domiciliary state, New York, and all states where they are licensed, accredited or approved to underwrite reinsurance. Currently, the PartnerRe U.S. Insurance Companies are licensed, accredited or approved reinsurers and/or insurers in fifty states and the District of Columbia.

Regulations vary from state to state, but generally require insurance holding companies and insurers and reinsurers that are subsidiaries of insurance holding companies to register and file with their state domiciliary regulatory authorities certain reports, including information concerning their capital structure, ownership, financial condition and general business operations. State regulatory authorities monitor compliance with, and periodically conduct examinations with respect to, state mandated standards of solvency, licensing requirements,

investment limitations, restrictions on the size of risks which may be reinsured, deposits of securities for the

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benefit of reinsureds, methods of accounting for assets, reserves for unearned premiums and losses, and other purposes. In general, such regulations are for the protection of reinsureds and, ultimately, their policyholders, rather than security holders. In the U.S., the Company s current domiciliary regulators are the New York Superintendent of Insurance, the Insurance Commissioner of the State of Delaware and the Department of Insurance of the State of California.

Under New York law, the New York Superintendent of Insurance must approve any dividend declared or paid by the PartnerRe U.S Insurance Companies that, together with all dividends declared or distributed by each of them during the preceding twelve months, exceeds the lesser of 10% of their respective statutory surplus as shown on the latest statutory financial statements on file with the New York Superintendent of Insurance, or 100% of their respective adjusted net investment income during that period. New York does not permit a dividend to be declared or distributed, except out of earned surplus.

State laws also require prior notice and/or regulatory approval of changes in control of an insurer or its holding company and of certain inter-company transfers of assets, payments of dividends and certain other transactions among affiliates, as well as any material changes within the holding company structure. The insurance laws of the state of domicile of the PartnerRe U.S. Insurance Companies provide that no corporation or other person except an authorized insurer may acquire control of a domestic insurance or reinsurance company unless it has given notice to such company and obtained prior written approval of the applicable state s chief insurance regulator. Any purchaser of 10% or more of the outstanding voting securities of PartnerRe Ltd. (the ultimate parent company of the PartnerRe U.S. Insurance Companies) could become subject to such change of control regulations and would be required to file certain notices and reports with the Superintendent of the New York Insurance Department prior to such acquisition.

A committee of state insurance regulators developed the National Association of Insurance Commissioners (NAIC) Insurance Regulatory Information System (IRIS) primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance or reinsurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies usual values for each ratio. Generally, a company will become subject to regulatory scrutiny if it falls outside the usual ranges with respect to four or more of the ratios, and regulators may then act, if the company has insufficient capital, to constrain the company s underwriting capacity. No such action has been taken with respect to the PartnerRe U.S. Insurance Companies.

The Risk-Based Capital (RBC) for Insurers Model Act (the Model RBC Act), as it applies to property and casualty insurers and reinsurers, was initially adopted by the NAIC in December 1993. The Model RBC Act or similar legislation has been adopted by the majority of states in the U.S. The main purpose of the Model RBC Act is to provide a tool for insurance regulators to evaluate the capital of insurers with respect to the risks assumed by them and to determine whether there is a need for possible corrective action. U.S. insurers and reinsurers are required to report the results of their RBC calculations as part of the statutory annual statements that such insurers and reinsurers file with state insurance regulatory authorities. The Model RBC Act provides for four different levels of regulatory actions, each of which may be triggered if an insurer s Total Adjusted Capital (as defined in the Model RBC Act) is less than a corresponding level of risk-based capital. The Company Action Level is triggered if an insurer s Total Adjusted Capital is less than 200% of its Authorized Control Level RBC (as defined in the Model RBC Act). At the Company Action Level, the insurer must submit a risk-based capital plan to the regulatory authority that discusses proposed corrective actions to improve its capital position. The Regulatory Action Level is triggered if an insurer s Total Adjusted Capital is less than 150% of its Authorized Control Level RBC. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. The Authorized Control Level is triggered if an insurer s Total Adjusted Capital is less than 100% of its Authorized Control Level RBC, and at that level, the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. The Mandatory Control Level is triggered if an insurer s Total Adjusted Capital is less than 70% of its Authorized Control Level RBC, and at that level, the regulatory authority is required to take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer. At December 31, 2009, the Total Adjusted Capital of the PartnerRe U.S. Insurance Companies exceeded applicable RBC levels.

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Canada

The Canadian branch of Partner Re Europe holds a license to write property and casualty reinsurance business in Canada and the Canadian branch of Partner Reinsurance holds a license to write life business in Canada. Following its acquisition of Paris Re, the Company also carries out property and casualty operations in Canada through the Canadian branch of Paris Re France. The Canadian branch of Paris Re France holds a license to write property and casualty reinsurance business in Canada. Each Canadian branch is authorized to insure, in Canada, risks falling within the classes of insurance as specified in their respective licenses and is limited to the business of reinsurance. Each Canadian branch is subject to local regulation for its Canadian branch business, specified principally pursuant to Part XIII of the Insurance Companies Act (the Act) applicable to Foreign Property and Casualty Companies and to Foreign Life Companies. The Office of the Superintendent of Financial Institutions, Canada (OSFI) supervises the application of the Act. The Canadian branch of Partner Reinsurance is also licensed in the Province of Ontario to write life reinsurance business. The Canadian branch of PartnerRe Europe is licensed in the Province of Ontario to write property and casualty reinsurance business and the Canadian branch of Paris Re France is licensed in the provinces of Quebec and Ontario to write property and casualty reinsurance business. Partner Reinsurance, PartnerRe Europe and Paris Re France maintain sufficient assets, vested in trust at a Canadian financial institution approved by OSFI, to allow their branches to meet minimum statutory solvency requirements as required by the Act and the regulations made under it. Statutory information required by federal and provincial insurance regulators for both property and casualty and life business includes (1) a yearly business plan, (2) quarterly and year-end returns including general information, financial statements, statutory compliance reports and various investment, technical and other information, (3) an auditor s report for the Canadian branch, (4) an opinion of an Appointed Actuary of the Canadian branch on the adequacy of the reserves and (5) an annual Dynamic Capital Adequacy Test (DCAT) report from the Appointed Actuary of the Canadian branch that tests the adequacy of the assets that are vested under various adverse scenarios.

Switzerland

The Company s Swiss reinsurance subsidiary, Paris Re Switzerland, is a Swiss stock corporation (Aktiengesellschaft) based in Zug, Switzerland. The conduct of reinsurance business by a company headquartered in Switzerland requires a license granted by the Swiss Financial Market Supervisory Authority (FINMA). Licensing and supervision requirements are imposed on Paris Re Switzerland as a separate legal entity.

Paris Re Switzerland obtained its reinsurance license from the Swiss Federal Office of Private Insurance in December 2006. On January 1, 2009, Swiss financial services regulation was reformed pursuant to the Federal Act on the Swiss Financial Market Supervisory Authority of June 22, 2007 (FINMASA Law), creating a single regulator, FINMA, covering all financial services. The function of the Swiss Federal Office of Private Insurance was replaced by this new single regulator.

In general, FINMASA Law is an overarching statute that applies unless there is a contrary provision in the laws specific to the particular industry sector (referred to as sectoral laws). The various legal and regulatory requirements that must be satisfied, are set forth primarily by the three following sets of rules and regulations: the Federal Insurance Supervisory Law (ISL), the Federal Private Insurance Supervision Ordinance (ISO) and the FINMA Insurance Supervision Ordinance, as well as by various implementing directives and circulars. In general, the approach is principles-based and allows for consideration of a justified application by management in relation to such principles.

Under Swiss rules and regulations, Swiss reinsurance companies are generally subject to many, but not all, of the same provisions that apply to direct insurers, and include the following obligations:

Adequacy of Financial Resources: The minimum capital for a third party (non-captive) reinsurance company is CHF 10 million. Companies are also obliged to constitute and maintain an organizational fund. The

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purpose of the organizational fund is to cover the costs of establishing and setting up the reinsurance company or extraordinarily expanding the reinsurance business. The fund may not be used for other purposes unless FINMA has approved it and three years have elapsed after the constitution of the fund.

In addition, Paris Re Switzerland must keep adequate disposable and unencumbered capital resources to cover its entire activities. In calculating the solvency margin, account is taken of the risks to which the company is exposed, the insurance classes involved, the extent of the business, the geographical scope and internationally recognized principles. Solvency is determined based on two independent methodologies:

- *Solvency I*: For non-life reinsurance companies, this methodology involves calculating a margin applying defined percentages to a base of the higher of gross annual premium or gross claims for the last three available years and comparing coverage in terms of admissible own funds as determined under ISO.

- *The Swiss Solvency Test (SST)*: Under this approach, capital is deemed to be adequate if risk-bearing capital exceeds target capital. This involves a more sophisticated analysis providing for a market-consistent valuation of all assets and liabilities in the company with an approach to risk categories (insurance risk, credit risk etc.) that subjects them to stress tests using a standard regulatory approach but, where appropriate, permitting the use of internal models in the overall management of risk, once such models are validated. FINMA will pursue the validation of internal models over the course of 2010 with all companies which have opted for such a process. Until such validation is complete, the standard regulatory approach will be used.

Sound Corporate Governance, Risk Management and Internal Control System: In addition to quantitative risk measures, FINMA requires full qualitative governance and control of risk in Paris Re Switzerland. This includes requirements as to the ongoing fitness, propriety and competence of the directors and senior management, observance of ethical standards, objective and appropriate remuneration procedures, management of conflicts of interests, the institution of a compliance function, independence and adequate resourcing of control functions (including the responsible actuary, the risk management function and the internal audit function), as well as clear terms of reference and systems of delegation and report throughout. Insurance companies are required to implement documented procedures for risk management and internal control.

Supervisory Process: Paris Re Switzerland is required to prepare an annual report at the end of each financial year on the solvency margins available, as well as annual and semi-annual reports on the calculation of the SST. Paris Re Switzerland must also file a corporate report incorporating financial statements prepared and audited in accordance with Swiss accounting rules and a supervisory report in the prescribed format. The supervisory report is to be submitted to FINMA by June 30 of each year in electronic form together with the annual corporate report.

In addition, Paris Re Switzerland is required to notify FINMA of any intended participation in a company at or exceeding 10%, 20%, 33% or 50% of capital or voting rights. Similarly, any person intending to acquire or to decrease its participation in Paris Re Switzerland to the extent that they would reach or pass any of the thresholds of 10%, 20%, 33%, or 50% of capital or voting rights must also notify FINMA. FINMA then examines whether such participation might put the reinsurance company or the interests of the reinsured at risk. It may prohibit the acquisition or subject it to specific conditions.

There is a general duty to notify FINMA without delay of all matters which are of material significance to the regulator. This includes all matters affecting solvency, which are specified by circular to include an expected breach of solvency requirements and an asset value decrease or adjustment of 10% or more of equity, and any regulatory or criminal investigations brought against the company or the senior management or other significant events.

Intervention and Enforcement by the Regulator: FINMASA Law provides for a wider range of supervisory intervention tools than previously provided for under the ISL, such as orders to comply with the law, declarations of unfitness for individuals, disgorgement and the appointment of independent specialists to investigate and implement remediation.

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Capital Structure and Dividends: Paris Re Switzerland is funded by a combination of subordinated debt and equity. The equity is held in the form of paid-in capital by shares and share premium. According to Swiss corporate law and insurance supervisory law, a non-life insurance company is obliged to contribute to statutory legal reserves a minimum of 20% of any annual profit up to 50% of statutory capital being paid-in share capital. Paris Re Switzerland has been substantially funded by share premium. As of 2011, share premium can, subject to certain conditions, be distributed to shareholders without being subject to withholding tax. However, under certain circumstances, the repayment of subordinated debt and distribution of any dividend and more generally any reduction in shareholder s equity remain subject to the approval of FINMA, which will consider the maintenance of solvency and the interests of reinsureds.

Reinsurance Group Supervision: In addition to the supervision that is conducted at the individual company level, the reinsurance group controlled by the Merger Subsidiary is subject to group supervision by the Supervision of Insurance Groups section of FINMA. The main goals of the supervision are to ensure solvency of the group, to monitor inter-group transactions, and to assess the adequacy of corporate governance, risk management and internal control processes.

Pursuant to the ISO, the solvency margins of a reinsurance group are determined based on the methods applicable to individual reinsurance companies. The solvency margin according to Solvency I for a reinsurance group is calculated based on the consolidated financial statements of the group. Regarding the risk based solvency calculation under the SST, the reinsurance group must have in place an internal model for the determination and quantification of all material risk types. Such model must be approved by FINMA. The calculation of the solvency margins of a reinsurance group must be performed semi-annually.

France

The Company s French reinsurance subsidiary, Paris Re France, is a French stock corporation (Société Anonyme) based in Paris, France. The European Directive of November 16, 2005 on reinsurance provides a harmonized regulatory framework for reinsurance in the European Economic Area (EEA). This Reinsurance Directive was fully implemented by French law in November 2008.

Paris Re France has obtained from the Comité des Entreprises d Assurance (CEA) the authorization to carry on reinsurance business within the EEA. Such authorization represents a single passport which enables Paris Re France to carry on reinsurance business anywhere in the EEA under the freedom of establishment (that is, by establishing a branch anywhere in the EEA) and the freedom to provide cross-border services.

Regulatory supervision of Paris Re France is under the authority of the French insurance regulator, the Autorité de Contrôle des Assurances et des Mutuelles (ACAM). Supervision is carried out only by the ACAM, as EEA member states are not able to impose any measures which amount to indirect supervision of authorized reinsurers. The ACAM may request access to any information or document in connection with its mission and, in particular, may request that any measure be taken regarding the reinsurers financial situation, their management methods or appropriate conduct of their activities as they relate to their development goals. In addition, the ACAM may request that any document which is contrary to applicable laws or regulations be amended or withdrawn.

Paris Re France is subject to reporting requirements and must have adequate corporate governance mechanisms in place. Financial supervision involves the verification of the state of solvency, technical provisions, and assets of reinsurance undertakings. Paris Re France must establish sufficient technical provisions to match all of its liabilities to reinsured undertakings.

Minimum Solvency Margin: Paris Re France must have sufficient capital to meet a solvency margin determined in light of all of its activities. The solvency margin for reinsurers is equal to the greater of the two results obtained by applying the following two calculation methods: on the basis of annual premiums, and on the basis of the average claims burden for the last three financial years. As part of the approval process for the acquisition of Paris Re by the Company, the CEA imposed an additional capital requirement such that Paris Re France must maintain a solvency margin no less than three times the calculated solvency margin.

Minimum Guarantee Fund: Paris Re France has a minimum guarantee fund. This guarantee fund must correspond to one third of the required solvency margin.

Admissible Assets: The French reinsurers investments must comply with principles-based rules. French reinsurers must cover their liabilities with assets which take into account the nature, amount and duration of these liabilities, in order to guarantee the liquidity, security, yield, currency-matching and adequacy of the investments. Investments must also be sufficiently diversified in order to sustain economic fluctuations and catastrophic events.

Financial Reporting and Internal Control: Paris Re France is required to prepare annual financial statements, annual filing and solvency reports. In addition, the board of directors of Paris Re France has to approve, on at least an annual basis, a detailed report on its internal controls that is then filed with the ACAM.

Dividends: Dividend distributions are governed by French law. A company is required to contribute a minimum of 5% of any annual profit up to 10% of the share capital to a legal reserve. The distributable earnings consist of the earnings for the period, less any negative retained earnings and the sum required to be allocated to the legal reserve, plus the positive retained earnings. Further distributions may be made from reserves in excess of the minimum requirements with shareholder approval. However, no dividend distributions can be made to the shareholders when the share capital is, or would become, lower than the amount of the share capital plus the minimum reserves required by French law, except in the event of a capital reduction (and with the approval of the ACAM). In addition, as a reinsurance company, Paris Re France must comply with the provisions of the French Insurance Code, particularly with respect to the solvency margin.

Taxation of the Company and its Subsidiaries

The following summary of the taxation of the Company, Partner Reinsurance, PartnerRe Europe, the PartnerRe U.S. Companies and the companies acquired in the Paris Re acquisition is based upon current law. Legislative, judicial or administrative changes may be forthcoming that could affect this summary. Certain subsidiaries, branch offices and representative offices of the Company are subject to taxation related to operations in Brazil, Canada, Chile, China, France, Hong Kong, Ireland, Japan, Labuan, Mexico, Singapore, Switzerland and the United States. The discussion below covers the principal locations for which the Company or its subsidiaries are subject to taxation.

Bermuda

The Company and Partner Reinsurance have each received from the Minister of Finance an assurance under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda, to the effect that in the event that there is any legislation enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or Partner Reinsurance or to any of their operations or the shares, debentures or other obligations of the Company or Partner Reinsurance until 2016. These assurances are subject to the proviso that they are not construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (the Company and Partner Reinsurance are not currently so designated) or to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act, 1967 of Bermuda or otherwise payable in relation to the property leased to Partner Reinsurance.

Canada

The Canadian non-life branch of PartnerRe Europe, the Canadian life branch of Partner Reinsurance and the Canadian non-life branch of Paris Re France are subject to Canadian taxation on their profits. The profits of the Canadian branches of Partner Re Europe and Partner Reinsurance are taxed at the federal level as well as the Ontario-provincial level at a total rate that was 33% in 2009. Canada has enacted a phased-in decrease of the

Federal income tax rate; combined with the phased-in decrease of the income tax rate in the Province of Ontario, the total rate will be 30.99% in 2010, 28.25% in 2011, 26.25% in 2012 and 25.50% in 2013. See also the discussion of taxation in Ireland below. The Canadian branch of Paris Re France is subject to taxation on its profits at the federal level as well as the Ontario and Quebec provincial level at a total rate that was an average of 31.78% in 2009. We expect this rate to decrease through 2013, however, the exact rate cannot be determined at this time since the branch operates in both Ontario and Quebec.

France

The French branch of PartnerRe Europe and Paris Re France are conducting business in and are subject to taxation in France. The current statutory rate of tax on corporate profits in France is 34.43%. See also the discussion of taxation in Ireland below.

Ireland

The Company s Irish subsidiaries, PartnerRe Holdings Europe Ltd., PartnerRe Europe and PartnerRe Ireland Insurance Ltd, conduct business in and are subject to taxation in Ireland. Profits of an Irish trade or business are subject to Irish corporation tax at the rate of 12.5%, whereas profits arising from other than a trade or business are taxable at the rate of 25%. The Swiss and French branches and Canadian non-life branch of PartnerRe Europe are subject to taxation in Ireland at the Irish corporation tax rate of 12.5%. However, under Irish domestic tax law, the amount of tax paid in Switzerland, France and Canada can be credited or deducted against the Irish corporation tax. As a result, the Company does not expect to incur significant taxation in Ireland with respect to the Swiss, French and Canadian non-life branches.

Switzerland

The Swiss branch of PartnerRe Europe is subject to Swiss taxation, mainly on profits and capital. To the extent that net profits are generated, profits are taxed at a rate of approximately 21%. The branch pays capital taxes at a rate of approximately 0.17% on its imputed branch capital calculated according to a procured taxation ruling. See also the discussion of taxation in Ireland above. Paris Re Switzerland is subject to taxation on its profits in the Canton of Zug, at a rate of approximately 10%.

United States

PartnerRe U.S. Corporation and its subsidiaries (collectively the PartnerRe U.S. Companies) transact business in and are subject to taxation in the United States. The Company believes that it and its subsidiaries, other than the PartnerRe U.S. Companies, have operated and will continue to operate their business in a manner that will not cause them to be treated as engaged in a trade or business within the United States. On this basis, the Company does not expect that it and its subsidiaries, other than the PartnerRe U.S. Companies, will be required to pay U.S. corporate income taxes (other than withholding taxes as described below). However, because there is considerable uncertainty as to the activities that constitute a trade or business in the United States, there can be no assurance that the Internal Revenue Service (the IRS) will not contend successfully that the Company or its non-U.S. subsidiaries are engaged in a trade or business in the United States. The maximum federal tax rate is currently 35% for a corporation s income that is effectively connected with a trade or business in the United States. In addition, U.S. branches of foreign corporations may be subject to the branch profits tax, which imposes a tax on U.S. branch after-tax earnings that are deemed repatriated out of the United States, for a potential maximum effective federal tax rate of approximately 54% on the net income connected with a U.S. trade or business.

Foreign corporations not engaged in a trade or business in the United States are subject to U.S. income tax, effected through withholding by the payer, on certain fixed or determinable annual or periodic gains, profits and income derived from sources within the United States as enumerated in Section 881(a) of the Internal Revenue Code, such as dividends and interest on certain investments.

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The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rate of tax applicable to reinsurance premiums paid to Partner Reinsurance is 1% of gross premiums.

Where You Can Find More Information

The Company s Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through the investor information pages of its website, located at *http://www.partnerre.com*. Alternatively, the public may read or copy the Company s filings with the Securities and Exchange Commission (SEC) at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://*www.sec.gov*). None of the information on the Company s website or on the SEC s website is incorporated into this report except to the extent explicitly incorporated by reference.

ITEM 1A. RISK FACTORS
Introduction

Current and potential investors in the Company should be aware that, as with any publicly traded company, investing in our securities carries risk. Managing risk effectively is paramount to our success, and our organization is built around intelligent risk assumptions and careful risk management, as evidenced by our development of the PartnerRe risk management framework, which provides an integrated approach to risk across the entire organization. We have identified what we believe reflect key significant risks to the organization, and in turn the shareholders. These risks should be read in conjunction with other Risk Factors described in more detail below under the heading Risk Factors.

First, in order to achieve our targeted growth in book value per share of 10% a year, we believe we must be able to generate approximately 13% operating ROE. Our ability to do that over a reinsurance cycle is dependent on our individual performance, but also on industry factors that impact the level of competition and the level of cost. The level of competition is determined by supply and demand of capacity. Demand is determined by client buying behavior, which varies based on the client s perception of the amount and volatility of risk, its financial capacity to bear it and the cost of risk transfer. Supply is determined by the existing reinsurance companies level of financial strength and the introduction of capacity from new start-ups or capital markets. Significant new capacity or significant reduction in demand will depress industry profitability until the supply/demand balance is redressed. Extended periods of imbalance could depress industry profitability to a point where we would fail to meet our targets.

Second, we knowingly expose ourselves to significant volatility in our quarterly and annual net income. We create shareholder value by assuming risk from the insurance and capital markets. This exposes us to volatile earnings as untoward events happen to our clients and in the capital markets. Examples of potential large loss events include, without limitation:

- Natural catastrophes such as hurricane, windstorm, flood, earthquake, etc.
- Man-made disasters such as terrorism
- Declines in the equity and credit markets
- Systemic increases in the frequency or severity of casualty losses
- New mass tort actions or reemergence of old mass torts such as asbestosis

We manage large loss events through evaluation processes, which are designed to enable proper pricing of these risks over time, but which do little to moderate short-term earnings volatility. The only effective tool to

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manage earnings volatility is through diversification by building a portfolio of uncorrelated risks. We do not currently buy significant amounts of retrocessional coverage, nor do we use significant capital market hedges or trading strategies in the pursuit of stability in earnings.

Third, we expose ourselves to several very significant risks that are of a size that can impact our financial strength as measured by U.S. GAAP or regulatory capital. We believe that the following are categorized as very significant risks:

- Catastrophe risk
- Casualty reserving risk
- Equity investment risk

Each of these risks can accumulate to the point that they exceed a year s worth of earnings and affect the capital base of the Company (for further information about these risks see Other Key Issues of Management Risk Management in Item 7 of Part II of this report).

We rely on our internal risk management processes, models and systems to manage these risks at the nominal exposure levels approved by the Company s Board. However, because these models and processes may fail, we also impose limits on our exposure to these risks.

In addition to these enumerated risks, we face numerous other strategic and operational risks that could in the aggregate lead to shortfalls to our long-term goals or add to short-term volatility in our earnings. The following review of important risk factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. The words or phrases believe, anticipate, estimate, project, plan, expect, intend, hope, forecast, evaluate, will likely result or will continue or words or phrases of similar import generally involve forward-looking statements. As used in these Risk Factors, the terms we , our or us may, depending upon the context, refer to the Company, to one or more of the Company s consolidated subsidiaries or to all of them taken as a whole.

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Risk Factors

Our profitability is affected by the cyclical nature of the reinsurance industry.

Historically, the reinsurance industry has experienced significant fluctuations in operating results due to competition, levels of available capacity, trends in cash flows and losses, general economic conditions and other factors. Demand for reinsurance is influenced significantly by underwriting results of primary insurers, including catastrophe losses, and prevailing general economic conditions. The supply of reinsurance is related directly to prevailing prices and levels of capacity that, in turn, may fluctuate in response to changes in rates of return on investments being realized in the reinsurance industry. If any of these factors were to result in a decline in the demand for reinsurance or an overall increase in reinsurance capacity, our profitability could be impacted.

We operate in a highly competitive environment.

The reinsurance industry is highly competitive and we compete with a number of worldwide reinsurance companies, including, but not limited to, Berkshire Hathaway s General Re, Everest Re Group Ltd, Hannover Re, Lloyds, Munich Re, Swiss Re, SCOR Group, Transatlantic Holdings, Inc. and reinsurance operations of certain primary insurance companies, such as ACE Limited, Arch Capital, and Axis Capital. Competition in the types of reinsurance that we underwrite is based on many factors, including the perceived financial strength of the reinsurer, pricing, terms and conditions offered, services provided, ratings assigned by independent rating agencies, speed of claims payment and experience in the lines of reinsurance to be written. If competitive pressures reduce our prices, we would expect to write less business. In addition, competition for customers would become more intense and we could incur additional expenses relating to customer acquisition and retention, further reducing our operating margins.

The current state of the economy and capital markets increases the possibility of adverse effects on our financial position and results of operations. Economic downturns could impair our investment portfolio and affect the primary insurance market, which could, in turn, harm our operating results and reduce our volume of new business.

During 2008 and continuing into 2009, the capital markets in the United States and abroad experienced a severe economic downturn and certain economies remain in recession. Disruptions in the capital markets have increased the spread between the yields realized on risk-free and higher risk securities. While the increased spreads have reduced during the latter half of 2009, illiquidity remains in certain parts of the debt capital markets. The longer this economic dislocation persists, the greater the probability that these risks could have an adverse effect on our financial results. This may be evidenced in several ways, including but not limited to a potential reduction in our premium income, financial losses in our investment portfolio and decreases in revenue and net income.

Unfavorable economic conditions also could increase our funding costs, limit our access to the capital markets or result in a decision by lenders not to extend credit to us. These events could prevent us from increasing our underwriting activities and negatively impact our operating results. In addition, our cedants and other counterparties may be affected by such developments in the financial markets, which could adversely affect their ability to meet their obligations to us.

Political, regulatory, governmental and industry initiatives could adversely affect our business.

Our reinsurance operations are subject to extensive laws and regulations that are administered and enforced by a number of different governmental and non-governmental self-regulatory authorities in each of their respective jurisdictions. As a result of the current financial crisis, some of these authorities are or may in the future consider enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory authority in new and more robust ways, and new regulators could become authorized to oversee parts of our business. It is not possible to predict the future impact of these types of changes but if they did occur they could affect the way we conduct our business and manage our capital, and may require us to satisfy increased capital requirements, any of which, in turn, could affect our results of operations, financial condition and liquidity. Our main subsidiaries regulatory environments are described in detail under the heading Regulation. Regulations relating to each of our main subsidiaries may in effect restrict each of those subsidiaries ability to write new business, to make certain investments and to distribute funds or assets to us.

Recent government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of others, including shareholders of reinsurers. In light of the current financial crisis, we believe it is likely there will be increased regulation of, and other forms of government participation in, our industry in the future, which could adversely affect our business by, among other things:

- Providing reinsurance capacity in markets and to clients that we target or requiring our participation in industry pools and guaranty associations;
- Further restricting our operational or capital flexibility;
- Expanding the scope of coverage under existing policies;
- Regulating the terms of reinsurance policies; or
- Disproportionately benefiting the companies of one country over those of another.

Such a federal initiative was put forward in response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11th tragedy, and consequently the Terrorism Risk Insurance Act of 2002 (TRIA) was enacted to ensure the availability of commercial insurance coverage for certain types of terrorist acts in the U.S. In December 2007, the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) was enacted, which further renewed TRIA for another 7 years ending December 31, 2014.

Such a state initiative was put forward by the Florida Legislature in response to the tightening of supply in certain insurance and reinsurance markets in Florida resulting from, among other things, hurricane damage in Florida, which enacted the Hurricane Preparedness and Insurance Act to ensure the availability of catastrophe insurance coverage for catastrophes in the state of Florida.

The insurance industry is also affected by political, judicial and legal developments that may create new and expanded theories of liability, which may result in unexpected claim frequency and severity and delays or cancellations of products and services we provide, which could adversely affect our business.

If we are downgraded by rating agencies by two notches or more, our standing with brokers and customers could be negatively impacted and may adversely impact our results of operations.

Third party rating agencies assess and rate the claims paying ability and financial strength of insurers and reinsurers, such as the Company s subsidiaries. These ratings are based upon criteria established by the rating agencies and have become an important factor in establishing our competitive position in the market. They are not an evaluation directed to investors in our common shares, preferred shares or debt securities, and are not a recommendation to buy, sell or hold our common shares, preferred shares or debt securities. Rating agencies may downgrade or withdraw their ratings at their sole discretion.

Our current financial strength ratings are:

PartnerRe	
Standard & Poor s	AA-
Moody s	Aa3
A.M. Best	A+
Fitch	AA
Paris Re	
Standard & Poor s	A+
A.M. Best	A

Following the announcement of the Company s proposed acquisition of Paris Re, Moody s and A.M. Best affirmed the Company s ratings, while Standard & Poor s (S&P) and Fitch affirmed the Company s ratings but revised their outlook to negative from stable, with S&P citing concerns about potential integration risks (including the Company s ability to integrate the culture and risk management cultures of both organizations) as well as potential earnings dilution, and Fitch citing uncertainty over whether the combined entity will generate returns and stability of returns that are commensurate with those required at the Company s current rating level.

Following the completion of the 100% acquisition of Paris Re, both S&P and A.M. Best upgraded Paris Re s ratings to one notch below the PartnerRe rating with an outlook of positive on December 3, 2009 and January 21, 2010, respectively. Further upgrades are dependent on the timing and structure of the integration.

If our ratings were significantly downgraded, by two notches or more, our competitive position in the reinsurance industry may suffer, and it could result in a reduction in demand for our products, In addition, certain business that we write contains terms that give the ceding company or derivative counterparty the right to terminate cover and/or require collateral if our ratings are downgraded significantly.

We may suffer losses due to defaults by others, including issuers of investment securities, reinsurance and derivative counterparties.

Issuers or borrowers whose securities we hold, reinsurers, clearing agents, clearing houses and other financial intermediaries may default on their obligations to us due to bankruptcy, insolvency, lack of liquidity, adverse economic conditions, fraud or other reasons. Our investment portfolio may include investment securities in the financial services sector that have recently experienced defaults. All or any of these types of default could have a material adverse effect on our results of operations, financial condition and liquidity.

The exposure of our investments to interest rate, credit and equity risks may limit our net income and may affect the adequacy of our capital.

We invest the net premiums we receive until such time as we pay out losses. Investment results comprise a substantial portion of our income. For the year ended December 31, 2009, we had net investment income of $596 million, which represented approximately 11% of total revenues. In addition, we recorded realized ($81 million) and unrealized ($511 million) gains on investments during 2009, and we record all realized and unrealized gains or losses through net income. While our Management has implemented what it believes to be prudent risk management and investment asset allocation practices, we are exposed to significant financial and capital market risks, including changes in interest rates, credit spreads, equity prices, foreign exchange rates, market volatility, the performance of the economy in general and other factors outside our control.

Interest rates are highly sensitive to many factors, including fiscal and monetary policies of major economies, including the U.S., inflation, economic and political conditions and other factors outside our control. Changes in interest rates can negatively affect us in two ways. In a declining interest rate environment, we will be required to invest our funds at lower rates, which would have a negative impact on investment income. In a rising interest rate environment, the market value of our fixed income portfolio may decline.

Our fixed income portfolio is primarily invested in high quality, investment grade securities. However, we invest a smaller portion of the portfolio in securities that are below investment grade, including high yield fixed income investments, bank loans, and convertible fixed income investments. These securities pay a higher rate of interest and have a higher degree of credit or default risk. These securities may also be less liquid in times of economic weakness or market disruptions.

We invest a portion of our portfolio in preferred and common stocks or equity-like securities. The value of these assets fluctuates with equity markets. In times of economic weakness, the market value and liquidity of these assets may decline, and may impact net income and capital.

We use the term equity-like investments to describe our investments that have market risk characteristics similar to equities and are not investment grade fixed income securities. This category includes bank loans, high yield fixed income investments, private equity investments and derivative exposure assumed. Fluctuations in the fair value of our equity-like investments may reduce our income in any period or year and cause a reduction in our capital.

Since we rely on a few reinsurance brokers for a large percentage of our business, loss of business provided by these brokers could reduce our premium volume and net income.

We produce our business both through brokers and through direct relationships with insurance company clients. For the year ended December 31, 2009, approximately 72% of our gross premiums were produced through brokers. In 2009, we had two brokers that accounted for 44% of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. A significant reduction in the business produced by these brokers would reduce our premium volume and net income.

We are exposed to credit risk relating to our reinsurance brokers and cedants.

In accordance with industry practice, we may pay amounts owed under our policies to brokers, and they in turn pay these amounts to the ceding insurer. In some jurisdictions, if the broker fails to make such an onward payment, we might remain liable to the ceding insurer for the deficiency. Conversely, the ceding insurer may pay premiums to the broker, for onward payment to us in respect of reinsurance policies issued by us. In certain jurisdictions, these premiums are considered to have been paid to us at the time that payment is made to the broker, and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. We may not be able to collect all premiums receivable due from any particular broker at any given time. We also assume credit risk by writing business on a funds withheld basis. Under such arrangements, the cedant retains the premium they would otherwise pay to us to cover future loss payments.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully, the frequency and severity of catastrophic events, and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings or curtail our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. Financial markets in the U.S. and elsewhere have experienced extreme volatility and disruption in recent times, resulting in part from financial stresses affecting the liquidity of the banking system. Continued disruption in the financial markets may limit our ability to access capital required to operate our business and we may be forced to delay raising capital or bear a higher cost of capital, which could decrease our profitability and significantly reduce our financial flexibility. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

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If actual losses exceed our estimated loss reserves, our net income and capital position will be reduced.

Our success depends upon our ability to accurately assess the risks associated with the businesses that we reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that we write. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect our expectation of the costs of the ultimate settlement and administration of claims. Losses for casualty and liability lines often take a long time to be reported, and frequently can be impacted by lengthy, unpredictable litigation and by the inflation of loss costs over time. As a consequence, actual losses and loss expenses paid may deviate substantially from the reserve estimates reflected in our financial statements.

Although we did not operate prior to 1993, we assumed certain asbestos and environmental exposures through our acquisitions, including Paris Re. Our reserves for losses and loss expenses include an estimate of our ultimate liability for asbestos and environmental claims for which we cannot estimate the ultimate value using traditional reserving techniques, and for which there are significant uncertainties in estimating the amount of our potential losses. We and certain of our subsidiaries have received and continue to receive notices of potential reinsurance claims from ceding insurance companies, which have in turn received claims asserting asbestos and environmental losses under primary insurance policies, in part reinsured by us. Such claims notices are often precautionary in nature and are generally unspecific, and the primary insurers often do not attempt to quantify the amount, timing or nature of the exposure. Given the lack of specificity in some of these notices, and the legal and tort environment that affects the development of claims reserves, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. In addition, the reserves that we have established may be inadequate. If ultimate losses and loss expenses exceed the reserves currently established, we will be required to increase loss reserves in the period in which we identify the deficiency to cover any such claims.

As a result, even when losses are identified and reserves are established for any line of business, ultimate losses and loss expenses (that is, the administrative costs of managing and settling claims) may deviate, perhaps substantially, from estimates reflected in loss reserves in our financial statements. Variations between our loss reserve estimates and actual emergence of losses could be material and could have a material adverse effect on our results of operations and financial condition.

We may be adversely affected if Colisée Re, AXA or their affiliates fail to honor their obligations to Paris Re or its clients.

As part of the AXA Acquisition, Paris Re entered into 2006 Acquisition Agreements. See Summary of certain agreements between AXA SA, Colisée Re and Paris Re above.

Pursuant to the Quota Share Retrocession Agreement, the benefits and risks of Colisée Re s reinsurance agreements, including those entered into following the AXA Acquisition pursuant to the Issuance Agreement entered into between Colisée Re and Paris Re France on December 21, 2006, were ceded to Paris Re, but Colisée Re remains both the legal counterparty for all such reinsurance contracts and the legal holder of the assets relating to such reserves.

Under the Run Off Services and Management Agreement, Paris Re has agreed that AXA LM will manage claims arising from all reinsurance and retrocession contracts subject to the Reserve Agreement.

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If AXA LM does not take into account Paris Re s commercial concerns in the context of Paris Re s on-going business relations with the relevant ceding companies and retrocessionaires, our ability to renew reinsurance and retrocession contracts with them may be adversely affected.

There can be no assurance that our business activities, financial condition, results or future prospects may not be adversely affected in spite of the existence of the 2006 Acquisition Agreements. In general, if AXA or its affiliates breach or do not satisfy their obligations under the 2006 Acquisition Agreements (whether as a result of insolvency, inability or unwillingness to make payments under the terms of the 2006 Acquisition Agreements), we could be materially adversely affected.

The volatility of the catastrophe business that we underwrite will result in volatility of our earnings.

Catastrophe reinsurance comprises approximately 10% of our net premiums written and a larger percentage of our capital at risk. Catastrophe losses result from events such as windstorms, hurricanes, tsunamis, earthquakes, floods, hail, tornadoes, severe winter weather, fires, explosions and other man-made or natural disasters, the incidence and severity of which are inherently unpredictable. Because catastrophe reinsurance accumulates large aggregate exposures to man-made and natural disasters, our loss experience in this line of business could be characterized as low frequency and high severity. This is likely to result in substantial volatility in our financial results for any fiscal quarter or year, and may create downward pressure on the market price of our common shares and limit our ability to make dividend payments and payments on our debt securities.

Notwithstanding our endeavors to manage our exposure to catastrophic and other large losses, the effect of a single catastrophic event or series of events affecting one or more geographic zones, or changes in the relative frequency or severity of catastrophic or other large loss events, could reduce our earnings and limit the funds available to make payments on future claims. The effect of an increase in frequency of mid-size losses in any one reporting period affecting one or more geographic zones, such as an unusual level of hurricane activity, could also reduce our earnings. Should we incur more than one very large catastrophe loss, our ability to write future business may be adversely impacted if we are unable to replenish our capital.

By way of illustration, during the past five calendar years, the Company incurred the following pre-tax large catastrophe losses, net of reinstatement premiums (in millions of U.S. dollars):

Calendar year	Pre-tax large catastrophe losses
2009	$
2008	305
2007	50
2006	
2005	900

Paris Re s pre-tax large catastrophe losses are not reflected in the above table. Subsequent to the completion of the Paris Re acquisition, our exposure to natural and man-made disasters may be different than our historical exposure and may have increased.

The loss incurred in 2007 was as the result of one large catastrophe event, whereas the losses in 2008 and 2005 were incurred as the result of multiple large catastrophe events. We believe, and recent scientific studies have indicated, that the frequency of Atlantic basin hurricanes has increased and may change further in the future relative to the historical experience over the past 100 years. As a result of changing climate conditions, such as global warming, there may be increases in the frequency and severity of natural catastrophes and the losses that result from them. We monitor and adjust, as we believe appropriate, our risk management models to reflect our judgment of how to interpret current developments and information, such as these studies.

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We could face unanticipated losses from man-made catastrophic events and these or other unanticipated losses could impair our financial condition, reduce our profitability and decrease the market price of our shares.

We may have substantial exposure to unexpected, large losses resulting from future man-made catastrophic events, such as acts of terrorism, acts of war and political instability, or from other perils. Although we may attempt to exclude losses from terrorism and certain other similar risks from some coverage we write, we may continue to have exposure to such unforeseen or unpredictable events. This may be because, irrespective of the clarity and inclusiveness of policy language, there can be no assurance that a court or arbitration panel will not limit enforceability of policy language or otherwise issue a ruling adverse to us.

It is also difficult to predict the timing of such events with statistical certainty, or estimate the amount of loss any given occurrence will generate. Under U.S. GAAP, we are not permitted to establish reserves for potential losses associated with man-made or other catastrophic events until an event that may give rise to such losses occurs. If such an event were to occur, our reported income would decrease in the affected period. In particular, unforeseen large losses could reduce our profitability or impair our financial condition.

Our debt, credit and International Swap Dealers Association (ISDA) agreements may limit our financial and operational flexibility, which may affect our ability to conduct our business.

We have incurred indebtedness, and may incur additional indebtedness in the future. Additionally, we have entered into credit facilities and ISDA agreements with various institutions. Under these credit facilities, the institutions provide revolving lines of credit to us and our major operating subsidiaries and issue letters of credit to our clients in the ordinary course of business.

The agreements relating to our debt, credit facilities and ISDA agreements contain various covenants that may limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate. Some of these agreements also require us to maintain specified ratings and financial ratios, including a minimum net worth covenant. If we fail to comply with these covenants or meet required financial ratios, the lenders or counterparties under these agreements could declare a default and demand immediate repayment of all amounts owed to them.

If we are in default under the terms of these agreements, then we would also be restricted in our ability to declare or pay any dividends, redeem, purchase or acquire any shares or make a liquidation payment.

If any one of the financial institutions that we use in our operations, including those that participate in our credit facilities, fails or is otherwise unable to meet their commitments, we could incur substantial losses and reduced liquidity.

We maintain cash balances significantly in excess of the U.S. Federal Deposit Insurance Corporation insurance limits at various depository institutions. We also have funding commitments from a number of banks and financial institutions that participate in our credit facilities. See Item 7 Management s Discussion and Analysis of Financial Condition and Results of Operations Credit Facilities. Access to funds under these existing credit facilities is dependent on the ability of the banks that are parties to the facilities to meet their funding requirements. Those banks may not be able to meet their funding requirements if they experience shortages of capital and liquidity or if they experience excessive volumes of borrowing requests within a short period of time, and we might be forced to replace credit sources in a difficult market. There have also been recent consolidations in the banking industry which could lead to increased reliance on and exposure to a limited number of institutions. If we cannot obtain adequate financing or sources of credit on favorable terms, or at all, our business, operating results and financial condition could be adversely impacted.

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Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Developments in accounting practices, for example a convergence of U.S. GAAP with International Financial Reporting Standards (IFRS), may require considerable additional expense to comply, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted, but may affect the results of our operations, including among other things, the calculation of net income.

Legal and enforcement activities relating to the insurance industry could affect our business and our industry.

The insurance industry has experienced substantial volatility as a result of litigation, investigations and regulatory activity by various insurance, governmental and enforcement authorities concerning certain practices within the insurance industry. These practices include the accounting treatment for finite reinsurance or other non-traditional or loss mitigation insurance and reinsurance products.

These investigations have resulted in changes in the insurance and reinsurance markets and industry business practices. While at this time, none of these changes have caused an adverse effect on our business, we are unable to predict the potential effects, if any, that future investigations may have upon our industry.

Emerging claim and coverage issues could adversely affect our business.

Unanticipated developments in the law, as well as changes in social and environmental conditions could potentially result in unexpected claims for coverage under our insurance, reinsurance and other contracts. These developments and changes may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. With respect to our casualty businesses, these legal, social and environmental changes may not become apparent until some time after their occurrence. Our exposure to these uncertainties could be exacerbated by an increase in insurance and reinsurance contract disputes, arbitration and litigation.

The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. As a result, the full extent of our liability under our coverages, and in particular, our casualty reinsurance contracts, may not be known for many years after a contract is issued.

If our non-U.S. operations become subject to U.S. income taxation, our net income will decrease.

We believe that we and our non-U.S. subsidiaries have operated, and will continue to operate, our respective businesses in a manner that will not cause us to be viewed as engaged in a trade or business in the United States and, on this basis, we do not expect that either we or our non-U.S. subsidiaries will be required to pay U.S. corporate income taxes (other than potential withholding taxes on certain types of U.S.-source passive income). Because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, the IRS may contend that either we or our non-U.S. subsidiaries are engaged in a trade or business in the United States. If either we or our non-U.S. subsidiaries are subject to U.S. income tax, our shareholders equity and earnings will be reduced by the amount of such taxes, which might be material.

PartnerRe U.S. Corporation and its subsidiaries conduct business in the United States, and are subject to U.S. corporate income taxes.

If proposed legislation previously introduced in both Houses of Congress is reintroduced and passed, our individual U.S. shareholders may no longer qualify for current capital gains rates on our dividends.

Currently, our individual U.S. shareholders are taxed on dividends paid in taxable years beginning before January 1, 2011 at advantageous capital gains rates rather than ordinary income tax rates. Proposed legislation has been introduced in both Houses of Congress that would exclude shareholders of a foreign corporation from this advantageous treatment unless either (i) the corporation is organized or created in a country that has entered into a comprehensive income tax treaty with the U.S. or (ii) the stock of such corporation is readily tradable on an established securities market in the U.S., and the corporation is organized or created in a country that has a comprehensive income tax system that the U.S. Secretary of the Treasury determines is satisfactory for this purpose. We would not satisfy either of these tests and, accordingly, if this legislation is reproposed and becomes law, individual U.S. shareholders would no longer qualify for the advantageous capital gains rates on our dividends. It is not possible to predict whether similar legislation might be reintroduced and enacted in the future.

The impact of Bermuda s letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

The Organization for Economic Cooperation and Development (OECD) has published reports and launched a global initiative among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Bermuda was not listed in the most recent report as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices, to embrace international tax standards for transparency, to exchange information and to eliminate an environment that attracts business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

If proposed U.S. legislation is passed, our U.S. reinsurance subsidiary may be subject to higher U.S. taxation and our net income would decrease.

Currently, our U.S. reinsurance subsidiary retrocedes or may retrocede a portion of its U.S. business to our Non-U.S. reinsurance subsidiaries and is generally entitled to deductions for premiums paid for such retrocessions. Proposed legislation has been introduced that if enacted would impose a limitation on such deductions, which could result in increased U.S. tax on this business and decreased net income. It is not possible to predict whether this or similar legislation may be enacted in the future.

We are a holding company, and if our subsidiaries do not make dividend and other payments to us, we may not be able to pay dividends or make payments on our debt securities and other obligations.

We are a holding company with no operations or significant assets other than the capital stock of our subsidiaries and other intercompany balances. We have cash outflows in the form of operating expenses, interest payments related to our long-term debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for principal repayments related to our long-term debt, and the repurchase of common shares under our share repurchase program. We rely primarily on cash dividends and payments from our subsidiaries to meet our cash outflows. We expect future dividends and other permitted payments from our subsidiaries to be the principal source of funds to pay expenses and dividends. The payment of dividends by our reinsurance subsidiaries is limited under Bermuda, Irish, Swiss and French laws and certain statutes of various U.S. states in which our U.S. subsidiaries are licensed to transact business. As of December 31, 2009, there were no significant restrictions on the payment of dividends by the Company s subsidiaries that would limit the Company s ability to pay common and preferred shareholders dividends and its corporate expenses.

Because we are a holding company, our right, and hence the right of our creditors and shareholders, to participate in any distribution of assets of any subsidiary of ours, upon our liquidation or reorganization or otherwise, is subject to the prior claims of policyholders and creditors of these subsidiaries.

Investors may encounter difficulties in service of process and enforcement of judgments against us in the United States.

We are a Bermuda company and some of our directors and officers are residents of various jurisdictions outside the United States. All, or a substantial portion, of the assets of our officers and directors and of our assets are or may be located in jurisdictions outside the United States. Although we have appointed an agent and irrevocably agreed that the agent may be served with process in New York with respect to actions against us arising out of violations of the United States Federal securities laws in any Federal or state court in the United States, it could be difficult for investors to effect service of process within the United States on our directors and officers who reside outside the United States. It could also be difficult for investors to enforce against us or our directors and officers judgments of a United States court predicated upon civil liability provisions of United States Federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the United States court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a United States court that is final and for a sum certain based on United States Federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the United States court, and the issue of submission and jurisdiction is a matter of Bermuda law and not United States law.

In addition to and irrespective of jurisdictional issues, Bermuda courts will not enforce a United States Federal securities law that is either penal or contrary to public policy. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity will not be entered by a Bermuda court. Certain remedies available under the laws of United States jurisdictions, including certain remedies under United States Federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim can be brought in Bermuda against us or our directors and officers in the first instance for violation of United States Federal securities laws because these laws have no extra jurisdictional effect under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

Operational risks, including human or systems failures, are inherent in our business.

Operational risks and losses can result from many sources including fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements or information technology failures.

We believe our modeling, underwriting and information technology and application systems are critical to our business and reputation. Moreover, our technology and applications have been an important part of our underwriting process and our ability to compete successfully. Such technology is and will continue to be a very important part of our underwriting process. We have also licensed certain systems and data from third parties. We cannot be certain that we will have access to these, or comparable service providers, or that our technology or applications will continue to operate as intended. In addition, we cannot be certain that we would be able to replace these service providers or consultants without slowing our underwriting response time. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm to our reputation, a loss or delay of revenues or increased expense.

The continued integration of Paris Re into our business following the acquisition may present significant challenges and may result in the incurrence of significant costs.

We may face significant challenges, including regulatory, technical, accounting and other challenges, in combining Paris Re s operations into our operations in a timely and efficient manner and in retaining key personnel. Furthermore, management resources may be diverted for an extended period of time to accomplish this integration. The failure to successfully integrate Paris Re and to successfully manage the challenges presented by the integration process may result in our not achieving the anticipated benefits of the transaction. In

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addition, we have been and will continue to incur integration and restructuring costs as we integrate the businesses of Paris Re with our businesses. Although we expect that the realization of efficiencies related to the integration of the businesses will offset incremental integration and restructuring costs over time, we cannot give any assurance that this net benefit will be achieved in the near term, if at all.

Foreign currency fluctuations may reduce our net income and our capital levels.

Through our multinational reinsurance operations, we conduct business in a variety of foreign (non-U.S.) currencies, the principal exposures being the euro, the British pound, the Canadian dollar, the Swiss franc and the Singapore dollar. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. Our reporting currency is the U.S. dollar, and exchange rate fluctuations relative to the U.S. dollar may materially impact our results and financial position. We employ various strategies (including hedging) to manage our exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, our results or equity may be reduced by fluctuations in foreign currency exchange rates.

Provisions in our bye-laws may restrict the voting rights of our shares and may restrict the transferability of our shares.

Our bye-laws generally provide that if any person owns, directly, indirectly or by attribution, more than 9.9% of our outstanding shares (including our common and preferred shares), the voting rights attached to such shares will be reduced so that such person may not exercise and is not attributed more than 9.9% of the total voting rights. In addition, our board of directors may limit a shareholder s exercise of voting rights where it deems it necessary to do so to avoid non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders.

Under our bye-laws, subject to waiver by our board of directors, no transfer of our shares is permitted if such transfer would result in a shareholder controlling more than 9.9% of our outstanding shares. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in non-de minimis adverse tax, legal or regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us for fair market value the minimum number of shares held by such person which is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences.

We also have the authority under our bye-laws to request information from any shareholder for the purpose of determining whether a shareholder s voting rights are to be limited pursuant to our bye-laws. If a shareholder fails to respond to our request for information or submits incomplete or inaccurate information in response to a request by us, we may, in our sole discretion, eliminate the shareholder s voting rights.

The loss of key executive officers could adversely affect us.

Our success has depended, and will continue to depend, partly upon our ability to attract and retain executive officers. If any of these executives ceased to continue in his or her present role, we could be adversely affected.

We believe there are only a limited number of available qualified executives in the business lines in which we compete. Our ability to execute our business strategy is dependent on our ability to attract and retain a staff of qualified underwriters and other key personnel. The skills, experience and knowledge of the reinsurance industry of our management team constitute important competitive strengths. If some or all of these managers leave their positions, and even if we were able to find persons with suitable skills to replace them, our operations could be adversely affected.

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ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The Company leases office space in Bermuda where the Company s principal executive offices are located. Additionally, the Company leases office space in various locations, including Beijing, Dublin, Greenwich (Connecticut), Hong Kong, Mexico City, Miami, Montreal, New York, Paris, Santiago, Sao Paulo, Seoul, Singapore, Tokyo, Toronto, Washington, D.C., Zug and Zurich.

ITEM 3. LEGAL PROCEEDINGS

Litigation

The Company s reinsurance subsidiaries, and the insurance and reinsurance industry in general, are subject to litigation and arbitration in the normal course of their business operations. In addition to claims litigation, the Company and its subsidiaries may be subject to lawsuits and regulatory actions in the normal course of business that do not arise from or directly relate to claims on reinsurance treaties. This category of business litigation typically involves, among other things, allegations of underwriting errors or misconduct, employment claims or regulatory activity. While the outcome of business litigation cannot be predicted with certainty, the Company will dispute all allegations against the Company and/or its subsidiaries that Management believes are without merit.

As of December 31, 2009, the Company was not a party to any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity of the Company.

Subpoenas

In January 2007, PartnerRe U.S. received a subpoena from the Attorney General for the State of Connecticut requesting information relating to the Company s participation in certain underwriting agreements that existed in 2002 and prior. The Company has responded promptly to all requests for information.

ITEM 4. RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company has the following securities (with their related symbols) traded on the New York Stock Exchange (NYSE):

Common shares	PRE
6.75% Series C cumulative preferred shares	PRE-PrC
6.5% Series D cumulative preferred shares	PRE-PrD

On December 7, 2009, the Company s common shares also commenced trading on the NYSE Euronext Paris exchange under the symbol PRE.

As of February 22, 2010, the approximate number of common shareholders was 75,800.

During the quarter ended December 31, 2009, the Company issued approximately 24.2 million common shares in connection with the acquisition of the remaining outstanding Paris Re common shares and warrants.

The following table provides information about purchases by the Company during the quarter ended December 31, 2009, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced program (1)(2)	(d) Maximum number of shares that may yet be purchased under the program (1)(3)
10/01/2009-10/31/2009				5,000,000
11/01/2009-11/30/2009				5,000,000
12/01/2009-12/31/2009				5,000,000
Total				

(1) At December 31, 2009, the Company s stock repurchase authorization was 5 million common shares, all of which remained eligible for repurchase under the then existing authorization approved by the Company s Board of Directors. Unless terminated earlier by resolution of the Company s Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

(2) At December 31, 2009, approximately 5,000 common shares were held in treasury and available for reissuance.

(3) In February 2010, the Company repurchased 1.8 million of its common shares at a total cost of $140.0 million, representing an average cost of $75.83 per share. Following these repurchases, in February 2010, the Company s Board of Directors approved an increase in the Company s stock repurchase authorization up to a total of 8 million common shares.

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The following table sets forth the high and low sales prices per share of the Company s common shares for each of the fiscal quarters in the last two fiscal years as reported on the New York Stock Exchange Composite Tape:

	2009			2008		
Period	**High**	**Low**	**Dividends Declared**	**High**	**Low**	**Dividends Declared**
Three months ended March 31	$ 72.43	$ 54.65	$ 0.47	$ 82.23	$ 73.77	$ 0.46
Three months ended June 30	68.66	62.83	0.47	77.66	69.13	0.46
Three months ended September 30	77.80	61.35	0.47	74.40	63.05	0.46
Three months ended December 31	80.99	73.40	0.47	72.76	48.48	0.46

Other information with respect to the Company s common shares and related shareholder matters is contained in Notes 3, 13, 14, 17, 18 and 25 to Consolidated Financial Statements in Item 8 of Part II of this report and in the Proxy Statement and is incorporated by reference to this item.

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ITEM 6. SELECTED FINANCIAL DATA
Selected Consolidated Financial Data

The following Selected Consolidated Financial Data is prepared in accordance with accounting principles generally accepted in the United States. This data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements.

The Statement of Operations Data reflects the consolidated results of the Company and its subsidiaries for 2005, 2006, 2007, 2008 and 2009, including the results of Paris Re from October 2, 2009 to December 31, 2009. The Balance Sheet Data reflects the consolidated financial position of the Company and its subsidiaries as at December 31, 2005, 2006, 2007, 2008 and 2009, including Paris Re as at December 31, 2009.

(Expressed in millions of U.S. dollars or shares, except per share data)

	For the years ended December 31,				
Statement of Operations Data	**2009**	**2008**	**2007**	**2006**	**2005**
Gross premiums written	**$ 4,001**	$ 4,028	$ 3,810	$ 3,734	$ 3,665
Net premiums written	**3,949**	3,989	3,757	3,689	3,616
Net premiums earned	**$ 4,120**	$ 3,928	$ 3,777	$ 3,667	$ 3,599
Net investment income	**596**	573	523	449	365
Net realized and unrealized investment gains (losses)	**591**	(531)	(72)	47	207
Net realized gain on purchase of capital efficient notes	**89**				
Other income (loss)	**22**	10	(17)	24	35
Total revenues	**5,418**	3,980	4,211	4,187	4,206
Losses and loss expenses and life policy benefits	**2,296**	2,609	2,082	2,111	3,087
Total expenses	**3,635**	3,918	3,328	3,355	4,244
Income (loss) before taxes and interest in earnings (losses) of equity investments	**1,783**	62	883	832	(38)
Income tax expense	**262**	10	82	95	23
Interest in earnings (losses) of equity investments	**16**	(5)	(83)	12	10
Net income (loss)	**$ 1,537**	$ 47	$ 718	$ 749	$ (51)
Basic net income (loss) per common share	**$ 23.93**	$ 0.22	$ 12.18	$ 12.58	$ (1.56)
Diluted net income (loss) per common share	**$ 23.51**	$ 0.22	$ 11.87	$ 12.37	$ (1.56)
Dividends declared and paid per common share	**$ 1.88**	$ 1.84	$ 1.72	$ 1.60	$ 1.52
Weighted average number of common and common share equivalents outstanding	**63.9**	55.6	57.6	57.8	55.0
Non-life Ratios					
Loss ratio	**52.7%**	63.9%	50.8%	54.8%	87.3%
Acquisition ratio	**21.9**	23.3	22.9	23.1	23.0
Other operating expense ratio	**7.2**	6.9	6.7	6.5	6.0
Combined ratio	**81.8%**	94.1%	80.4%	84.4%	116.3%

	At December 31,				
Balance Sheet Data	**2009**	**2008**	**2007**	**2006**	**2005**
Total investments, funds held directly managed and cash and cash equivalents	**$ 18,165**	$ 11,724	$ 11,572	$ 10,679	$ 9,579
Total assets	**23,733**	16,279	16,149	15,034	13,783
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	**12,427**	8,943	8,773	8,301	7,962
Long-term debt		200	620	620	620

Debt related to senior notes	**250**	250			
Debt related to capital efficient notes or trust preferred securities	**71**	258	258	258	206
Total shareholders equity	**7,646**	4,199	4,322	3,786	3,093
Diluted book value per common and common share equivalents outstanding	**$ 84.51**	$ 63.95	$ 67.96	$ 56.07	$ 44.57
Number of common shares outstanding, net of treasury shares	**82.6**	56.5	54.3	57.1	56.7

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

The following discussion and analysis reflects the consolidated results of the Company and its subsidiaries for the years ended December 31, 2007, 2008 and 2009, including the results of Paris Re from October 2, 2009 to December 31, 2009. Effective October 2, 2009, the Company s ownership of the common shares of Paris Re increased to approximately 83%, such that the Company obtained a controlling interest in Paris Re at that date. This interest was subsequently increased to 100% in December 2009.

Executive Overview

The Company is a leading global reinsurer, with a broadly diversified and balanced portfolio of traditional reinsurance risks and capital markets risks.

Successful risk management is the foundation of the Company s value proposition, with diversification of risks at the core of its risk management strategy. The Company s ability to succeed in the risk assumption and management business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and absolute limits for the risks assumed. All risks are managed by the Company within an integrated framework of policies and processes that ensure the intelligent and consistent evaluation and valuation of risk, and ultimately provide an appropriate return to shareholders.

The Company s economic objective is to manage a portfolio of risks that will generate compound annual diluted book value per share growth of 10 percent and an average operating return on beginning shareholders equity of 13 percent over a reinsurance cycle.

In its reinsurance portfolio, the Company writes all lines of business in virtually all markets worldwide, and differentiates itself through its risk management strategy and its financial strength. In assuming its clients risks, the Company removes the volatility associated with those risks from the clients financial statements, and then manages those risks and the risk-related volatility. Through its broad product and geographic diversification, its excellent execution capabilities and its local presence in most major markets, the Company is able to stabilize returns, respond quickly to market needs, and capitalize on business opportunities virtually anywhere in the world.

Similarly, for the Company s capital markets risks, which include both public and private market investments, diversification of risks is critical to achieving the risk and return objectives of the Company. The Company s investment policy distinguishes between liquid, high quality assets that support the Company s liabilities, and the more diversified, higher risk asset classes that make up the Company s capital funds. While there will be years where capital markets risks achieve less than the risk-free rate of return, or potentially even negative results, the Company believes the rewards for assuming these risks in a disciplined and measured way will produce a positive excess return to the Company over time. Additionally, since capital markets risks are not fully correlated with the Company s reinsurance risks, this increases the overall diversification of the Company s total risk portfolio.

The reinsurance markets have historically been highly cyclical in nature. The cycle is driven by competition, the amount of capital and capacity in the industry, loss events and investment returns. The Company s long-term strategy to generate shareholder value focuses on broad product, asset and geographic diversification of risks, assuming a moderately greater degree of risk than the market average, actively managing its capital across its portfolio and over the duration of the cycle, adding value through underwriting and transactional excellence and achieving superior returns on invested assets in the context of a disciplined risk framework.

The Company generates its reinsurance revenue from premiums. Premium rates and terms and conditions vary by line of business depending on market conditions. Pricing cycles are driven by supply of capital in the

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industry and demand for reinsurance and other risk transfer products. The reinsurance business is also influenced by several other factors, including variations in interest rates and financial markets, changes in legal, regulatory and judicial environments, loss trends, inflation and general economic conditions.

Between 2001 and 2004, premium rates increased, driven by large loss events and there were steep declines in interest rates and equity values, adding to the pressure for improvements in pricing and underwriting terms. This began to reverse in late 2003 and continued into 2004, when the Company began to see a slowing and/or flattening in the rate of improvement. During 2005, pricing was generally flat to down, except for wind-exposed lines, with 2005 being the worst year in the history of the industry in terms of catastrophe losses, with Hurricane Katrina being the largest insured event ever. Consequently, the Company observed in 2006 strong pricing increases in the lines and geographies that were affected by the large 2005 catastrophic loss events. Pricing in other lines was generally stable. In 2007, pricing remained strong for U.S. wind-exposed lines, while all other lines saw pricing declines.

In 2008, pricing declined in most major markets and most lines of business as there was a continuation of the trend toward increasing risk retention by cedants, and restructuring proportional coverages to non-proportional treaties, which led to the reduction in the amount of premiums in the reinsurance marketplace. In 2008, there was also severity of losses, such as Hurricane Ike, frequency of losses and severe and widespread financial turmoil stemming from the sub-prime mortgage and resulting global credit and financial crisis. The financial markets experienced severe dislocation and unprecedented events, including extreme volatility in foreign exchange markets and worldwide equity markets, significant declines in risk-free interest rates and increases in credit spreads, risk assets under-performing risk-free assets and several financial institutions being subject to government bail-out packages both in the U.S. and Europe.

In 2009, the non-life reinsurance market overall remained relatively unchanged from 2008. Pricing and profitability improved in certain catastrophe-exposed property lines in the U.S. and Japan, but elsewhere, especially in casualty lines, the impact of stagnant pricing and interest rates near historic lows caused continued pressure on returns on capital, pricing and profitability. Beginning in the second quarter, and continuing through the rest of 2009, financial markets showed improvement, primarily with increases in worldwide equity and credit markets.

The acquisition of Paris Re, combined with a strong net income during 2009, resulted in the Company s total capital increasing to approximately $8 billion at December 31, 2009. This provides the Company with enhanced strategic and financial flexibility in a less predictable and more limited growth environment. With the addition of Paris Re s diversified book of business, the Company s clients will benefit from a broader product spread and increased size and balance. Specifically, the Company s larger premium base allows it to deploy capital to the lines of business and markets with the most attractive risk and return characteristics, and take advantage of opportunities as they arise. It is also expected that the increased capital base will enable the Company to better position itself in order to continue to achieve its long-term financial goals and generate long-term shareholder value.

Overall, the January 1, 2010 renewals saw stable market conditions with some measured deterioration, except for improvements observed in catastrophe and credit exposed lines in certain markets. The U.S. casualty lines remained uncertain at the January 1, 2010 renewals, with no indication of improving pricing or terms and conditions. The global non-life reinsurance market s priced profitability is declining under the weight of low risk-free rates and overall pricing that is showing a modestly negative bias. The Company grew in markets with the most attractive risk and return opportunities, and generally maintained its position in lines where priced profitability was stable, but not yet improved. The Company and Paris Re renewed their January 1, 2010 books separately to facilitate an orderly renewal process for Paris Re s clients. However, it is expected that the Paris Re business will renew under the Company s name for the July 1, 2010 renewals. Management believes it has maintained appropriate diversification in its risk portfolio and maintained a similarly priced technical ratio (defined below) to that of the January 1, 2009 renewal.

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A key challenge facing the Company is to successfully manage through all phases of the reinsurance cycle. The Company is confident in its long-term strategy, and believes that by closely monitoring the progression of each line of business, being selective in the business that it writes, and maintaining the diversification and balance of its portfolio, it will optimize returns. Individual lines of business and markets have their own unique characteristics and are at different stages of the reinsurance pricing cycle at any given point in time. Management believes it has achieved appropriate portfolio diversification by product, geography, line and type of business, length of tail, and distribution channel, and that this diversification, in addition to the financial strength of the Company and its strong global franchise, will help to mitigate cyclical declines in underwriting profitability and to achieve a more stable return over time.

The Company s profitability is significantly affected by the level of its losses and loss expenses incurred. The Company recognizes losses and loss expenses on the basis of actual and expected claims on business written and earned. The Company s Non-life and Life net reserve positions at December 31, 2009 were $10.5 billion and $1.6 billion, respectively. Management believes that it follows prudent reserving policies to maintain a strong financial position. A key challenge for the Company is the accurate estimation of loss reserves for each line of business, which is critical in order to accurately determine the profitability of each line and allocate the appropriate amount of capital to each line in a manner that optimizes profitability.

Within the Company s Life segment, the reinsurance market is differentiated between mortality and longevity products, with mortality being the larger market. For the mortality markets in which the Company writes business, the Company observed improved pricing and conditions. The Company does not write life business in the U.S. market.

The Company s capital markets and investment operations, including public and private market investments, experienced a difficult year in 2008, with significant economic fallout resulting from the deterioration of the credit markets which began in 2007, and the collapse of the credit and equity markets in 2008. During 2009, the improvements in equity and credit markets contributed to the Company s return on its investment portfolio significantly outperforming risk-free rates compared to its returns in 2008, which were below risk-free rates. The Company believes that capital market risks managed in a disciplined and measured way will generate positive excess returns to the Company over time.

The Company generates revenue from its substantial and high quality investment portfolio, as well as the investments underlying the funds held directly managed account. The Company follows prudent investment guidelines through a strategy that seeks to maximize returns while managing investment risk in line with the Company s overall objectives of earnings stability and long-term book value growth. The Company allocates its invested assets into two categories: liability funds and capital funds. See the discussion of liability funds and capital funds in Financial Condition, Liquidity and Capital Resources. A key challenge for the Company is achieving the right balance between current investment income and total returns (that include price appreciation or depreciation) in changing market conditions. The Company regularly reviews the allocation of investments to asset classes within its investment portfolio and its funds held directly managed account and allocates investments to those asset classes the Company anticipates will outperform in the near future, subject to limits and guidelines. Similarly, the Company reduces its exposure to risk asset classes where returns are underperforming. The Company may also lengthen or shorten the duration of its fixed income portfolio in anticipation of changes in interest rates, or increase or decrease the amount of credit risk it assumes, depending on credit spreads and anticipated economic conditions. During 2009, the Company took a measured approach to adding risk back into the investment portfolio, by increasing its allocation to equities, and it has shortened the duration of its fixed income portfolio given historically low interest rates.

Key Financial Measures

In addition to the Consolidated Balance Sheets and Consolidated Statement of Operations and Comprehensive Income, Management uses three key measures to evaluate its financial performance, as well as the overall growth in value generated for the Company s common shareholders.

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Diluted Book Value per Share: Management uses growth in diluted book value per share as a prime measure of the value the Company is generating for its common shareholders, as Management believes that growth in the Company s diluted book value per share ultimately translates into growth in the Company s stock price. Diluted book value per share is calculated using common shareholders equity (shareholders equity less the liquidation value of preferred shares) divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities). Diluted book value per share is impacted by the Company s net income and external factors such as foreign exchange, interest rates and equity markets, which can drive changes in unrealized gains or losses on its investment portfolio. Over the past seven years, since December 31, 2002, the Company has generated a compound annual growth rate in diluted book value per share in excess of 13%.

ROE: Management uses operating return on beginning shareholders equity (ROE) as a measure of profitability that focuses on the return to common shareholders. It is calculated using operating earnings or loss available to common shareholders (net income or loss excluding after-tax net realized gains or losses on investments, after tax net realized gain on purchase of capital efficient notes (CENts), after-tax net interest in earnings or losses of equity investments and preferred share dividends) divided by beginning common shareholders equity. For the year ended December 31, 2009, following the acquisition of Paris Re, Management adjusted the return on beginning common shareholders equity to be the sum of the results for the nine months ended September 30, 2009 divided by beginning of year common shareholders equity plus the results for the three months ended December 31, 2009 divided by beginning of year common shareholders equity plus the equity issued related to the acquisition of Paris Re. Management has set an average 13% ROE target over the reinsurance cycle, which Management believes provides an attractive return to shareholders for the risk assumed. Each business unit and support department throughout the Company is focused on seeking to ensure that the Company meets the 13% return objective. This means that most economic decisions, including capital allocation and underwriting pricing decisions, incorporate an ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is allocated to each transaction for determining the transaction s priced return on deployed capital. Subject to an adequate return for the risk level as well as other factors, such as the contribution of each risk to the overall risk level and risk diversification, capital is allocated to the transactions generating the highest priced return on deployed capital. Management s challenge consists of (i) allocating an appropriate amount of capital to each transaction based on the incremental risk created by the transaction, (ii) properly estimating the Company s overall risk level and the impact of each transaction on the overall risk level, and (iii) assessing the diversification benefit, if any, of each transaction. The risk for the Company lies in mis-estimating any one of these factors, which are critical in calculating a meaningful priced return on deployed capital, and entering into transactions that do not contribute to the Company s 13% ROE objective.

Combined Ratio: The combined ratio is used industry-wide as a measure of underwriting profitability for Non-life business. The combined ratio is the sum of the technical ratio (losses and loss expenses and acquisition costs divided by net premiums earned) and the other operating expense ratio (other operating expenses divided by net premiums earned). A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and other operating expenses are less than the premiums earned on that business. While an important metric of success, the combined ratio does not reflect all components of profitability, as it does not recognize the impact of interest income earned on premiums between the time premiums are received and the time loss payments are ultimately made to clients. From 2002 onwards, the Company had seven years of underwriting profitability reflected in combined ratios of less than 100% for its Non-life segment, with the only exception being 2005. In 2005, when the industry recorded its worst year in history in terms of catastrophe losses, with Hurricane Katrina being the largest insured event ever, the Company recorded a net underwriting loss and Non-life combined ratio of 116.3%. The key challenges in managing the combined ratio metric consist of (i) focusing on underwriting profitable business even in the weaker part of the reinsurance cycle, as opposed to growing the book of business at the cost of profitability, (ii) diversifying the portfolio to achieve a good balance of business, with the expectation that underwriting losses in certain lines or markets may potentially be offset by underwriting profits in other lines or markets, and (iii) maintaining control over expenses.

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Other Key Issues of Management

Enterprise Culture

Management is focused on ensuring that the structure and culture of the organization promote intelligent, prudent, transparent and ethical decision-making. Management believes that a sound enterprise culture starts with the tone at the top. The Executive Management holds regular company-wide information sessions to present and review Management s latest decisions, whether operational, financial or structural, as well as the financial results of the Company. Employees are encouraged to address questions related to the Company s results, strategy or Management decisions, either anonymously or otherwise to Management so that they can be answered during these information sessions. Management believes that these sessions provide a consistent message to all employees about the Company s value of transparency. Management also strives to promote a work environment that (i) aligns the skill set of individuals with challenges encountered by the Company, (ii) includes segregation of duties to ensure objectivity in decision-making, and (iii) provides a compensation structure that encourages and rewards intelligent and ethical behavior. To that effect, the Company has a written Code of Business Conduct and Ethics and provides employees with a direct communication channel to the Audit Committee in the event they become aware of questionable behavior of Management or anyone else. Finally, Management believes that building a sound internal control environment, including a strong internal audit function, helps ensure that behaviors are consistent with the Company s cultural values.

Capital Adequacy

A key challenge for Management is to maintain an appropriate level of capital, especially in light of the recent disruptions in the global credit and capital markets. Management s first priority is to hold sufficient capital to meet all of the Company s obligations to cedants, meet regulatory requirements and support its position as one of the stronger reinsurers in the industry. Holding an excessive amount of capital, however, will reduce the Company s ROE. Consequently, Management closely monitors its capital needs and capital level throughout the cycle and in times of volatility and turmoil in global capital markets, and actively takes steps to increase or decrease the Company s capital in order to achieve the proper balance of financial strength and shareholder returns. Capital management is achieved by either deploying capital to fund attractive business opportunities, or in times of excess capital, returning capital to shareholders by way of share repurchases and dividends.

Liquidity and Cash Flows

The Company aims to be a reliable and financially secure partner to its cedants. This means that the Company must maintain sufficient liquidity at all times so that it can support its cedants by settling claims quickly. The Company generates cash flows primarily from its underwriting and investment operations. Management believes that a profitable, well-run reinsurance organization will generate sufficient cash from premium receipts to pay claims, acquisition costs and operating expenses in most years. To the extent that underwriting cash flows are not sufficient to cover operating cash outflows in any year, the Company may utilize cash flows generated from investments and may ultimately liquidate assets from its investment portfolio. Management ensures that its liquidity requirements are supported by maintaining a high-quality, well-balanced and liquid investment portfolio, and by matching the duration of its investments and investments underlying the funds held directly managed account with that of its net reinsurance liabilities. In 2010, the Company expects to continue to generate positive operating cash flows, absent a series of unusual catastrophic events. The Company also maintains credit facilities with banks that can provide efficient access to cash in the event of an unforeseen cash requirement.

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Risk Management

A key challenge in the reinsurance industry is to create economic value through the intelligent assumption of reinsurance and capital markets and investment risk, but also to limit or mitigate those risks that can destroy tangible as well as intangible value. Management believes that every organization faces numerous risks that could threaten the successful achievement of a company s goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic or operational risks that are common to any industry. (See Risk Factors in Item 1A of Part I of this report). In addition to these risks, the Company assumes risks and its results are primarily determined by how well the Company understands, prices and manages assumed risk. While many industries and companies start with a return goal and then attempt to shed risks that may derail that goal, the Company starts with a capital-based risk appetite and then looks for risks that meet its return targets within that framework. Management believes that this construct allows the Company to balance the cedants need for absolute certainty of claims payment with the shareholders need for an adequate return on their capital.

The Company has a clearly defined governance structure for risk management. Executive Management and the Board are responsible for setting the vision and goals including risk appetite and return expectations. Strategy and principles are recommended by Executive Management and approved by the Board. Key policies and Group policies are established by the Chief Executive Officer and policies at the next level down are established by Business Unit and functional management. Risk management policies and processes are audited by Internal Audit and the results of audits are monitored by the Audit Committee of the Board.

Strategic risks are managed by Executive Management and include the direction and governance of the Company, as well as its response to key external factors faced by the reinsurance industry.

The Company manages assumed risk at a strategic level through diversification, risk appetite, and absolute limits. For each key risk, the Board approves a risk appetite that the Company defines as the percentage of economic capital the Company is willing to expose to economic loss with a modeled probability of occurring once every 15 years and once every 75 years. The Company manages its exposure to key risks such that the modeled economic loss at a 1 in 15 year and a 1 in 75 year return period are less than the economic capital the Company is willing to expose to the key risks at those return periods. In addition, the Risk Management and Finance Committee of the Board approve aggregate and absolute risk limits for the key risks. The Company s risk limits are stated as explicit numerical expressions, such as total aggregate limits in a catastrophe zone, earned premium for casualty business, and the market value of equity and equity-like securities. Executive and Business Unit Management set additional specific and aggregate risk limits within those limits approved by the Risk Management and Finance Committee. The actual level of risk is dependent on current market conditions and the need for balance in the Company s portfolio of risks. On a quarterly basis, Management reviews and reports to the Board the actual utilization of limits against approved limits and modeled economic loss against approved appetite for the key risks.

Individual business units manage assumed risks, subject to the appetite and principles approved by the Board, limits approved by the Risk Management and Finance Committee, and policies established by Executive and Business Unit Management. At an operational level, business units manage assumed risk through risk mitigation strategies including strong processes, technical risk assessment and collaboration among different groups of professionals who each contribute a particular area of expertise.

Operational and financial risks are managed by designated functions within the organization. They include failures or weaknesses in financial reporting and controls, regulatory non-compliance, poor cash management, fraud, breach of information technology security and reliance on third party vendors. The Company seeks to minimize these risks through robust processes and controls. Controls and monitoring processes throughout the organization seek to ensure that the Executive Management and the Board have a comprehensive view of the Company s risks and related mitigation strategies at all times.

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The major risks to the Company s balance sheet are typically due to events that Management refers to as shock losses. The Company defines a shock loss as an event that has the potential to materially damage economic value. The Company defines its economic value as the difference between the net present value of tangible assets and the net present value of liabilities, using appropriate risk discount rates, plus the unrecognized value of our Life portfolio. For traded assets, the calculated net present values are equivalent to market values.

There are three areas of risk that the Company has currently identified as having the greatest potential for shock losses: catastrophe, reserving for casualty and other long-tail lines, and equity and equity-like investment risk. The Company manages the risk of shock losses by setting risk appetite and limits as described above for each type of shock loss. The Company establishes limits to manage the absolute maximum foreseeable loss from any one event and considers the possibility that several shock losses could occur at one time, for example a major catastrophe event accompanied by a collapse in the equity markets. Management believes that the limits that it has placed on shock losses will allow the Company to continue writing business should such an event occur.

Other risks such as interest rate risk and credit spread risk have the ability to impact results substantially and may result in volatility in results from quarter to quarter, but Management believes that by themselves, they are unlikely to represent a material downside threat to the Company s long-term economic value. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of this report for additional disclosure on interest rate risk, credit spread risk, foreign currency risk, credit risk and equity price risk.

The Company seeks to maintain a risk appetite moderately above the average of the reinsurance market because Management believes that this position offers the best potential for creating shareholder value at an acceptable risk level. The most profitable products generally present the most volatility and potential downside risk. Management believes that the Company s actual risk profile is equal to or less than the average of the reinsurance market because of the level of diversification achieved in the portfolio, the strict adherence to risk appetite and limits, and the risk mitigation strategies employed.

Catastrophe Risk

The Company defines this risk as the risk that the aggregate losses from natural perils materially exceed the net premiums that are received to cover such risks. The Company considers both the loss of capital due to a single large event and the loss of capital that would occur from multiple (but potentially smaller) events in any year.

The Company imposes an absolute limit to catastrophe risk from any single loss through exposure limit caps in each zone and to each peril. Limits from catastrophe exposed business include limits on both reinsurance treaties and insurance linked securities. The Company also manages its catastrophe exposures such that the chance of an economic loss to the Company from all catastrophe losses in aggregate in any one year exceeding $1.6 billion has a modeled probability of occurring less than once every 75 years. To measure this probability, the Company uses proprietary models that take into account not only the exposures in any zone, but also the likely frequency and severity of catastrophic events. This quantitative analysis is supplemented with the professional judgment of experienced underwriters. At December 31, 2009, the modeled economic loss to the Company from a 1 in 75 year catastrophic loss was $1.3 billion, in aggregate, for all zones.

Catastrophe risk is managed through the real-time allocation of catastrophe exposure capacity in each exposure zone to different business units, regular modeling of aggregate loss scenarios through proprietary models and a combination of quantitative and qualitative analysis. A zone is a geographic area in which the insurance risks are considered to be correlated to a single catastrophic event. Not all zones have the same limit and zones are broadly defined so that it would be highly unlikely for any single event to substantially erode the aggregate exposure limits from more than one zone. Even extremely high severity/low likelihood events will only partially exhaust the limits in any zone, as they are likely to only affect a part of the area covered by a wide zone.

Casualty Reserving Risk

The Company defines this risk as the risk that the estimates of ultimate losses that underlie its booked reserves for casualty and other long-tail lines will prove to be too low, leading to substantial reserve strengthening. One of the greatest risks in long-tail lines of business, and particularly in U.S. casualty, is that the loss trends are higher than the assumptions underlying the Company s ultimate loss estimates, resulting in ultimate losses that exceed recorded loss reserves. When loss trends prove to be higher than those underlying the reserving assumptions, the risk is great because of a stacking up effect: for long-tail lines, the Company carries reserves to cover claims arising from several years of underwriting activity and these reserves are likely to be adversely affected by unfavorable loss trends. The effect is likely to be more pronounced for recent underwriting years because, with the passage of time, actual loss emergence and data provide greater confidence around the adequacy of ultimate liability estimates for older underwriting years. Management believes that the volume of long-tail business most exposed to these reserving uncertainties should be limited.

The Company limits the total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods. The Company also manages its casualty and other long-tail lines exposure such that the chance of an economic loss to the Company from prior years deterioration in casualty and other long-tail reserves exceeding $800 million has a modeled probability of occurring less than once every 15 years. To measure this probability, the Company uses proprietary models that contemplate the range of possible reserve outcomes given historic volatility of the Company s and industry reserve development data and the possible impacts upon the range of reserves of risk factors inherent in the current booked reserves. This quantitative analysis is supplemented with the professional judgment of experienced actuaries. At December 31, 2009, the modeled economic loss to the Company from a 1 in 15 year casualty and other long-tail lines prior years reserve development was $500 million.

The Company manages and mitigates the reserving risk for long-tail lines in a variety of ways. Underwriters and pricing actuaries follow a disciplined underwriting process that utilizes all available data and information, including industry trends, and the Company establishes prudent reserving policies for determining carried reserves. These policies are systematic and Management endeavors to apply them consistently over time. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits below.

Equity Investment Risk

The Company defines this risk as the risk of a substantial decline in the value of its equity and equity-like securities. The Company defines equity and equity-like securities as the market value of all assets that are not investment grade fixed income.

The Company limits the amount of equity and equity-like securities to a percentage of economic capital. The Company also manages its equity and equity-like exposures such that the chance of an economic loss to the Company of a severe decline in value of equity and equity-like securities exceeding $1.2 billion has a modeled probability of occurring less than once every 75 years. To measure this probability, the Company uses proprietary and vendor models that contemplate the range of historic and possible future returns. This quantitative analysis is supplemented with the professional judgment of experienced investment professionals and actuaries. At December 31, 2009, the modeled economic loss to the Company from a 1 in 75 year equity and equity-like value decline was $400 million.

Assuming equity risk (and equity-like risks such as high yield bonds and convertible securities) within that part of the investment portfolio that is not required to support the Company s reinsurance liabilities provides valuable diversification from other risk classes, along with the potential for higher returns. However, an overweight position could lead to a large loss of capital and impair the balance sheet in the case of a market crash. The Company sets strict limits on investments in any one name and any one industry, which creates a diversified portfolio and allows Management to focus on the systemic effects of equity risks. Systemic risk is managed by asset allocation, subject to strict caps on other than investment grade bonds as a percentage of

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capital. The Company s fully integrated information system provides real-time data on the investment portfolios, allowing for continuous monitoring and decision support. Each portfolio is managed against a pre-determined benchmark to enable alignment with appropriate risk parameters and achievement of desired returns. See Quantitative and Qualitative Disclosures about Market Risk Equity Price Risk in Item 7A of Part II of this report.

The limits and actual exposures of the Company for its three major risks were as follows:

Risk	Limit at December 31, 2009	Utilized at December 31, 2009	Utilized at December 31, 2008
Catastrophe risk largest zonal limit	$ 2.8 billion	$ 2.4 billion	$ 1.4 billion
Casualty reserving risk total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	6.3 billion	3.4 billion	2.8 billion
Equity investment risk value of equity and equity-like securities	4.0 billion	1.2 billion	920 million

The increase in limits and utilization at December 31, 2009 reflects the acquisition of Paris Re and increased economic capital the Company is willing to expose to each of its three major risks.

Critical Accounting Policies and Estimates

The Company s Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following presents a discussion of those accounting policies and estimates that Management believes are the most critical to its operations and require the most difficult, subjective and complex judgment. If actual events differ significantly from the underlying assumptions and estimates used by Management, there could be material adjustments to prior estimates that could potentially adversely affect the Company s results of operations, financial condition and liquidity. These critical accounting policies and estimates should be read in conjunction with the Company s Notes to Consolidated Financial Statements, including Note 2, Significant Accounting Policies, for a full understanding of the Company s accounting policies. The sensitivity estimates that follow are based on outcomes that the Company considers reasonably likely to occur.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

Because a significant amount of time can elapse between the assumption of risk, occurrence of a loss event, the reporting of the event to an insurance company (the primary company or the cedant), the subsequent reporting to the reinsurance company (the reinsurer) and the ultimate payment of the claim on the loss event by the reinsurer, the Company s liability for unpaid losses and loss expenses (loss reserves) is based largely upon estimates. The Company categorizes loss reserves into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACRs) and incurred but not reported (IBNR) reserves. Case reserves represent unpaid losses reported by the Company s cedants and recorded by the Company. ACRs are established for particular circumstances where, on the basis of individual loss reports, the Company estimates that the particular loss or collection of losses covered by a treaty may be greater than those advised by the cedant. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves and ACRs. Unlike case reserves and ACRs, IBNR reserves are often calculated at an aggregated level and cannot usually be directly identified as reserves for a particular loss or treaty. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. The Company also estimates the future unallocated loss adjustment expenses (ULAE) associated with the loss reserves and these form part of the Company s loss adjustment expense reserves. The Company s Non-life loss reserves for each category, line and sub-segment are reported in the tables included later in this section.

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tail lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tail lines. In general, for reinsurance, the time lags are longer than for primary business due to the delay that occurs between the cedant becoming aware of a loss and reporting the information to its reinsurer(s). The delay varies by reinsurance market (country of cedant), type of treaty, whether losses are first paid by the cedant and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer. The Company considers agriculture, catastrophe, energy, property, motor business written in the U.S., proportional motor business written outside of the U.S., specialty property and structured risk to be short-tail lines; aviation/space, credit/surety, engineering, marine and multiline to be medium-tail lines; and casualty, non-proportional motor business written outside of the U.S. and specialty casualty to be long-tail lines of business. For all lines, the Company s objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACRs from total loss reserves.

The Company analyzes its ultimate losses and loss expenses after consideration of the loss experience of various reserving cells. The Company assigns treaties to reserving cells and allocates losses from the treaty to the reserving cell. The reserving cells are selected in order to ensure that the underlying treaties have homogeneous loss development characteristics (e.g., reporting tail) but are large enough to make estimation of trends credible. The selection of reserving cells is reviewed annually and changes over time as the business of the Company evolves. For each reserving cell, the Company tabulates losses in reserving triangles that show the total reported or paid claims at each financial year end by underwriting year cohort. An underwriting year is the year during which the reinsurance treaty was entered into as opposed to the year in which the loss occurred (accident year), or the calendar year for which financial results are reported. For each reserving cell, the Company s estimates of loss reserves are reached after a review of the results of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Company considers the appropriateness of each methodology to the individual circumstances of the cell and underwriting year for which the projection is made. The methodologies that the Company employs include, but may not be limited to, paid and reported Chain Ladder methods, Expected Loss Ratio method, paid and reported Bornhuetter-Ferguson (B-F) methods, and paid and reported Benktander methods. In addition, the Company uses other methodologies to estimate liabilities for specific types of claims. For example, internal and vendor catastrophe models are typically used in the estimation of loss and loss expenses at the early stages of catastrophe losses before loss information is reported to the reinsurer. In the case of asbestos and environmental claims, the Company has established reserves for future losses and allocated loss expenses based on the results of periodic actuarial studies, which consider the underlying exposures of the Company s cedants.

The reserve methodologies employed by the Company are dependent on data that the Company collects. This data consists primarily of loss amounts and loss payments reported by the Company s cedants, and premiums written and earned reported by cedants or estimated by the Company. The actuarial methods used by the Company to project loss reserves that it will pay in the future (future liabilities) do not generally include methodologies that are dependent on claim counts reported, claim counts settled or claim counts open as, due to the nature of the Company s business, this information is not routinely provided by cedants for every treaty. Consequently, actuarial methods relying on this information cannot be used by the Company to estimate loss reserves.

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A brief description of the reserving methods commonly employed by the Company and a discussion of their particular advantages and disadvantages follows:

Chain Ladder (CL) Development Methods (Reported or Paid)

These methods use the underlying assumption that losses reported (paid) for each underwriting year at a particular development stage follow a stable pattern. For example, the CL development method assumes that on average, every underwriting year will display the same percentage of ultimate liabilities reported by the Company s cedants (say x%) at 24 months after the inception of the underwriting year. The percentages reported (paid) are established for each development stage (e.g., at 12 months, 24 months, etc.) after examining historical averages from the loss development data. These are sometimes supplemented by external benchmark information. Ultimate liabilities are estimated by multiplying the actual reported (paid) losses by the reciprocal of the assumed reported (paid) percentage (e.g., 1/x%). Reserves are then calculated by subtracting paid claims from the estimated ultimate liabilities.

The main strengths of the method are that it is reactive to loss emergence (payments) and that it makes full use of historical experience on claim emergence (payments). For homogeneous low volatility lines, under stable economic conditions the method can often produce good estimates of ultimate liabilities and reserves. However, the method has weaknesses when the underlying assumption of stable patterns is not true. This may be the consequence of changes in the mix of business, changes in claim inflation trends, changes in claim reporting practices or the presence of large claims, among other things. Furthermore, the method tends to produce volatile estimates of ultimate liabilities in situations where there is volatility in reported (paid) patterns. In particular, when the expected percentage reported (paid) is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate liabilities and reserves. Consequently, this method is often unsuitable for projections at early development stages of an underwriting year. Finally, the method fails to incorporate any information regarding market conditions, pricing, etc., which could improve the estimate of liabilities and reserves. It therefore tends not to perform very well in situations where there are rapidly changing market conditions.

Expected Loss Ratio (ELR) Method

This method estimates ultimate losses for an underwriting year by applying an estimated loss ratio to the earned premium for that underwriting year. Although the method is insensitive to actual reported or paid losses, it can often be useful at the early stages of development when very few losses have been reported or paid, and the principal sources of information available to the Company consist of information obtained during pricing and qualitative information supplied by the cedant. However, the lack of sensitivity to reported or paid losses means that the method is usually inappropriate at later stages of development.

Bornhuetter-Ferguson (B-F) Methods (Reported or Paid)

These methods aim to address the concerns of the Chain Ladder Development methods, which are the variability at early stages of development and the failure to incorporate external information such as pricing. However, the B-F methods are more sensitive to reported and paid losses than the Expected Loss Ratio method, and can be seen as a blend of the Expected Loss Ratio and Chain Ladder development methods. Unreported (unpaid) claims are calculated using an expected reporting (payment) pattern and an externally determined estimate of ultimate liabilities (usually determined by multiplying an *a priori* loss ratio with estimates of premium volume). The accuracy of the *a priori* loss ratio is a critical assumption in this method. Usually *a priori* loss ratios are initially determined on the basis of pricing information, but may also be adjusted to reflect other information that subsequently emerges about underlying loss experience. Although the method tends to provide less volatile indications at early stages of development and reflects changes in the external environment, this method can be slow to react to emerging loss development (payment). In particular, to the extent that the *a priori* loss ratios prove to be inaccurate (and are not revised), the B-F methods will produce loss estimates that take longer to converge with the final settlement value of loss liabilities.

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Benktander (B-K) Methods (Reported or Paid)

These methods can be viewed as a blend between the Chain Ladder Development and the B-F methods described above. The blend is based on predetermined weights at each development stage that depend on the reported (paid) development patterns.

Although mitigated to some extent, this method still exhibits the same advantages and disadvantages as the B-F method, but the mechanics of the calculation imply that it is more reactive to loss emergence (payment) than the B-F method.

In determining the Company s loss reserves, the selected best estimate is often a blend of the results from two or more methods (e.g., weighted averages). The judgment as to which method(s) is most appropriate for a particular underwriting year and reserving cell could change over time as new information emerges regarding underlying loss activity and other data issues. Furthermore, as each line is typically composed of several reserving cells, it is likely that the reserves for the line will be dependent on several reserving methods. This is because reserves for a line are the result of aggregating the reserves for each constituent reserving cell and that a different method could be selected for each reserving cell. Although it is not appropriate to refer to reserves for a line as being determined by a particular method, the table below summarizes the methods that were given principal weight in selecting the best estimates of reserves in each reserving line and can therefore be viewed as key drivers of selected reserves. The table distinguishes methods for mature and immature underwriting years, as they are often different. The definition of maturity is specific to a line and is related to the reporting tail. If at the reserve evaluation date, a significant proportion of losses for the underwriting year are expected to have been reported, then the underwriting year is deemed to be mature, otherwise it is deemed to be immature. For short-tail lines, such as property or agriculture, immature years can refer to the one or two most recent underwriting years, while for longer tail lines, such as casualty, immature years can refer to the three or four most recent underwriting years. To the extent that the principal reserving methods used for major components of a reserving line are different, these are separately identified in the table below.

Reserving line for Non-life Segment	Non-life Sub-segment	Immature Underwriting Years	Mature Underwriting Years
Property	U.S.	Reported B-F / Expected Loss Ratio	Reported B-F
Property / Specialty Property	Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Paris Re	Reported B-K / Expected Loss Ratio / Reported B-F	Reported CL
Casualty	U.S.	Expected Loss Ratio	Reported B-F
Casualty / Specialty Casualty	Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F	Reported B-F
Multiline	U.S.	Expected Loss Ratio / Reported B-F	Reported B-F
Motor	U.S. and Paris Re (U.S. business)	Expected Loss Ratio	Expected Loss Ratio / Reported B-F
Motor Proportional	Global (Non-U.S.) P&C and Paris Re (Non-U.S. business)	Expected Loss Ratio / Reported B-F	Reported B-F
Motor Non-proportional	Global (Non-U.S.) P&C and Paris Re (Non-U.S. business)	Expected Loss Ratio	Reported B-F
Agriculture	U.S., Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Aviation/Space	Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Catastrophe	Catastrophe and Paris Re	Expected Loss Ratio based on exposure analysis	Reported B-F
Credit/Surety	U.S., Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F	Reported B-F /Reported B-K
Engineering	Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F	Reported B-F / Reported CL
Energy Onshore	Global (Non-U.S.) Specialty and Paris Re	Expected Loss Ratio / Reported B-F / Reported B-K	Reported CL / Reported B-F
Marine/Energy Offshore	Global (Non-U.S.) Specialty and Paris Re	Reported B-F / Expected Loss Ratio	Reported B-F
Other (1)	U.S., Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Paris Re	Periodic actuarial studies	Periodic actuarial studies

(1) The other reserving line is primarily related to structured risk reinsurance and non-active lines of business.

The Company s approach to estimating its ultimate losses for lines impacted by the deteriorating financial condition of the world economies in 2008 and the first half of 2009 is discussed below.

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The reserving methods used by the Company are dependent on a number of key parameter assumptions. The principal parameter assumptions underlying the methods used by the Company are:

(i) the loss development factors used to form an expectation of the evolution of reported and paid claims for several years following the inception of the underwriting year. These are often derived by examining the Company s data after due consideration of the underlying factors listed below. In some cases, where the Company lacks sufficient volume to have statistical credibility, external benchmarks are used to supplement the Company s data;

(ii) the tail factors used to reflect development of paid and reported losses after several years have elapsed since the inception of the underwriting year;

(iii) the *a priori* loss ratios used as inputs in the B-F methods; and

(iv) the selected loss ratios used as inputs in the Expected Loss Ratio method.

The validity of all parameter assumptions used in the reserving process is reaffirmed on a quarterly basis. Reaffirmation of the parameter assumptions means that the actuaries determine that the parameter assumptions continue to form a sound basis for projection of future liabilities. Parameter assumptions used in projecting future liabilities are themselves estimates based on historical information. As new information becomes available (e.g., additional losses reported), the Company s actuaries determine whether a revised estimate of the parameter assumptions that reflects all available information is consistent with the previous parameter assumptions employed. In general, to the extent that the revised estimate of the parameter assumptions are within a close range of the original assumptions, the Company determines that the parameter assumptions employed continue to form an appropriate basis for projections and continue to use the original assumptions in its models. In this case, any differences could be attributed to the imprecise nature of the parameter estimation process. However, to the extent that the deviations between the two sets of estimates are not within a close range of the original assumptions, the Company reacts by adopting the revised assumptions as a basis for its reserve models. Notwithstanding the above, even where the Company has experienced no material deviations from its original assumptions during any quarter, the Company will generally revise the reserving parameter assumptions at least once a year to reflect all accumulated available information.

In addition to examining the data, the selection of the parameter assumptions is dependent on several underlying factors. The Company s actuaries review these underlying factors and determine the extent to which these are likely to be stable over the time frame during which losses are projected, and the extent to which these factors are consistent with the Company s data. If these factors are determined to be stable and consistent with the data, the estimation of the reserving parameter assumptions are mainly carried out using actuarial and statistical techniques applied to the Company s data. To the extent that the actuaries determine that they cannot continue to rely on the stability of these factors, the statistical estimates of parameter assumptions are modified to reflect the direction of the change. The main underlying factors upon which the estimates of reserving parameters are predicated are:

(i) the cedant s business practices will proceed as in the past with no material changes either in submission of accounts or cash flows;

(ii) any internal delays in processing accounts received by the cedant are not materially different from that experienced historically, and hence the implicit reserving allowance made in loss reserves through the methods continues to be appropriate;

(iii) case reserve reporting practices, particularly the methodologies used to establish and report case reserves, are unchanged from historical practices;

(iv) the Company s internal claim practices, particularly the level and extent of use of ACRs are unchanged;

(v) historical levels of claim inflation can be projected into the future and will have no material effect on either the acceleration or deceleration of claim reporting and payment patterns;

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(vi) the selection of reserving cells results in homogeneous and credible future expectations for all business in the cell and any changes in underlying treaty terms are either reflected in cell selection or explicitly allowed in the selection of trends;

(vii) in cases where benchmarks are used, they are derived from the experience of similar business; and

(viii) the Company can form a credible initial expectation of the ultimate loss ratio of recent underwriting years through a review of pricing information, supplemented by qualitative information on market events.

The Company s best estimate of total loss reserves is typically in excess of the midpoint of the actuarial reserve estimates. The Company believes that there is potentially significant risk in estimating loss reserves for long-tail lines of business and for immature underwriting years that may not be adequately captured through traditional actuarial projection methodologies. As discussed above, these methodologies usually rely heavily on projections of prior year trends into the future. In selecting its best estimate of future liabilities, the Company considers both the results of actuarial point estimates of loss reserves as well as the potential variability of these estimates as captured by a reasonable range of actuarial reserve estimates. The selected best estimates of reserves are always within the indicated reasonable range of estimates indicated by the Company s actuaries. In determining the appropriate best estimate, the Company reviews (i) the position of overall reserves within the actuarial reserve range, (ii) the result of bottom up analysis by underwriting year reflecting the impact of parameter uncertainty in actuarial calculations, and (iii) specific qualitative information on events that may have an effect on future claims but which may not have been adequately reflected in actuarial mid-estimates, such as potential for outstanding litigation, claims practices of cedants, etc.

During 2009, 2008 and 2007, the Company reviewed its estimate for prior year losses for each sub-segment of the Non-life segment and, in light of developing data, determined to adjust its ultimate loss ratios for prior accident years. The following table summarizes the net prior year favorable reserve development for the Company s Non-life operations for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars):

	2009	2008	2007
Net prior year favorable reserve development:			
Non-life segment:			
U.S.	**$ 168**	$ 92	$ 72
Global (Non-U.S.) P&C	**154**	166	97
Global (Non-U.S.) Specialty	**115**	82	203
Catastrophe	**49**	78	42
Paris Re		N/A	N/A
Total net Non-life prior year reserve development	**$ 486**	$ 418	$ 414

N/A: Not applicable

For a discussion of net prior year favorable reserve development by segment and sub-segment, see Results by Segment below and Note 8 to Consolidated Financial Statements in Item 8 of Part II of this report.

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The table below summarizes the net prior year favorable (adverse) reserve development for the year ended December 31, 2009 by reserving line for the Company s Non-life segment (in millions of U.S. dollars):

Reserving lines	Net favorable (adverse) prior year reserve development
Property / Specialty Property	$ 72
Casualty / Specialty Casualty	215
Multiline	(8)
Motor U.S. business	(3)
Motor Non-U.S. Proportional business	14
Motor Non-U.S. Non-proportional business	49
Agriculture	11
Aviation/Space	38
Catastrophe	49
Credit/Surety	3
Engineering	35
Energy Onshore	6
Marine/Energy Offshore	5
Total net Non-life prior year reserve development	$ 486

The following paragraphs discuss how losses paid and reported during the year ended December 31, 2009 compared with the Company s expectations, and how the Company modified its reserving parameter assumptions in line with the emerging development in each reserving line.

Property: Aggregate losses reported for the U.S. property line were lower than expected, and the Company selected reserving methods that gave more weight to the actual development. Losses reported for the Non-U.S. property line were lower than expected for most years, and the Company reflected this experience by using reserving methods that give more weight to the actual development and by lowering its loss ratio picks for those years.

Casualty: Aggregate losses reported and paid for the U.S. and Non-U.S. casualty lines were lower than expected, predominantly for underwriting years 2003-2006, and the Company reflected this experience by lowering its loss ratio picks for those underwriting years.

Multiline: Reported losses were significantly higher than expected for underwriting years 2007 and 2008 and lower than expected for underwriting years 2005 and prior. The Company reflected this experience by using reserving methods that give more weight to the actual development.

Motor:

Aggregate losses reported for the U.S. motor line were generally lower than expected, except for underwriting years 2006 and 2007. The Company selected higher loss ratios reflecting this development for those specific years, but lowered loss ratio selections for 2005 and prior.

Aggregate losses reported for the Non-U.S. motor proportional line were lower than expected for underwriting years 2006 and prior and the Company reflected this experience by using reserving methods that give more weight to experience.

Aggregate losses reported for the Non-U.S. motor non-proportional line were significantly lower than expectations in most countries. The Company reflected this by lowering loss ratio picks in addition to changing loss development assumptions.

Agriculture: Aggregate losses reported during the year for U.S. and non-U.S. business were below the Company s expectations, primarily for the 2008 underwriting year. The Company lowered its loss ratio picks, but did not otherwise materially alter its reserving assumptions.

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Aviation/Space: The overall losses reported during the year were significantly lower than the Company s expectations for most underwriting years. The Company reflected this experience by selecting faster development patterns and lower loss ratios.

Catastrophe: Losses reported in this line are largely a function of the presence or absence of catastrophic events during the year. Losses reported in respect of prior year catastrophe events were lower than expectations mainly for underwriting year 2008. During the year, losses developed more favorably than anticipated for Hurricane Ike and the Company reduced its loss ratio selection for underwriting year 2008.

Credit/Surety: Aggregate losses reported during the year were significantly lower than expected in the U.S. and the Company reflected this experience by selecting lower loss ratios. For non-U.S. business, loss development for underwriting years 2007 and prior was better than expected and loss ratios were reduced to reflect this experience. For underwriting years 2008 and 2009, losses reported during the year were significantly higher than expected. As a result of this worse than expected development, the Company increased loss ratios as well as selected higher *a priori* loss ratios for these years. Most of the adverse loss reporting from the 2008 underwriting year was associated with the current accident year. Therefore, prior year reserves associated with the 2008 underwriting year were increased moderately and the current accident year losses incurred associated with the 2008 underwriting year reflected the higher than expected level of claim reporting.

Engineering: Aggregate reported losses were significantly lower than expectations. The Company reflected this experience by selecting lower loss ratios and faster development patterns.

Energy Onshore: Aggregate reported losses were lower than expected during the year and the Company reduced its loss ratios to reflect this experience. The Company did not materially change its reserving assumptions for this line.

Marine/Energy Offshore: Aggregate reported losses during the year were higher than expected due to Hurricane Ike exposure in underwriting years 2007 and 2008. However, for underwriting years 2006 and prior, losses developed better than expected. The Company reflected the underwriting years 2006 and prior favorable experience by relying on more experience based methods and increased the 2007 and 2008 underwriting years loss ratios to reflect the worse than expected experience.

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As an example of the sensitivity of the Company s reserves to reserving parameter assumptions, the tables below summarize, by reserving line, the effect on the Company s reserves of higher/lower *a priori* loss ratio selections, higher/lower loss development factors and higher/lower tail factors. The Company believes that the illustrated sensitivities to the reserving parameter assumptions are indicative of the potential variability inherent in the estimation process of those parameters.

Reserving lines selected assumptions	**Higher *a priori* loss ratios**	**Higher loss development factors**	**Higher tail factors (*)**	**Lower *a priori* loss ratios**	**Lower loss development factors**	**Lower tail factors (*)**
Property / Specialty Property	5 points	3 months	2%	(5) points	(3) months	(2)%
Casualty / Specialty Casualty	10	6	10	(10)	(6)	(10)
Multiline	5	6	5	(5)	(6)	(5)
Motor U.S. business	5	3	2	(5)	(3)	(2)
Motor Non-U.S. Proportional business	5	3	2	(5)	(3)	(2)
Motor Non-U.S. Non-proportional business	10	12	10	(10)	(12)	(10)
Agriculture	5	3	2	(5)	(3)	(2)
Aviation/Space	5	3	5	(5)	(3)	(5)
Catastrophe	5	3	2	(5)	(3)	(2)
Credit/Surety	5	3	2	(5)	(3)	(2)
Engineering	10	6	5	(10)	(6)	(5)
Energy Onshore	5	3	2	(5)	(3)	(2)
Marine/Energy Offshore	5	3	5	(5)	(3)	(5)

Reserving lines selected sensitivity (in millions of U.S. dollars)	**Higher *a priori* loss ratios**	**Higher loss development factors**	**Higher tail factors (*)**	**Lower *a priori* loss ratios**	**Lower loss development factors**	**Lower tail factors (*)**
Property / Specialty Property	$ 40	$ 65	$ 10	$ (25)	$ (45)	$ (20)
Casualty / Specialty Casualty	315	160	195	(315)	(120)	(195)
Multiline	10	20	25	(5)	(10)	(20)
Motor U.S. business	10	15	15	(10)	(5)	(5)
Motor Non-U.S. Proportional business	5	5	5	(5)		(5)
Motor Non-U.S. Non-proportional business	45	50	55	(45)	(50)	(60)
Agriculture		5			(5)	
Aviation/Space	15	35	20	(15)	(20)	(15)
Catastrophe	5	5	5	(5)	(5)	(5)
Credit/Surety	20	20	5	(20)	(15)	(10)
Engineering	25	25	35	(25)	(25)	(25)
Energy Onshore	5	10		(5)	(10)	
Marine/Energy Offshore	10	30	10	(10)	(15)	(5)

(*) Tail factors are defined as aggregate development factors after 10 years from the inception of an underwriting year.

Some reserving lines show little sensitivity to *a priori* loss ratio, loss development factor or tail factor as the Company may use reserving methods such as the Expected Loss Ratio method in several of its reserving cells within those lines. It is not appropriate to sum the total impact for a specific factor or the total impact for a specific reserving line as the lines of business are not perfectly correlated.

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The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR reserves) and the total net loss reserves recorded as of December 31, 2009 by reserving line for the Company s Non-life operations (in millions of U.S. dollars):

Reserving lines	Case reserves	ACRs	IBNR reserves	Total gross loss reserves recorded	Ceded loss reserves	Total net loss reserves recorded
Property / Specialty Property	$ 695	$ 6	$ 428	$ 1,129	$ (84)	$ 1,045
Casualty / Specialty Casualty	1,432	129	2,715	4,276	(50)	4,226
Multiline	77	17	134	228		228
Motor U.S. business	78	2	81	161		161
Motor Non-U.S. Proportional business	222		60	282	(41)	241
Motor Non-U.S. Non-proportional business	671	5	671	1,347	(2)	1,345
Agriculture	17	1	238	256		256
Aviation/Space	268	1	181	450	(41)	409
Catastrophe	300	102	318	720	(27)	693
Credit/Surety	336		227	563	(12)	551
Engineering	226		171	397	(9)	388
Energy Onshore	113	9	62	184	(1)	183
Marine/Energy Offshore	344	2	334	680	(69)	611
Other (1)	39		99	138		138
Total Non-life reserves	$ 4,818	$ 274	$ 5,719	$ 10,811	$ (336)	$ 10,475

(1) The other reserving line is primarily related to structured risk reinsurance and non-active lines of business.

The net loss reserves represent the Company s best estimate of future losses and loss expense amounts. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect the Company s expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current estimate. Management believes that the recorded loss reserves represent its best estimate of future liabilities based on information available as of December 31, 2009. These estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined. The Company s best estimates are point estimates within a reasonable range of actuarial reserve estimates. These ranges are developed using stochastic simulations and techniques and provide an indication as to the degree of variability of the loss reserves. The Company interprets the ranges produced by these techniques as confidence intervals around the point estimates for each Non-life sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no guarantee that the final settlement of the loss reserves will fall within these ranges.

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The point estimates recorded by the Company, and the range of actuarial estimates around these point estimates at December 31, 2009 and 2008, were as follows for each Non-life sub-segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
2009 Net Non-life segment loss reserves:			
U.S.	**$ 2,767**	**$ 3,038**	**$ 2,147**
Global (Non-U.S.) P&C	**2,195**	**2,329**	**1,925**
Global (Non-U.S.) Specialty	**2,147**	**2,234**	**1,891**
Catastrophe	**231**	**250**	**211**
Paris Re	**3,135**	**3,296**	**2,974**
2008 Net Non-life segment loss reserves:			
U.S.	$ 2,778	$ 3,039	$ 2,166
Global (Non-U.S.) P&C	2,252	2,380	1,958
Global (Non-U.S.) Specialty	2,027	2,118	1,760
Catastrophe	329	350	296

It is not appropriate to add together the ranges of each sub-segment in an effort to determine a high and low range around the Company s total Non-life carried loss reserves.

Of the $3,135 million of net loss reserves for Paris Re, the Company considers only $1,635 million of net loss reserves for accident years 2006 and subsequent to be subject to loss reserve variability. The remaining $1,500 million of net loss reserves for accident years 2005 and prior are guaranteed by Colisée Re, pursuant to the Reserve Agreement. See Summary of certain agreements between AXA SA, Colisée Re and Paris Re in Item 1 of Part I of this report.

The deteriorating financial condition of the world economies in 2008 and first half of 2009 has increased the expectation of losses and increased the degree of uncertainty related to the range of possible ultimate liabilities for several classes of business that are exposed to the effects of financial stress. A significant degree of judgment was used to estimate the range of potential losses and there is a considerable degree of uncertainty related to the range of possible ultimate liabilities.

Based on information currently available and the range of potential estimated ultimate liabilities, the Company believes that the unpaid loss and loss expense reserves for U.S. and Global (Non-U.S.) specialty casualty, U.S., Global (Non-U.S.) and Paris Re credit/surety lines of business and other potentially exposed classes of business contemplate a reasonable provision for exposures related to the effect of increased financial stress in the world economies. The Company is unaware of any specific issues that would materially affect its unpaid loss and loss expenses estimates related to this exposure. The Company s gross unpaid losses and loss expenses reserves at December 31, 2009 for U.S. and Global (Non-U.S.) specialty casualty for underwriting years 2006 through 2009 were $1.4 billion. The Company s unpaid losses and loss expenses reserves at December 31, 2009 for U.S., Global (Non-U.S.) and Paris Re credit/surety for underwriting years 2006 through 2009 were $430 million.

Included in the business that is considered to have a long reporting tail is the Company s exposure to asbestos and environmental claims. The Company s net reserves for unpaid losses and loss expenses at December 31, 2009 included $232 million that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2009 was $239 million. The increase in asbestos and environmental claims reserves is due to the acquisition of Paris Re. The Company s gross liability for Paris Re s asbestos and environmental claims at December 31, 2009 of $159 million relates to pre-2006 accident years and any favorable or adverse development is subject to the Reserve Agreement. Of the remaining $80 million in gross reserves, the majority of the reserves relate to U.S. casualty exposures arising from business written by PartnerRe SA and PartnerRe U.S.

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Ultimate loss estimates for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company s potential losses for these claims. In view of the legal and tort environment that affect the development of such claims, the uncertainties inherent in estimating asbestos and environmental claims are not likely to be resolved in the near future. There can be no assurance that the reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurance that the reserves established by the Company will be adequate. The Company does, however, actively evaluate potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its unpaid losses and loss expense reserves related to this exposure (see Note 8 to Consolidated Financial Statements).

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company s Life operations, which predominately includes reinsurance of longevity, subdivided into standard and non-standard annuities, and mortality business, which includes traditional death and disability covers (with various riders), term assurance and critical illness (TCI) written in the UK and Ireland, and guaranteed minimum death benefit (GMDB) written in Continental Europe.

The Company categorizes life reserves into three types of reserves: reported outstanding loss reserves (case reserves), incurred but not reported (IBNR) reserves and reserves for future policy benefits. Case reserves represent unpaid losses reported by the Company s cedants and recorded by the Company. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves. Reserves for future policy benefits, which relate to future events occurring on policies in force over an extended period of time, are calculated as the present value of future expected benefits to be paid, reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards. Principal assumptions used in the establishment of reserves for future policy benefits have been determined based upon information reported by ceding companies, supplemented by the Company s actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty.

For the traditional life portfolio, case reserves, IBNR reserves and reserves for future policy benefits are mainly calculated at the treaty level. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants.

For long duration products, a reserve adequacy test is periodically performed based on the latest best estimate assumptions by line of business, including an experience analysis and a review of likely future experience. If such review produces reserves in excess of those currently held, then the locked-in assumptions will be revised and a loss recognized.

Longevity

The reserves for the annuity portfolio of reinsurance contracts within the longevity book are established in accordance with the provisions for long duration insurance contracts under U.S. GAAP. Many of these contracts subject the Company to risks arising from policyholder mortality over a period that extends beyond the periods in which premiums are collected. Annuity payments and expenses for policies within the annuity reinsurance portfolio are projected over the lifetime of the contract to calculate a net present value of future cash flows. Assumptions for each element (mortality, expenses and interest) are determined at the issue of the contract and are locked-in throughout the term of the contract unless a premium deficiency exists. The assumptions are best estimate assumptions plus provisions for adverse deviations on the key risk elements (i.e., mortality and interest). Provisions for adverse deviation are designed to cover reasonable deviations from the best estimate outcome of the contract.

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For standard annuities, the main risk is a faster increase in future life span than expected in the medium to long term. Non-standard annuities are annuities sold to people with aggravated health conditions and are usually medically underwritten on an individual basis. The main risk in non-standard annuities is an inadequate assessment of the future life span of the people insured.

For the year ended December 31, 2009, the Company increased net prior year reserves by $6 million due to changes in the best estimate of future mortality assumptions. For the year ended December 31, 2008, the Company increased net prior year reserves by $2 million as a result of higher losses reported by cedants.

Mortality

The reserves for the short-term traditional mortality business are established in accordance with the provisions for short duration insurance contracts under U.S. GAAP. They consist of case reserves and IBNR, calculated at the treaty level based upon cedant information and use the Expected Loss Ratio method, described in the Losses and Loss Expenses section above. Given the very short-term loss development of this portion of the portfolio, this method is appropriate.

The reserves for the long-term traditional mortality and TCI reinsurance portfolio are established in accordance with the provisions for long duration insurance contracts under U.S. GAAP. Assumptions for each element (mortality, critical illness, lapses, expenses and interest) are determined at the issue of the contract and are locked-in throughout the term of the contract unless a premium deficiency exists. The assumptions are best estimate assumptions plus provisions for adverse deviations on the key risk elements (i.e. mortality, critical illness, lapses and interest).

The reserves for the GMDB reinsurance business are established in accordance with the provisions for universal life contracts under U.S. GAAP. Key assumptions for this business are mortality, lapses, interest rates, credit spreads and stock market performance. For the last parameter, a stochastic option pricing approach is used and the benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios. The assumptions of investment performance and volatility are consistent with the historical experience of the respective underlying funds (correlated to the EuroStoxx50 or the CAC 40 Index). The Company regularly evaluates the assumptions used and adjusts them if actual experience or other evidence suggests that the earlier assumptions should be revised.

For the year ended December 31, 2009, the Company decreased net prior year reserves by $21 million. The reserve decrease predominately resulted from favorable financial markets impacts on the GMDB portfolio. With regard to the GMDB portfolio, the recovery in the capital markets resulted in a $16 million decrease in future policy benefits on capital markets linked products. The other mortality products (long-term, short term, and TCI business) experienced better than expected loss development in the year, resulting in a prior year reserve decrease of $5 million. For the year ended December 31, 2008, the Company increased net prior year reserves by $22 million, predominately due to adverse reserve development on certain GMDB treaties.

The following table provides the gross and net reserves for the Company s life reinsurance book at December 31, 2009 (in millions of U.S. dollars):

Reserving lines	Case reserves	IBNR reserves	Reserves for future policy benefits	Total Life reserves recorded
Longevity	$ 1	$ 50	$ 556	$ 607
Mortality	134	457	417	1,008
Total gross reserves	135	507	973	1,615
Ceded reserves	(5)	(10)	(5)	(20)
Total net reserves	$ 130	$ 497	$ 968	$ 1,595

Total reserves for future policy benefits include provisions for adverse deviation of $59 million at December 31, 2009.

As an example of the sensitivity of the Company s policy benefits for life and annuity contracts to reserving parameter assumptions, the table below summarizes, by reserving line, the effect of different assumption selections.

Reserving lines	Factors	Change	Impact on total Life reserves (in million of U.S. dollars)
Longevity			
Impaired life annuity	Life expectancy	+ 1 year	$ 31
Other annuities	Mortality improvements per annum	+1%	19
Mortality			
Long-term and TCI	Mortality	+1%	22
GMDB	Stock market performance	- 10%	10

It is not appropriate to sum the total impact for a specific reserving line or the total impact for a specific factor because the reinsurance portfolios are not perfectly correlated.

Premiums and Acquisition Costs

The Company provides proportional and non-proportional reinsurance coverage to cedants (insurance companies). In most cases, cedants seek protection for business that they have not yet written at the time they enter into reinsurance agreements and thus have to estimate the volume of premiums they will cede to the Company. Reporting delays are inherent in the reinsurance industry and vary in length by reinsurance market (country of cedant) and type of treaty. As delays can vary from a few weeks to a year or sometimes longer, the Company produces accounting estimates to report premiums and acquisition costs until it receives the cedants actual results. Approximately, 48%, 45% and 44% of the Company s reported net premiums written for 2009, 2008 and 2007, respectively, were based upon estimates.

Under proportional treaties, which represented 71% of gross premiums written for the year ended December 31, 2009, the Company shares proportionally in both the premiums and losses of the cedant and pays the cedant a commission to cover the cedant s acquisition costs. Under this type of treaty, the Company s ultimate premiums written and earned and acquisition costs are not known at the inception of the treaty and must be estimated until the cedant reports its actual results to the Company. Under non-proportional treaties, which represented 29% of gross premiums written for the year December 31, 2009, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio and receives a fixed or minimum premium, which is subject to upward adjustment depending on the premium volume written by the cedant.

Reported premiums written and earned and acquisition costs on proportional treaties are generally based upon reports received from cedants and brokers, supplemented by the Company s own estimates of premiums written and acquisition costs for which ceding company reports have not been received. Premium and acquisition cost estimates are determined at the individual treaty level. The determination of estimates requires a review of the Company s experience with cedants, familiarity with each geographic market, a thorough understanding of the individual characteristics of each line of business and the ability to project the impact of current economic indicators on the volume of business written and ceded by the Company s cedants. Estimates for premiums and acquisition costs are updated continuously as new information is received from the cedants. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

The magnitude and impact of a change in premium estimate differs for proportional and non-proportional treaties. Non-proportional treaties generally include a fixed minimum premium and an adjustment premium, which is generally less than 5% of the fixed minimum premium. While fixed minimum premiums require no

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estimation, adjustment premiums are estimated and could be subject to changes in estimates. Although proportional treaties may be subject to larger changes in premium estimates, as the Company generally receives cedant statements in arrears and must estimate all premiums for periods ranging from one month to more than one year (depending on the frequency of cedant statements), the pre-tax impact is mitigated by changes in the cedant s related reported acquisition costs and losses. The impact of the change in estimate on premiums earned and pre-tax results varies depending on when the change becomes known during the risk period and the underlying profitability of the treaty. For the year ended December 31, 2009, the Company recorded reductions of $10 million and $1 million in net premiums written and net premiums earned, respectively, related to changes in Non-life premium estimates of prior year reported premiums. These reductions, after the corresponding adjustments to acquisition costs and losses and loss expenses, had no material impact on consolidated pre-tax income. However, these adjustments for the year ended December 31, 2009 are the result of offsetting impacts in the Company s Non-life sub-segments. The Company s U.S., Global (Non-U.S.) P&C and Catastrophe sub-segments reported combined decreases in net premiums written and net premiums earned of $79 million and $57 million, respectively, which were partially offset by the Global (Non-U.S.) Specialty and Paris Re sub-segments, which reported increases in net premiums written and net premiums earned of $69 million and $56 million, respectively.

A 5% increase (decrease) in net premium written estimates and the corresponding acquisition costs for all of the Company s Non-life non-proportional treaties would increase (decrease) the 2009 pre-tax income by approximately $22 million, assuming the changes become known at the mid-point of the risk period.

For proportional treaties, the impact of a change in net premium written estimates on pre-tax income varies depending on the losses and loss expenses and acquisition costs of the treaties affected by the change. For example, a 5% increase (decrease) in net premiums written and the corresponding acquisition costs and losses in 2009 across all Non-life proportional treaties would increase (decrease) pre-tax income by approximately $14 million, applying the 2009 reported technical ratio and assuming that the changes become known at the mid-point of the risk period.

A 1% increase (decrease) in acquisition costs for all of the Company s Non-life treaties (both proportional and non-proportional) for the year ended December 31, 2009, would decrease (increase) pre-tax income by approximately $4 million, assuming no change in premium estimates and that the changes become known at the mid-point of the risk period.

Acquisition costs, primarily brokerage fees, commissions and excise taxes, which vary directly with, and are primarily related to, the acquisition of reinsurance contracts, are capitalized and charged to expense as the related premium is earned. The recovery of deferred policy acquisition costs is dependent upon the future profitability of the related business. Deferred policy acquisition costs recoverability testing is performed periodically together with the reserve adequacy test, based on the latest best estimate assumptions by line of business.

Income Taxes

Under U.S. GAAP, a deferred tax asset or liability is to be recognized for the estimated future tax effects attributable to temporary differences and carryforwards. U.S. GAAP also establishes procedures to assess whether a valuation allowance should be established for deferred tax assets. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Management must use its judgment in considering the relative impact of positive and negative evidence. The Company also establishes tax liabilities relating to uncertain tax positions as defined under U.S. GAAP. See Note 2(l) and Note 10 to Consolidated Financial Statements in Item 8 of Part II of this report.

The Company has estimated the future tax effects attributed to temporary differences and has a deferred tax asset at December 31, 2009 of $129.9 million. The most significant components of the deferred tax asset relate to loss reserve discounting for tax purposes and capital tax loss carryforwards in the United States. At December 31, 2009, the deferred tax asset relating to the U.S. tax loss carryforwards was $17.3 million, and is subject to a 5 year carryforward period.

The Company has projected future taxable income in the tax jurisdictions in which the deferred tax assets arise. These projections are based on Management s projections of premium and investment income, capital gains and losses, and technical and expense ratios. Based on these projections, Management evaluates the need for a valuation allowance. The Company did not have any valuation allowance at December 31, 2009 or 2008. A 10% decrease in the deferred tax asset of $129.9 million as of December 31, 2009 would result in a $13 million charge to net income and a corresponding decrease in total assets.

The deferred tax liabilities as of December 31, 2009 were $331.5 million. In accordance with U.S. GAAP, the Company has assumed that the future reversal of deferred tax liabilities will result in an increase in taxes payable in future years. Underlying this assumption is an expectation that the Company will continue to be subject to taxation in the various tax jurisdictions and that the Company will continue to generate taxable revenues in excess of deductions. A 10% increase in the deferred tax liability as of December 31, 2009 would result in a $33 million charge to net income and a corresponding increase in total liabilities.

The Company s unrecognized tax benefit related to uncertain tax positions was a liability of $42.5 million at December 31, 2009. A 10% increase in the unrecognized tax benefit as of December 31, 2009 would result in a $4 million charge to net income and a corresponding increase in total liabilities.

Valuation of Investments and Funds Held Directly Managed, including certain Derivative Financial Instruments

Effective January 1, 2008, the Company adopted fair value measurements guidance under U.S. GAAP. Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures the fair value of financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company s assumptions about what market participants would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

The Company must determine the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. See Note 5 to Consolidated Financial Statements for more detail on the valuation techniques, methods and assumptions that were used by the Company to estimate the fair value of its fixed maturities and short-term investments, equities, other invested assets and its fixed maturities, short-term investments and certain other assets underlying the funds held directly managed account. See Note 20 to Consolidated Financial Statements for more discussion of the Company s use of derivative financial instruments.

The Company records all of its fixed maturity and equity investments, certain other invested assets, including derivative financial instruments, and its fixed maturities, short-term investments and certain other invested assets underlying the funds held directly managed account at fair value in its Consolidated Balance Sheets. The changes in fair value of all of the Company s investments, carried at fair value, are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations and are included in the determination of net income in the period in which they are recorded.

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Under the fair value hierarchy, Management uses certain assumptions and judgments to derive the fair value of its investments, particularly for those assets with significant unobservable inputs, commonly referred to as Level 3 assets. At December 31, 2009, the Company had $292 million of Level 3 assets, including fixed maturities ($198 million), equities ($38 million), other invested assets ($16 million) and investments underlying the funds held directly managed account ($40 million). For the Company s Level 3 fixed maturities, equities, other invested assets and investments underlying the funds held directly managed account, a 10% decline in the fair value of these investments would result in an $29 million pre-tax charge to income and a corresponding reduction total assets.

Included in other invested assets, the Company has various loans receivable totaling $25 million at December 31, 2009. In addition, included in the Company s other invested assets are entities which are accounted for using the cost method of accounting, equity method of accounting and investments for which the Company uses investment company accounting, totaling $169 million at December 31, 2009. The Company does not measure its investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting at fair value. For loans receivable and investments that are accounted for using the cost method of accounting, equity method of accounting and investment company accounting, a 10% decline in the carrying value of these investments would result in a $19 million pre-tax charge to income and a corresponding reduction in investments and total assets.

The Company utilizes derivatives for a variety of purposes, as discussed in Note 20 to Consolidated Financial Statements. The Company s derivatives are carried at fair value, which is based on quoted market prices or internal valuation models where quoted market prices are not available.

The Company has entered into a longevity total return swap and other total return swaps. Included in the Level 3 other invested assets is a longevity total return swap with net unrealized result of $nil on notional exposure of $39 million and a total return swap portfolio with unrealized losses of $1 million on notional exposure of $229 million.

In aggregate, the Company is not significantly exposed to changes in the valuation of its total return and interest rate swap portfolio due to changes in the general level of interest rates. However, at December 31, 2009, the Company estimated that a 100 basis point increase or decrease in all risk spread assumptions used in the Company s internal valuation models would result in a $6 million decrease or a $7 million increase, respectively, in the fair value of its total return and interest rate swap portfolio.

The Company is exposed to changes in the expected amount of future cash flows of the reference assets in its total return swap portfolio. The Company s total return swap portfolio references many different underlying assets with a number of risk factors. At December 31, 2009, the notional value of the total return swap portfolio was $229 million and the fair value of the assets underlying the total return swap portfolio was $219 million. The Company estimated that each 1% increase or decrease in the amount of all expected future cash flows related to the reference assets would result in a $2 million increase or decrease, respectively, in the fair value of its total return swap portfolio.

Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of PartnerRe SA, Winterthur Re and Paris Re. The Company assesses the appropriateness of its valuation of goodwill on at least an annual basis. If, as a result of the assessment, the Company determines that the value of its goodwill is impaired, goodwill will be written down in the period in which the determination is made. The Company has established September 30 as the date for performing its annual impairment test. Neither the Company s initial valuation nor its subsequent valuations has indicated any impairment of the Company s goodwill asset of $456 million as of December 31, 2009.

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In making an assessment of the value of its goodwill, the Company uses both market based and non-market based valuations. Assumptions underlying these valuations include an analysis of the Company s stock price relative to both its book value and its net income in addition to forecasts of future cash flows and future profits. Significant changes in the data underlying these assumptions could result in an assessment of impairment of the Company s goodwill asset. In addition, if the current economic environment and/or the Company s financial performance were to deteriorate significantly, this could lead to an impairment of goodwill, the write-off of which would be recorded against net income in the period such deterioration occurred.

Intangible Assets

Intangible assets represent the fair value adjustments related to unpaid losses and loss expenses and unearned premiums, as well as the fair values of renewal rights and U.S. licenses all arising from the acquisition of Paris Re. Definite-lived intangible assets are amortized over their useful lives, generally ranging from two to eleven years. The Company recognizes the amortization of all intangible assets in the Consolidated Statement of Operations. Indefinite-lived intangible assets are not subject to amortization. The carrying values of intangible assets are regularly reviewed for indicators of impairment. Impairment is recognized if the carrying value of the intangible assets is not recoverable from its undiscounted cash flows and is measured as the difference between the carrying value and the fair value. Based upon the Company s assessment, there was no impairment of its intangible assets of $247 million as of December 31, 2009.

Results of Operations

The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of this report for a complete list of the Company s risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.

The Company s reporting currency is the U.S. dollar. The Company s significant subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company s operations is transacted in foreign currencies, fluctuations in foreign exchange rates may affect year over year comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(m) to Consolidated Financial Statements in Item 8 of Part II of this report for a discussion of translation of foreign currencies.

The foreign exchange fluctuations for the principal currencies in which the Company transacts business were as follows:

- the U.S. dollar average exchange rate was stronger against most currencies in 2009 compared to 2008 and was weaker against most currencies, except the British pound, in 2008 compared to 2007; and

- the U.S. dollar ending exchange rate weakened against most currencies at December 31, 2009 compared to December 31, 2008 and strengthened against the British pound, euro and Canadian dollar and weakened against the Swiss franc at December 31, 2008 compared to December 31, 2007.

Overview

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP is diluted net income per share, a measure that focuses on the return provided to the Company s common shareholders. Diluted net income per share is obtained by dividing net income available to common shareholders by the weighted average number of common and common share equivalents outstanding. Net income available to common shareholders is defined as net income less preferred dividends.

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The year over year comparison of the Company s results is primarily affected by the acquisition of Paris Re in 2009, losses related to large catastrophic events in 2008, the effects of the global financial and economic crisis in 2008 and 2009 and the reclassification of the Company s available for sale securities to trading securities, resulting in all changes in unrealized gains and losses recorded in the Consolidated Statements of Operations effective January 1, 2008. To the extent that these events have affected the year over year comparison of the Company s results, their impact has been quantified and discussed in each of the relevant sections. An overview of each of these events is provided below.

The Consolidated Statements of Operations and Cash Flows for the year ended December 31, 2009 include the results of Paris Re for the period from October 2, 2009, the date of acquisition of the controlling interest, to December 31, 2009. Paris Re s technical results for the period from October 2, 2009 to December 31, 2009 are presented as a separate Non-life sub-segment below. In our discussion and analysis of comparative periods, we have quantified the contribution of additional revenue or expense and additional assets, liabilities and equity resulting from the acquisition wherever such amounts are material and identifiable.

As the Company s reinsurance operations are exposed to low-frequency high-severity risk events, some of which are seasonal, results for certain years may include unusually low loss experience, while results for other years may include significant catastrophic losses. For example, the Company s results for 2009 included no significant catastrophic losses, while 2008 and 2007 included losses from large catastrophic events.

During the second half of 2008, the world s financial markets experienced unprecedented events and severe dislocation, which led to the U.S. government approving a $700 billion package to provide increased liquidity to eligible financial institutions. The concerns spread to Europe and Asia, as there was a recognition that the problems were not contained in the U.S., and other governments provided similar bail-out packages to support their economies. In 2008, interest rates decreased, credit spreads widened, equity markets declined and the U.S. dollar strengthened against most currencies. Beginning in the second quarter of 2009, and continuing for the rest of the year, the financial markets showed improvement, primarily with partial recovery in worldwide equity and credit markets. During 2009, credit spreads narrowed and risk-free rates increased. The increases in risk-free rates in 2009 were significantly lower than the decreases in risk-free rates in 2008.

The impacts of the global financial and economic crisis are wide-ranging and have also affected the Company s reinsurance operations. Accordingly, the Company revised its loss estimates and has modestly increased its reserves in affected lines of business for certain underwriting years, where increased reported claims are anticipated, based on information provided by its cedants. The Company s loss reserves related to the impacted lines of business represent Management s best estimate of the cost to settle the ultimate liabilities related to these events based on information available at December 31, 2009.

The Company s financial position includes an increase in the fair value of its investment portfolio, primarily driven by the impact of the Paris Re acquisition and the narrowing credit spreads, which were partially offset by an increase in the risk-free rates. The Company s results of operations in 2009 include the related increase in the level of unrealized gains on investments, which are recorded in net income, compared to the unrealized losses which were recorded in 2008.

Effective January 1, 2008, the Company s available for sale securities were reclassified as trading securities and all subsequent changes in pre-tax unrealized gains and losses are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. Prior to this date, unrealized gains and losses, net of tax, on available for sale securities were recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets.

These events and the continuing uncertainty or volatility in the capital or credit markets are discussed below in Review of Net Income, Results by Segment and Financial Condition, Liquidity and Capital Resources, and may continue to affect our results of operations and financial condition in the future.

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Net income, preferred dividends, net income available to common shareholders and diluted net income per share for the years ended December 31, 2009, 2008 and 2007 were as follows (in millions of U.S. dollars, except per share data):

	2009	2008	2007
Net income	**$ 1,537**	$ 47	$ 718
Less: preferred dividends	**35**	35	35
Net income available to common shareholders	**$ 1,502**	$ 12	$ 683
Diluted net income per share	**$ 23.51**	$ 0.22	$ 11.87

The increase in net income, net income available to common shareholders and diluted net income per share for 2009 compared to 2008 resulted primarily from an increase in pre-tax net realized and unrealized investment gains of $1,122 million, an increase in the Non-life underwriting result of $456 million, primarily driven by the absence of large catastrophic losses and an increase in net favorable loss development on prior accident years, and net realized gain on purchase of CENts of $89 million, and was partially offset by an increase in the related income tax expense of $252 million. These items are discussed in the Review of Net Income below.

Net income, net income available to common shareholders and diluted net income per share decreased for 2008 compared to 2007, primarily from an increase in net realized and unrealized investment losses, an increase in large catastrophic losses relating to Hurricane Ike in 2008 compared to European windstorm Kyrill in 2007, and higher mid-sized losses and loss estimates on certain lines of business, and was partially offset by a decrease in losses from the Company s interest in the results of equity investments, a lower tax charge and higher net investment income in 2008 compared to 2007.

Review of Net Income

Management analyzes the Company s net income in three parts: underwriting result, investment result and other components of net income. Underwriting result consists of net premiums earned and other income or loss less losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Net investment income includes interest and dividends, net of investment expenses, generated by the Company s investment portfolio, as well as interest income generated on funds held assets. Net realized and unrealized investment gains and losses include sales of the Company s fixed income, equity and other invested assets and investments underlying the funds held directly managed account, changes in net unrealized gains and losses in 2009 and 2008 and other-than-temporary impairment charges in 2007. Interest in earnings or losses of equity investments includes the Company s strategic investments, including ChannelRe Holdings. Other components of net income include net realized gain on purchase of CENts, other income or loss, other operating expenses, interest expense, amortization of intangible assets, net foreign exchange gains and losses and income tax expense.

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The components of net income for the years ended December 31, 2009, 2008 and 2007 were as follows (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Underwriting result:					
Non-life	**$ 655**	**230%**	$ 199	(69)%	$ 635
Life	**(11)**	**(78)**	(50)	54	(33)
Investment result:					
Net investment income	**596**	**4**	573	9	523
Net realized and unrealized investment gains (losses)	**591**	**NM**	(531)	633	(72)
Interest in earnings (losses) of equity investments	**16**	**NM**	(5)	(93)	(83)
Corporate and Other:					
Net realized gain on purchase of capital efficient notes	**89**	**NM**			
Technical result	**10**	**805**	1	(59)	3
Other income (loss)	**7**	**20**	6	NM	(24)
Other operating expenses	**(131)**	**44**	(91)	14	(80)
Interest expense	**(28)**	**(45)**	(51)	(5)	(54)
Amortization of intangible assets	**6**	**NM**			
Net foreign exchange (losses) gains	**(1)**	**NM**	6	NM	(15)
Income tax expense	**(262)**	**NM**	(10)	(88)	(82)
Net income	**$ 1,537**	**NM**	$ 47	(94)	$ 718

NM: not meaningful

Underwriting result is a key measurement that the Company uses to manage and evaluate its Non-life and Life segments, as it is a primary measure of underlying profitability for the Company s core reinsurance operations, separate from the investment results. The Company believes that in order to enhance the understanding of its profitability, it is useful for investors to evaluate the components of net income separately and in the aggregate. Underwriting result should not be considered a substitute for net income and does not reflect the overall profitability of the business, which is also impacted by investment results and other items.

2009 over 2008

The underwriting result for the Non-life segment increased by $456 million, from $199 million in 2008 to $655 million in 2009. The increase was principally attributable to:

an increase of $287 million, net of reinstatement premiums of $32 million, related to the lack of large catastrophic losses in 2009 compared to 2008;

an increase of $68 million in net favorable loss development on prior accident years, from $418 million in 2008 to $486 million in 2009. The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below;

an increase of $58 million resulting from the acquisition of Paris Re; and an increase of approximately $65 million resulting primarily from a lower frequency of mid-sized losses in 2009 and normal fluctuations in profitability between periods; partially offset by

an increase of $22 million in other operating expenses, partially due to the inclusion of Paris Re s non-life operating expenses.

Underwriting result for the Life segment improved from a loss of $50 million in 2008 to a loss of $11 million in 2009. This improvement was driven by an increase in profitability of the mortality line, primarily the result of favorable development in the GMDB business due to improved capital market conditions, which have an impact on results in this line of business. See Results by Segment below for more details.

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The Company reported net investment income of $596 million in 2009 compared to $573 million in 2008. The 4% increase in net investment income is primarily attributable to the contribution from Paris Re s investments and funds held directly managed account, and increases in net investment income from fixed income maturities due to the reinvestment of cash flows from operations and the purchase of higher yielding investments. Partially offsetting these increases were the impact of foreign exchange fluctuations, which contributed a 4% decrease as a result of stronger average U.S. dollar foreign exchange rates in 2009 compared to 2008, cash outflows from the investment portfolio related to the repayment of the Company s debt and purchase of the Company s CENts in the first quarter of 2009, and an increase in investment expenses.

Net realized and unrealized investment gains improved by $1,122 million, from a loss of $531 million in 2008 to a gain of $591 million in 2009. The improvement in net realized and unrealized investment gains in 2009 was mainly due to the narrowing of credit spreads and increases in worldwide equity markets, partially offset by increases in risk-free rates. Net realized and unrealized investment gains of $591 million in 2009 were primarily due to the change in net unrealized gains on fixed maturities and short-term investments of $323 million, change in net unrealized gains on equities of $186 million, net realized gains on fixed maturities and short-term investments of $105 million and change in net unrealized gains on other invested assets of $58 million, which were partially offset by net realized losses on equities of $45 million and net realized losses on other invested assets of $35 million. The net unrealized investment gains and losses included in the Consolidated Statements of Operations in 2009 and 2008 reflect the Company s adoption of the fair value option on January 1, 2008. See Net Realized and Unrealized Investment Gains (Losses) below for more details on the investment activity.

Interest in the results of equity investments increased from a loss of $5 million in 2008 to a gain of $16 million in 2009. The gain in 2009 was primarily related to several unrelated private placement and limited partnership investments. See the discussion in Corporate and Other below for more details.

Net realized gain on purchase of CENts resulted from the $187 million purchase of the CENts for $93 million, which after deferred issuance costs and fees produced a gain of $89 million.

Technical result and other income in Corporate and Other relate to principal finance transactions and insurance-linked securities. The increase in the technical result from income of $1 million in 2008 to $10 million in 2009 is primarily due to $13 million, net of reinstatement premiums, in large catastrophic losses related to insurance-linked securities in 2008. See the discussion in Corporate and Other below for more details.

Other operating expenses included in Corporate and Other increased by $40 million, from $91 million in 2008 to $131 million in 2009. The increase was primarily due to consulting and professional fees incurred related to the acquisition of Paris Re, the inclusion of Paris Re s other operating expenses for the fourth quarter of 2009 and higher bonus accruals recorded in 2009 compared to 2008.

Interest expense decreased by $23 million, from $51 million in 2008 to $28 million in 2009 mainly due to the repayment of $200 million of the Company s $400 million floating-rate debt and the purchase of approximately 75% of the Company s CENts in 2009.

The amortization of intangible assets of $6 million in 2009 relates to the intangible assets recorded in connection with the acquisition of Paris Re. See Notes 3 and 4 to Consolidated Financial Statements included in Item 8 of Part II of this report for more details.

Net foreign exchange losses were $1 million in 2009 compared to gains of $6 million in 2008. The Company hedges a significant portion of its currency risk exposure, as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of this report. The net foreign exchange losses in 2009 compared to 2008 were mainly due to higher foreign exchange losses related to foreign currency exchange hedges on the investment portfolio, which were partially offset by lower foreign exchange losses resulting from the impact of currency movements on unhedged securities.

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Income tax expense was $262 million in 2009 compared to $10 million in 2008. The increase in the income tax expense was primarily due to higher pre-tax income, including tax on the net realized gain on purchase of CENts of $31 million. The income tax expense of $10 million in 2008 was primarily due to a non-recurring tax charge of approximately $46 million related to the Company s European reorganization, and was partially offset by a tax benefit associated with the net realized and unrealized losses on investments.

2008 over 2007

The underwriting result for the Non-life segment decreased by $436 million, from $635 million in 2007 to $199 million in 2008. The decrease was principally attributable to:

- an increase in large catastrophic losses of $237 million, net of reinstatement premiums, relating to Hurricane Ike in 2008 compared to European windstorm Kyrill in 2007;
- a decrease of approximately $186 million resulting primarily from higher loss estimates for the 2007 and 2008 underwriting years in certain lines of business reflecting deteriorating economic and credit conditions, and also a higher frequency of mid-sized losses and normal fluctuations in profitability between periods generally, given the softening market conditions; and
- an increase of $17 million in other operating expenses; partially offset by
- an increase of $4 million in net favorable development on prior accident years, from $414 million in 2007 to $418 million in 2008. The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in Results by Segment below.

Underwriting result for the Life segment decreased from a loss of $33 million in 2007 to a loss of $50 million in 2008, primarily due to higher operating expenses of $10 million and a decrease of $7 million in the technical result. The decrease of $7 million in the technical result was driven by an increase in net adverse prior year reserve development of $22 million reflecting charges in our GMDB line due to adverse capital market conditions. This was partially offset by a change in the mix of business to the mortality line and normal fluctuations in profitability between periods. See Results by Segment below for more details.

The Company reported net investment income of $573 million in 2008 compared to $523 million in 2007. The 9% increase in net investment income is primarily attributable to the increase in the asset base resulting from the investment of the Company s significant cash flows from operations and from higher reinvestment rates on fixed maturity bonds, on average, during 2008. Higher average foreign exchange rates also contributed 2% of the increase as a result of the weakening of the U.S. dollar, on average, in 2008 compared to 2007.

Net realized and unrealized investment losses increased by $459 million, from a loss of $72 million in 2007 to a loss of $531 million in 2008. The increase in net realized and unrealized investment losses in 2008 was mainly due to increases in credit spreads, declines in worldwide equity markets and defaults on certain corporate bonds, which were partially offset by decreases in U.S. and European risk-free interest rates. Net realized and unrealized investment losses of $531 million in 2008 were primarily due to net realized losses on equities of $230 million, change in net unrealized losses on fixed maturities of $151 million, change in net unrealized losses on equities of $145 million, and net realized losses on fixed maturities of $16 million, partially offset by other net realized and unrealized gains of $11 million. The unrealized investment losses reflect the Company s adoption of fair value option, which was effective January 1, 2008. Thus, the results of 2008 and 2007 are not comparable. See Net Realized and Unrealized Investment Gains (Losses) below for more details on the net realized and unrealized loss activity.

Interest in the results of equity investments increased from a loss of $83 million in 2007 to a loss of $5 million in 2008. The loss recorded in the 2007 period was due to a $93 million charge related to the Company s investment in ChannelRe Holdings. As this investment is fully written off, no similar charge was recorded in the 2008 period. See the discussion in Corporate and Other below for more details.

The decrease in the technical result from income of $3 million in 2007 to income of $1 million in 2008 is primarily related to large catastrophic losses from Hurricane Ike of $13 million, net of reinstatement premiums, in the insurance-linked securities line in 2008, which is partially offset by higher net premiums earned in 2008 compared to 2007. Other income (loss) increased from a loss of $24 million in 2007 to income of $6 million in 2008. The 2007 period reflected write-downs and mark-to-market adjustments on various transactions in the principal finance line. See the discussion in Corporate and Other below for more details.

Other operating expenses included in Corporate and Other increased by $11 million from $80 million in 2007 to $91 million in 2008. The increase was primarily due to an increase in personnel costs, including stock-based compensation expense.

Interest expense decreased by $3 million, from $54 million in 2007 to $51 million in 2008 mainly due to lower interest expense on the Company s $400 million floating-rate long-term debt, partially offset by a make-whole payment of $3 million incurred in 2008 related to the early retirement of the Company s $220 million bank loan.

Net foreign exchange gains were $6 million in 2008 compared to losses of $15 million in 2007. The net foreign exchange gains in 2008 were mainly a result of lower forward points paid, which reflect the interest rate differential between currencies bought and sold against the U.S. dollar and euro, and changes in the Company s net U.S. dollar assets in its subsidiaries whose functional currency is other than the U.S. dollar, partially offset by the impact of the currency movements on unhedged securities against the functional currencies of the Company s subsidiaries or branches.

Income tax expense decreased by $72 million, from $82 million in 2007 to $10 million in 2008 reflecting lower pre-tax results. The income tax expense of $10 million in 2008 was primarily due to a non-recurring tax charge of approximately $46 million related to the Company s European reorganization, and was partially offset by a tax benefit associated with the net realized and unrealized losses on investments and other tax benefits associated with foreign exchange revaluations.

Results by Segment

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other. The Non-life segment is further divided into five sub-segments, U.S., Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty, Catastrophe and Paris Re. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company s segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 22 to Consolidated Financial Statements included in Item 8 of Part II of this report.

Segment results are shown net of intercompany transactions. Business reported in the Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Paris Re sub-segments and the Life segment is, to a significant extent, denominated in foreign currencies and is reported in U.S. dollars at the average foreign exchange rates for each year. The U.S. dollar has fluctuated against the euro and other currencies during each of the three years presented and this should be considered when making year to year comparisons.

Non-life Segment

U.S.

The technical result of the U.S. sub-segment has fluctuated in the last three years reflecting varying levels of large loss events, predominantly in the agriculture and property lines of business, increasing loss trends mainly in the casualty line of business and development on prior years reserves, which impacted year to year comparisons as discussed below. The U.S. casualty line represented approximately 40%, 45% and 50% of net premiums written in this sub-segment for 2009, 2008 and 2007, respectively. This line typically tends to have a higher loss

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ratio and a lower technical result, due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Gross premiums written	**$ 1,069**	**%**	$ 1,072	5%	$ 1,020
Net premiums written	**1,070**		1,064	4	1,020
Net premiums earned	**$ 1,103**	**1**	$ 1,088	9	$ 999
Losses and loss expenses	**(660)**	**(19)**	(812)	33	(608)
Acquisition costs	**(284)**	**9**	(261)	9	(241)
Technical result (1)	**$ 159**	**967**	$ 15	(90)	$ 150
Loss ratio (2)	**59.8%**		74.6%		60.8%
Acquisition ratio (3)	**25.8**		24.0		24.1
Technical ratio (4)	**85.6%**		98.6%		84.9%

(1) Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.
(2) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.
(3) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.
(4) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

Premiums

The U.S. sub-segment represented 27% of total net premiums written in 2009, 2008 and 2007, respectively.

2009 over 2008

Net premiums earned increased by 1%, while gross and net premiums written remained nearly flat in 2009 compared to 2008. The slight decline in gross premiums written was driven by decreases in the casualty line of business, reflecting declining pricing and market conditions, and in the agriculture line, resulting from higher downward premium adjustments reported by cedants in 2009 compared to 2008. These decreases were partially offset by increases in gross premiums written in the motor and property lines, primarily driven by new business written, while the property line also benefited from a treaty written on December 31, 2008 and subsequently renewed in 2009. While gross premiums written declined slightly in 2009 compared to 2008, net premiums written increased due to the purchase of a retrocessional cover in 2008 which was not renewed in 2009. The increase in net premiums earned was primarily due to the factors described above. Notwithstanding the increased competition prevailing in certain lines and markets of this sub-segment and the increased risk retention by cedants, the Company was able to write business that met its portfolio objectives.

2008 over 2007

Gross and net premiums written and net premiums earned increased by 5%, 4% and 9%, respectively, in 2008 compared to 2007. The increase in gross and net premiums written resulted primarily from growth in the Company s agriculture and property lines of business. Due to the increased opportunities in the agriculture line, the Company recorded $247 million in net premiums written, after the impact of $8 million of retrocessional cover, compared to $124 million in 2007. The growth in premiums written in the agriculture line of business increased the Company s exposure to commodity price risk for crops, as well as drought and other agricultural risks. Separately, the Company wrote a treaty on December 31, 2008 with premiums of $31 million which were earned in 2009. The increase in gross and net premiums written in the agriculture and property lines was partially

offset by decreases in all other lines of business due to higher cedant retentions. The increase in net premiums earned of 9% in 2008 compared to 2007 was greater than the increase in net premiums written of 4% due to the change in the mix of business towards agriculture, which is written on a loss occurring basis, and a decrease in business written in most lines, except agriculture and property.

Losses and loss expenses and loss ratio

2009 over 2008

The losses and loss expenses and loss ratio reported in 2009 reflected a) net favorable loss development on prior accident years of $168 million, or 15.2 points on the loss ratio; b) no large catastrophic losses; c) increasing loss trends, predominantly in the casualty line of business; d) a lower level of mid-sized losses; and e) an increase in the book of business and exposure, as evidenced by the increase in net premiums earned. The net favorable development of $168 million included net favorable development for prior accident years in most lines of business, predominantly in casualty, while multiline and motor experienced combined net adverse development for prior accident years of $11 million. Loss information provided by cedants in 2009 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines of business (increased for multiline and motor), which had the net effect of decreasing (increasing for multiline and motor) prior year loss estimates.

The decrease of $152 million in losses and loss expenses in 2009 compared to 2008 included:

- an increase of $76 million in net favorable prior year development;
- a decrease of $67 million related to the lack of large catastrophic losses; and
- a decrease in losses and loss expenses of approximately $9 million resulting from a combination of a lower level of mid-sized losses, partially offset by increasing loss trends, mainly in the casualty line of business, an increase in the book of business and exposure and normal fluctuations in profitability between periods.

2008 over 2007

The losses and loss expenses and loss ratio reported in 2008 reflected a) net favorable loss development on prior accident years of $92 million, or 8.4 points on the loss ratio; b) large catastrophic losses related to Hurricane Ike of $67 million, or 5.6 points on the loss ratio; c) higher loss estimates for the 2007 and 2008 underwriting years in the specialty casualty line of business reflecting the deteriorating economic and financial market conditions; d) a higher level of mid-sized losses mainly in the agriculture, property and structured risk lines of business; and e) an increase in the book of business and exposure, as evidenced by the increase in net premiums earned. The net favorable development of $92 million included net favorable development for prior accident years in all lines of business, with the exception of the motor and multiline lines of business, which experienced net adverse development for prior accident years of $10 million. Loss information provided by cedants in 2008 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines of business (increased for motor and multiline), which had the net effect of decreasing (increasing for motor and multiline) prior year loss estimates.

The increase of $204 million in losses and loss expenses in 2008 compared to 2007 included:

- an increase in losses and loss expenses of approximately $157 million resulting primarily from an increase in the book of business and exposure, mainly in the agriculture line of business, and higher loss estimates for the 2007 and 2008 underwriting years in the specialty casualty line of business, and a higher level of mid-sized losses and normal fluctuations in profitability between periods;
- an increase in large catastrophic losses of $67 million resulting from Hurricane Ike; and was partially offset by

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an increase of $20 million in net favorable prior year development.

Acquisition costs and acquisition ratio

2009 over 2008

Acquisition costs and the acquisition ratio increased in 2009 compared to 2008 mainly as a result of an increase in proportional property business, which carries a higher acquisition cost ratio, and higher profit commission adjustments reported by cedants in most lines of business.

2008 over 2007

The acquisition costs increased in 2008 compared to 2007 as a result of higher net premiums earned. While the acquisition ratio for 2008 remained flat compared to the same period in 2007, the effect of the shift in the mix of business to the agriculture line reduced the acquisition ratio, which was offset by increases in the acquisition ratio for all other lines of business.

Technical result and technical ratio

2009 over 2008

The increase of $144 million in the technical result and the corresponding decrease in technical ratio in 2009 compared to 2008 was primarily attributable to an increase in net favorable prior year development of $76 million, an increase of $58 million, net of $9 million of reinstatement premiums, related to the lack of large catastrophic losses in 2009 and a lower level of mid-sized losses, partially offset by increasing loss trends, mainly in the casualty line of business, and normal fluctuations in profitability between periods.

2008 over 2007

The decrease of $135 million in the technical result and corresponding increase in technical ratio in 2008 compared to 2007 was primarily attributable to a decrease of $97 million resulting from a higher level of mid-sized losses mainly in the agriculture, property and structured risk lines of business, higher loss estimates on the 2007 and 2008 underwriting years mainly related to the specialty casualty line of business and normal fluctuations in profitability between periods, and an increase in large catastrophic losses of $58 million relating to Hurricane Ike, net of $9 million of reinstatement premiums, partially offset by an increase in net favorable prior year development of $20 million.

2010 Outlook

During the January 1, 2010 renewals, the Company observed continued difficult market conditions with flat to slightly decreased pricing levels in most treaty markets. Certain markets in this sub-segment displayed increased pressure on terms and conditions and increased retentions by ceding companies continued, but at a more moderate rate. The Company also noted a marginal shift from proportional business to excess of loss. Cedants continued to place high importance on the security and financial strength of reinsurers, which in turn helped maintain a competitive advantage for the Company. The agriculture business traditionally renews later in the first quarter and remains largely in process. Based on the overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2010 renewals continue for the remainder of 2010, Management generally expects to maintain the current profitability levels for this sub-segment.

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Global (Non-U.S.) P&C

The Global (Non-U.S.) P&C sub-segment is composed of short-tail business, in the form of property and proportional motor business, that represented approximately 85% of net premiums written for 2009 in this sub-segment, and long-tail business, in the form of casualty and non-proportional motor business, that represented the balance of net premiums written.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Gross premiums written	**$ 646**	**(16)%**	$ 769	4%	$ 740
Net premiums written	**644**	**(16)**	765	4	738
Net premiums earned	**$ 668**	**(16)**	$ 797	5	$ 758
Losses and loss expenses	**(341)**	**(25)**	(454)	(13)	(523)
Acquisition costs	**(165)**	**(17)**	(198)	4	(191)
Technical result	**$ 162**	**12**	$ 145	231	$ 44
Loss ratio	**51.0%**		56.9%		69.0%
Acquisition ratio	**24.7**		24.9		25.2
Technical ratio	**75.7%**		81.8%		94.2%

Premiums

The Global (Non-U.S.) P&C sub-segment represented 16%, 19% and 20% of total net premiums written in 2009, 2008 and 2007, respectively.

2009 over 2008

The decrease in gross and net premiums written and net premiums earned of 16% was primarily due to the stronger U.S. dollar in 2009 compared to 2008, as premiums denominated in currencies that have depreciated against the U.S. dollar were converted into U.S. dollars at lower average exchange rates. Foreign exchange fluctuations decreased gross and net premiums written by 10% and net premiums earned by 8%. The decreases in gross and net premiums written resulted from all lines of business in this sub-segment and were attributable to treaty cancellations during renewal, declines in pricing, increased competition and increased risk retention by cedants. These decreases were partially offset by lower negative premium adjustments of $26 million reported by cedants in 2009 compared to 2008. Notwithstanding the declines in pricing, increased competition and increased risk retentions by cedants prevailing in certain lines of business and markets of this sub-segment, the Company was able to write business that met its portfolio objectives.

2008 over 2007

The increase in gross and net premiums written and net premiums earned in 2008 resulted from the motor and casualty lines of business and was primarily due to the weaker U.S. dollar in 2008 compared to 2007, as premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S. dollars at higher average exchange rates. Foreign exchange fluctuations contributed 8% to the increase in gross and net premiums written and 6% to net premiums earned. The increase in gross and net premiums written and net premiums earned was also due to the acquisition of the renewal rights of the international reinsurance business of the French Monceau Group in 2007, and was partially offset by increased cedant retentions and greater negative premium adjustments of $30 million reported by cedants in 2008 compared to 2007.

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Losses and loss expenses and loss ratio

2009 over 2008

The losses and loss expenses and loss ratio reported in 2009 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of $154 million, or 23.0 points on the loss ratio; c) a lower level of mid-sized losses; and d) a decrease in the book of business and exposure. The net favorable loss development of $154 million included net favorable development in all lines of business, but was most pronounced in the motor and casualty lines. The net favorable loss development was primarily due to favorable loss emergence, as losses reported by cedants in 2009 for prior accident years were lower than the Company expected. Loss information provided by cedants in 2009 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, which had the net effect of decreasing prior year loss estimates.

The decrease of $113 million in losses and loss expenses in 2009 compared to 2008 included:

- a decrease in losses and loss expenses of approximately $125 million resulting mainly from a decrease in the book of business (including the impact of foreign exchange), as well as a lower level of mid-sized losses, and normal fluctuations in profitability between periods; partially offset by

- a decrease of $12 million in net favorable prior year development.

2008 over 2007

The losses and loss expenses and loss ratio reported in 2008 reflected a) net favorable loss development on prior accident years of $166 million, or 20.8 points on the loss ratio; b) higher level of mid-sized losses mainly in the property line of business; and c) an increase in the book of business and exposure as evidenced by the increase in net premiums earned. The net favorable loss development of $166 million included net favorable development in all lines of business, but was most pronounced in the property line and was primarily due to favorable loss emergence, as losses reported by cedants in 2008 for prior accident years were lower than the Company expected. Loss information provided by cedants in 2008 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, which had the net effect of decreasing prior year loss estimates.

The decrease of $69 million in losses and loss expenses in 2008 compared to 2007 included:

- an increase of $69 million in net favorable prior year development; and

- a decrease of $12 million in large catastrophic losses; partially offset by

- an increase in losses and loss expenses of approximately $12 million resulting from a combination of an increase in the book of business, a higher level of mid-sized losses, modestly lower profitability on the business written in 2008 and normal fluctuations in profitability between periods.

Acquisition costs and acquisition ratio

2009 over 2008

Acquisition costs decreased in 2009 compared to 2008 as a result of lower net premiums earned. The acquisition ratio in 2009 decreased slightly compared to 2008 mainly due to cancellation of treaties with higher commission rates in the property line of business, partially offset by higher profit commission adjustments reported by cedants in 2009 compared to 2008 in the motor line of business.

2008 over 2007

The acquisition costs increased in 2008 compared to 2007 as a result of higher net premiums earned. The acquisition ratio decreased slightly following a shift in the distribution of net premiums earned during the year in this sub-segment to motor and casualty.

Technical result and technical ratio

2009 over 2008

The increase of $17 million in technical result and corresponding decrease in technical ratio in 2009 compared to 2008 was primarily explained by an increase of $29 million resulting from a lower level of mid-sized losses and normal fluctuations in profitability between periods, partially offset by a decrease of $12 million in net favorable prior year development.

2008 over 2007

The increase of $101 million in technical result and corresponding decrease in technical ratio for 2008 compared to 2007 was primarily explained by an increase of $69 million in net favorable prior year development, a decrease of $12 million in large catastrophic losses, and an increase of $20 million resulting from normal fluctuations in profitability between periods after considering growth in net premiums earned, and the increase in level of mid-sized losses in 2008.

2010 Outlook

During the January 1, 2010 renewals, the Company observed a competitive business environment with reinsurance pricing generally flat or experiencing reductions and a continuing trend towards increasing retentions by cedants. Overall, the Company s expected premium volume at constant foreign exchange rates increased, primarily as a result of new opportunities. Management expects a continuation of the observed trends in pricing and terms and conditions during the remainder of 2010.

Global (Non-U.S.) Specialty

The Global (Non-U.S.) Specialty sub-segment is primarily comprised of lines of business that are considered to be either short or medium-tail. The short-tail lines consist of agriculture, energy and specialty property and represented 23% of the net premiums written in 2009 in this sub-segment. Aviation/space, credit/surety, engineering and marine are considered by the Company to have a medium-tail and represented 65% of the net premiums written, while specialty casualty is considered to be long-tail and accounted for the balance of the net premiums written in this sub-segment in 2009.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2009	**% Change 2009 over 2008**	**2008**	**% Change 2008 over 2007**	**2007**
Gross premiums written	**$ 1,102**	**(6)%**	$ 1,172	12%	$ 1,049
Net premiums written	**1,071**	**(7)**	1,150	12	1,026
Net premiums earned	**$ 1,037**	**(1)**	$ 1,046	4	$ 1,006
Losses and loss expenses	**(648)**	**(10)**	(721)	60	(450)
Acquisition costs	**(245)**	**(13)**	(281)	8	(260)
Technical result	**$ 144**	**230**	$ 44	(85)	$ 296
Loss ratio	**62.5%**		69.0%		44.7%
Acquisition ratio	**23.6**		26.8		25.9
Technical ratio	**86.1%**		95.8%		70.6%

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Premiums

The Global (Non-U.S.) Specialty sub-segment represented 27%, 29% and 27% of total net premiums written in 2009, 2008 and 2007, respectively.

2009 over 2008

Gross and net premiums written decreased by 6% and 7%, respectively, and net premiums earned decreased by 1% in 2009 compared to 2008. The decrease in gross and net premiums written and net premiums earned was primarily due to the stronger U.S. dollar in 2009 compared to 2008. Foreign exchange fluctuations contributed 6% to the decrease in gross and net premiums written and 5% to net premiums earned. The decrease in gross and net premiums written was primarily driven by decreases in the credit/surety and specialty casualty lines of business, due to a reduction in exposure and declines in pricing and lower positive premium adjustments reported by cedants in 2009 compared to 2008 of $43 million, predominantly in the engineering and aviation lines of business. The decreases in the gross and net premiums written were partially offset by increases in the marine, energy and agriculture lines of business as a result of new treaties and improved pricing. The decrease in net premiums earned of 1% in 2009 compared to 2008 was lower than the decrease in net premiums written of 7% due to an increase in business written in 2008, which was earned in 2009. Notwithstanding the increased competition, declines in pricing and increased risk retention by cedants prevailing in certain lines and markets of this sub-segment, the Company was able to write business that met its portfolio objectives.

2008 over 2007

Gross and net premiums written increased by 12% in 2008 compared to 2007. The increase resulted from all lines of business, with the most significant increases in net premiums written in the credit/surety and specialty casualty lines of business. Net premiums written were also impacted by higher positive premium adjustments of $37 million reported by cedants in 2008 compared to 2007, which resulted primarily from the engineering line of business. The increase of 12% in net premiums written in 2008 is higher than the increase of 4% in net premiums earned as a result of refining the Company s earnings pattern methodology in certain lines of business. The weaker U.S. dollar in 2008 compared to 2007 also contributed significantly to the increase in premiums. Foreign exchange fluctuations contributed 5%, 6% and 5% to the increase in gross and net premiums written and net premiums earned, respectively.

Losses and loss expenses and loss ratio

2009 over 2008

The losses and loss expenses and loss ratio reported in 2009 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of $115 million, or 11.1 points on the loss ratio; c) a lower level of mid-sized losses; and d) increasing loss trends and higher loss estimates in the credit/surety line of business. The net favorable development of $115 million reported in 2009 included net favorable development for prior accident years in most lines of business, predominantly in aviation and engineering, while credit/surety and agriculture experienced combined adverse loss development for prior accident years of $2 million. Loss information provided by cedants in 2009 for prior accident years was lower than the Company expected (higher for credit/surety and agriculture) and included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines of business (increased for the credit/surety and agriculture lines), which had the net effect of decreasing (increasing for the credit/surety and agriculture lines) prior year loss estimates.

The decrease of $73 million in losses and loss expenses in 2009 compared to 2008 included:

- a decrease of $67 million related to the lack of catastrophic losses in 2009; and

- an increase of $33 million in net favorable prior year development; partially offset by

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an increase in losses and loss expenses of approximately $27 million resulting from increasing loss trends and higher loss estimates in the credit/surety line of business, partially offset by a lower level of mid-sized losses and normal fluctuations in profitability between periods.

2008 over 2007

The losses and loss expenses and loss ratio reported in 2008 reflected a) net favorable loss development on prior accident years of $82 million, or 7.8 points on the loss ratio; b) large catastrophic losses related to Hurricane Ike of $67 million, or 6.2 points on the loss ratio; c) a higher than usual level of mid-sized losses mainly in the energy, engineering and specialty casualty lines of business; d) higher loss estimates for the 2006, 2007 and 2008 underwriting years in the credit/surety line of business reflecting deteriorating economic and credit conditions as a result of the global financial crisis; and e) an increase in the book of business and exposure as evidenced by the increase in net premiums earned. The net favorable development of $82 million reported in 2008 included net favorable development for prior accident years in all lines of business with the exception of the energy line, which incurred net adverse loss development for prior accident years of $7 million. Loss information provided by cedants in 2008 for prior accident years was lower than the Company expected (higher for the energy line) and included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines of business with the exception of the energy line, which had the net effect of decreasing (increasing for the energy line) the level of prior year loss estimates.

The increase of $271 million in losses and loss expenses in 2008 compared to 2007 included:

a decrease of $121 million in net favorable prior year development;

an increase in losses and loss expenses of approximately $90 million resulting from a combination of higher loss estimates for the 2007 and 2008 underwriting years in the credit/surety line of business, a higher level of mid-sized losses, modestly lower profitability on the business written in 2008, an increase in the book of business and normal fluctuations in profitability between periods; and

an increase of $60 million in large catastrophic losses.

Acquisition costs and acquisition ratio

2009 over 2008

Acquisition costs and acquisition ratio decreased in 2009 compared to 2008 mainly as a result of a premium deficiency recorded in the credit/surety line of business in the fourth quarter of 2008 and lower profit commission adjustments reported by the cedants in 2009 predominantly in the credit/surety line of business.

2008 over 2007

The increase in acquisition costs in 2008 compared to 2007 is as a result of higher net premiums earned and due to the write-off of $15 million of acquisition costs in the credit/surety line of business, reflecting anticipated profitability on premiums to be earned in 2009. The increase in acquisition ratio is also due to this charge, which was partially offset by a slight decrease in the acquisition ratio for other lines attributable to a modest shift between lines of business that carry different acquisition ratios.

Technical result and technical ratio

2009 over 2008

The increase of $100 million in the technical result and corresponding decrease in the technical ratio in 2009 compared to 2008 was primarily explained by an increase of $64 million, net of $3 million of reinstatement premiums, related to the lack of large catastrophic losses in 2009, an increase of $33 million in net favorable

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prior year development, a lower level of mid-sized losses, lower acquisition costs and normal fluctuations in profitability between periods, partially offset by increasing loss trends and higher loss estimates in the credit/surety line of business.

2008 over 2007

The decrease of $252 million in the technical result and corresponding increase in the technical ratio in 2008 compared to 2007 is explained by a decrease of $121 million in net favorable prior year development, a decrease of $74 million resulting from higher loss estimates for the 2007 and 2008 underwriting years for the credit/surety line of business, a higher level of mid-sized losses, modestly lower profitability on business written in 2008 and normal fluctuations in profitability between periods, and an increase of $57 million, net of $3 million reinstatement premiums, in large catastrophic losses in 2008 compared to 2007.

2010 Outlook

During the January 1, 2010 renewals, the Company observed a variety of conditions in its various markets, with terms in some markets strengthening while softening in others. Overall, the Company s expected premium volume at constant foreign exchange rates is stable to marginally reduced at the January 1, 2010 renewals in this sub-segment. Management expects a continuation of the observed trends in pricing and terms and conditions during the remainder of 2010.

Catastrophe

The Catastrophe sub-segment writes business predominantly on a non-proportional basis and is exposed to volatility resulting from catastrophic losses. Thus, profitability in any one year is not necessarily predictive of future profitability. The results of 2009, 2008 and 2007 demonstrate this volatility, as 2008 contained a large level of catastrophic losses, while 2009 and 2007 had lower than usual levels of large catastrophic losses. This impacted the technical result and ratio and affected year over year comparisons as discussed below.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2009	**% Change 2009 over 2008**	**2008**	**% Change 2008 over 2007**	**2007**
Gross premiums written	**$ 388**	**(6)%**	$ 413	3%	$ 401
Net premiums written	**388**	**(6)**	413	3	401
Net premiums earned	**$ 405**		$ 403	(8)	$ 440
Losses and loss expenses	**(1)**	**(99)**	(144)	213	(46)
Acquisition costs	**(32)**	**(13)**	(37)	(12)	(42)
Technical result	**$ 372**	**68**	$ 222	(37)	$ 352
Loss ratio	**0.3%**		35.8%		10.5%
Acquisition ratio	**8.0**		9.2		9.6
Technical ratio	**8.3%**		45.0%		20.1%

Premiums

The Catastrophe sub-segment represented 10%, 10% and 11% of total net premiums written in 2009, 2008 and 2007, respectively.

2009 over 2008

Gross and net premiums written decreased by 6% in 2009 compared to 2008, while net premiums earned increased slightly. The decreases in gross and net premiums written were primarily due to the stronger U.S.

dollar in 2009 compared to 2008. Foreign exchange fluctuations decreased gross and net premiums written by 4% and net premiums earned by 2%. These decreases and a decrease in reinstatement premiums recorded in 2008 of $18 million, were partially offset by new business and share increases. In addition, net premiums earned in 2009 benefited from a treaty written in December 2008.

2008 over 2007

Gross and net premiums written increased by 3% and net premiums earned decreased by 8% in 2008 compared to 2007. The increases in gross and net premiums written included an additional $18 million of reinstatement premiums related to Hurricane Ike in 2008 compared to those related to European windstorm Kyrill in 2007. In addition, the weaker U.S. dollar in 2008 compared to 2007 also contributed to the increase in premiums. Foreign exchange fluctuations contributed 4% to the increase in gross and net premiums written and 3% to the increase in net premiums earned. The increases in gross and net premiums written from reinstatement premiums and foreign exchange fluctuations were partially offset by increased competition, declines in pricing and increased risk retention by cedants. The decrease in net premiums earned in 2008 compared to 2007 was the result of higher U.S. wind premiums earned in 2007 as a result of the refinement of the Company s premium earnings pattern, which was partially offset by the impact of the reinstatement premiums and foreign exchange.

Losses and loss expenses and loss ratio

2009 over 2008

The losses and loss expenses and loss ratio reported in 2009 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of $49 million, or 12.1 points on the loss ratio; and c) a higher level of mid-sized losses. The net favorable development of $49 million was primarily due to favorable loss emergence, as losses reported by cedants during 2009 for prior accident years were lower than the Company expected. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratio, which had the effect of decreasing the level of prior year loss estimates.

The decrease of $143 million in losses and loss expenses for 2009 compared to 2008 included:

- a decrease of $183 million related to the lack of large catastrophic losses in 2009; partially offset by
- a decrease of $29 million in net favorable prior year development; and
- an increase of $11 million resulting from a higher level of mid-sized losses and normal fluctuations in profitability between periods.

2008 over 2007

The losses and loss expenses and loss ratio reported in 2008 reflected a) large catastrophic losses related to Hurricane Ike of $183 million, or 45.8 points on the loss ratio; b) net favorable loss development on prior accident years of $78 million, or 19.4 points on the loss ratio; and c) a lower level of mid-sized losses. The net favorable development of $78 million was primarily due to favorable loss emergence, as losses reported by cedants during 2008 for prior accident years were lower than the Company expected. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratio, which had the effect of decreasing the level of prior year loss estimates.

The increase of $98 million in losses and loss expenses for 2008 compared to 2007 included:

- an increase of $150 million in large catastrophic losses; partially offset by
- an increase of $36 million in net favorable prior year development; and

a decrease in losses and loss expenses of approximately $16 million resulting from a low level of mid-sized loss activity in 2008 and normal fluctuations in profitability between periods.

Acquisition costs and acquisition ratio

2009 over 2008

Acquisition costs and the acquisition ratio decreased in 2009 compared to 2008 primarily due to profit commissions received from certain cedants in 2009.

2008 over 2007

The decrease in acquisition costs in 2008 compared to 2007 is primarily due to the decrease in the Company s book of business and exposure, as evidenced by the decrease in net premiums earned. The decrease in the acquisition ratio in 2008 compared to 2007 was primarily due the impact of reinstatement premiums, which do not have associated acquisition costs.

Technical result and technical ratio

2009 over 2008

The increase of $150 million in the technical result and corresponding decrease in the technical ratio in 2009 compared to 2008 was primarily explained by an increase of $163 million, net of reinstatement premiums of $20 million, related to the lack of large catastrophic losses in 2009, lower acquisition costs and normal fluctuations in profitability between periods, partially offset by a decrease of $29 million in net favorable prior year development and a higher level of mid-sized losses.

2008 over 2007

The decrease of $130 million in the technical result and corresponding increase in the technical ratio in 2008 compared to 2007 was primarily explained by an increase of $132 million, net of $18 million additional reinstatement premiums, in large catastrophic losses and a decrease of $34 million resulting from normal fluctuations in profitability between periods, which was partially offset by an increase of $36 million in net favorable prior year development.

2010 Outlook

During the January 1, 2010 renewals, the Company observed overall moderate softening of terms and conditions and pricing with strengthening following loss experience in certain markets. The Company s expected premium volume increased at the January 1, 2010 renewals in this sub-segment, primarily as a result of new opportunities in certain markets. Management expects a continuation of these trends and conditions for the remainder of 2010.

Paris Re

The Paris Re sub-segment is primarily comprised of lines of business that are considered to be either short or medium-tail. The short-tail lines consist of agriculture, catastrophe, energy, property, proportional motor and specialty property and represented 59% of the net premiums written in 2009 in this sub-segment. Aviation/space, credit/surety, engineering, marine and other are considered by the Company to have a medium tail and represented 38% of the net premiums written, while specialty casualty is considered to be long-tail and accounted for the balance of the net premiums written in this sub-segment in 2009. The results of the Paris Re sub-segment are only included in the Company s Consolidated Statement of Operations from October 2, 2009 to December 31, 2009. Consequently, results of the Paris Re sub-segment for all other periods are not presented or discussed below.

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The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	October 2, 2009 December 31, 2009
Gross premiums written	$ 193
Net premiums written	178
Net premiums earned	$ 312
Losses and loss expenses	(208)
Acquisition costs	(46)
Technical result	$ 58
Loss ratio	66.7%
Acquisition ratio	14.7
Technical ratio	81.4%

Premiums

The Paris Re sub-segment represented 5% of the Company s total net premiums written in 2009.

October 2, 2009 December 31, 2009

Gross premiums written of $193 million during the period from October 2, 2009 to December 31, 2009 resulted primarily from the marine, property and credit/surety lines of business, which accounted for 46% of the gross premiums written in this sub-segment. Due to a retrocessional cover in place for the marine line of business, the net premiums written were mainly comprised of property, credit/surety and motor business. The property line of business benefited from premium adjustments reported by cedants during the period from October 2, 2009 to December 31, 2009. Net premiums earned are higher than net premiums written primarily due to the earning of premiums in the period from October 2, 2009 to December 31, 2009 related to business written prior to October 2, 2009, predominantly in the catastrophe line of business, which represented 5% and 21% of net premiums written and net premiums earned, respectively.

Losses and loss expenses and loss ratio

October 2, 2009 December 31, 2009

The losses and loss expenses and loss ratio reported in 2009 reflected a) no large catastrophic losses; and b) a low level of mid-sized losses.

Acquisition costs and acquisition ratio

October 2, 2009 December 31, 2009

Acquisition costs and acquisition ratio for the period from October 2, 2009 to December 31, 2009 were primarily driven by the acquisition costs incurred in the catastrophe line of business, which tend to be lower compared to other lines of business.

Technical result and technical ratio

October 2, 2009 December 31, 2009

The technical result of $58 million and the technical ratio of 81.4% for the period from October 2, 2009 to December 31, 2009 were mainly driven by the catastrophe line of business and reflect a lack of large catastrophic losses and a low level of mid-sized losses.

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2010 Outlook

During the January 1, 2010 renewals, the Company observed some softening in market conditions combined with increased retentions by cedants in certain markets. The acquisition of Paris Re by the Company resulted in some business being lost and a limited number of new business opportunities. As a result, the expected premium volume at constant foreign exchange rates reduced at the January 1, 2010 renewals in this sub-segment. Management expects a continuation of these trends and conditions for the remainder of 2010.

Life Segment

The following table provides the components of the allocated underwriting result for this segment (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Gross premiums written	**$ 595**	**2%**	$ 584	(2)%	$ 597
Net premiums written	**591**	**2**	579	2	569
Net premiums earned	**$ 587**	**2**	$ 576	1	$ 571
Life policy benefits	**(440)**	**(5)**	(463)	2	(455)
Acquisition costs	**(113)**	**(6)**	(120)	4	(116)
Technical result	**$ 34**	**NM**	$ (7)	NM	$
Other income	**2**	**377**		NM	
Other operating expenses	**(47)**	**9**	(43)	33	(33)
Net investment income	**62**	**(7)**	67	24	54
Allocated underwriting result (1)	**$ 51**	**198**	$ 17	(21)	$ 21

NM: not meaningful

(1) *Allocated underwriting result is defined as net premiums earned, other income or loss and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.*

Premiums

The Life segment represented 15%, 14% and 15% of total net premiums written in 2009, 2008 and 2007, respectively.

2009 over 2008

Gross and net premiums written and net premiums earned increased by 2% in 2009 compared to 2008. The increase in gross and net premiums written and net premiums earned was primarily driven by new business in the mortality line and growth in the longevity line and was partially offset by the impact of foreign exchange rates and lower additional premiums reported in 2009 by a cedant for a longevity treaty in run-off. Foreign exchange fluctuations decreased gross and net premiums written and net premiums earned by 10% as a result of the stronger U.S. dollar in 2009 compared to 2008.

2008 over 2007

Gross premiums written decreased by 2%, and net premiums written and earned increased by 2% and 1% in 2008 compared to 2007, respectively. The decrease in gross premiums written in 2008 compared to 2007 was primarily driven by the non-renewal of a large longevity treaty, which was partially offset by the impact of foreign exchange and an additional $14 million of premiums reported by a cedant for a longevity treaty in run-off. Net premiums written increased despite the decrease in gross premiums written primarily because the Company purchased additional reinsurance protection in the mortality line of business in 2007 compared to 2008. The weaker U.S. dollar in 2008 and resulting foreign exchange fluctuations contributed an increase of 5% to gross and net premiums written and net premiums earned.

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Life policy benefits

2009 over 2008

Life policy benefits decreased by $23 million in 2009 compared to 2008. The decrease was primarily attributable to an increase of $39 million in net favorable prior year development and lower life policy benefits reported in 2009 by a cedant for a longevity treaty in run-off. The net favorable development of $15 million in 2009 and the net adverse development of $24 million in 2008 were mainly driven by the GMDB business, where the payout is linked to the performance of underlying capital market assets in France. These decreases in life policy benefits were partially offset by new business in the mortality line and growth in longevity line as discussed above.

2008 over 2007

Life policy benefits increased by 2% in 2008 compared to 2007. The increase was primarily due to an increase in net adverse prior year reserve development of $22 million and additional life policy benefits of $21 million in 2008 reported by a cedant for a longevity treaty in run-off, which were partially offset by a change in the mix of business as the mortality line, which generally carries a lower level of life policy benefits than the longevity line, increased its percentage of the Life segment s net premiums earned. The increase in net adverse prior year reserve development of $22 million reflected adverse development of $24 million in 2008 compared to $2 million in 2007. The $24 million of net adverse prior year reserve development in 2008 is comprised of $33 million of adverse development from the GMDB business and was partially offset by favorable development from short-term products. The adverse development on the GMDB business was primarily due to benefit reserves being linked to the performance of underlying capital market assets in France and also due to the impact of increased credit spreads on index-linked products that are interest-rate sensitive.

Acquisition costs

2009 over 2008

The decrease in acquisition costs in 2009 compared to 2008 was primarily due to the impact of foreign exchange fluctuations, downward profit commission adjustments reported by cedants and new business with lower costs ratios, partially offset by acquisition costs on higher premiums earned.

2008 over 2007

The increase in acquisition costs in 2008 compared to 2007 was primarily attributable to higher rate of lapses than expected on TCI products in the mortality line and profit commission adjustments, which was partially offset by a decrease of $6 million in acquisition costs reported by a cedant for a longevity treaty in run-off.

Net investment income

2009 over 2008

Net investment income decreased by $5 million in 2009 compared to 2008 primarily as a result of the impact of foreign exchange fluctuations and a decrease in interest rates, partially offset by higher invested assets.

2008 over 2007

Net investment income increased by $13 million in 2008 compared to 2007 primarily as a result of higher invested assets from the growth in the book of business. The 2007 comparative figure was also affected by a decrease of $4 million due to the commutation of a financing treaty.

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Allocated underwriting result

2009 over 2008

The increase of $34 million in allocated underwriting result in 2009 compared to 2008 was primarily explained by the increase in the technical result of $41 million, and was partially offset by lower net investment income and higher operating expenses. The increase in the technical result was driven by favorable development of $15 million from the GMDB business in 2009 compared to adverse development of $24 million in 2008, and normal fluctuations in profitability between periods.

2008 over 2007

The decrease in allocated underwriting result of $4 million in 2008 compared to 2007 is primarily explained by an increase in operating expenses of $10 million and a decrease in technical result of $7 million, which were partially offset by an increase in allocated investment income of $13 million. The decrease in the technical result of $7 million was driven by an increase of $22 million in net adverse prior year reserve development, which was partially offset by a change in the mix of business to the mortality line, as discussed above.

2010 Outlook

The Life segment experiences only limited active renewals, as several contracts are written on a continuous basis. The active renewal is mainly in the mortality line. For those treaties that actively renewed, pricing conditions and terms were stable. The mortality line also benefited from new opportunities where the Company observed improved pricing and conditions. Management expects a slight increase in premiums written during 2010, assuming constant foreign exchange rates.

Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	**2008**	**2007**
Non-life			
Property and casualty			
Casualty	**12%**	15%	17%
Property	**17**	16	17
Motor	**6**	6	5
Multiline and other	**2**	3	3
Specialty			
Agriculture	**8**	7	4
Aviation/Space	**5**	5	5
Catastrophe	**10**	10	11
Credit/Surety	**6**	7	7
Engineering	**5**	5	5
Energy	**3**	2	2
Marine	**5**	4	4
Specialty casualty	**3**	4	3
Specialty property	**3**	2	2
Life	**15**	14	15
Total	**100%**	100%	100%

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There were modest shifts in the distribution of net premiums written by line in 2009, 2008 and 2007, which reflected the Company s response to existing market conditions. The distribution of net premiums written may also be affected by the timing of renewals of treaties, a shift in treaty structure and premium adjustments by cedants. In addition, foreign exchange fluctuations affected the comparison for all lines.

Casualty: the decrease in net premiums written in 2009 and 2008 was primarily due to increasingly competitive market conditions and non-renewals as pricing did not adequately reflect increasing loss trends.

Agriculture: the increase in net premiums written in 2008 compared to 2007 resulted primarily from the growth in the Company s agriculture line of business in its U.S. sub-segment, which benefited from increased opportunities, pricing and demand.

2010 Outlook

Based on information received from cedants and brokers during the January 1, 2010 renewals and assuming that similar trends and conditions to those experienced during the January 1, 2010 renewals continue through the year, Management expects increases in the relative distribution of catastrophe and credit/surety premiums in 2010 and expects other lines to be comparable to 2009.

Premium Distribution by Treaty Type

The Company typically writes business on either a proportional or non-proportional basis. On proportional business, the Company shares proportionally in both the premiums and losses of the cedant. On non-proportional business, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio. In both proportional and non-proportional business, the Company typically reinsures a large group of primary insurance contracts written by the ceding company. In addition, the Company writes business on a facultative basis. Facultative arrangements are generally specific to an individual risk and can be written on either a proportional or non-proportional basis. Generally, the Company has more influence over pricing, as well as terms and conditions, in non-proportional and facultative arrangements.

The distribution of gross premiums written by treaty type for the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	**2008**	**2007**
Non-life Segment			
Proportional	**55%**	55%	52%
Non-Proportional	**25**	27	28
Facultative	**5**	4	4
Life Segment			
Proportional	**14**	13	15
Non-Proportional	**1**	1	1
Total	**100%**	100%	100%

The distribution of gross premiums written by treaty type is affected by changes in the allocation of capacity among lines of business, the timing of receipt by the Company of cedant accounts and premium adjustments by cedants. In addition, foreign exchange fluctuations affected the comparison for all treaty types.

The decrease in the percentage of non-proportional gross premiums written in the Non-life segment in 2009 compared to the 2008 resulted primarily from decreases in the casualty line of business in the U.S. sub-segment.

The increase in the percentage of proportional gross premiums written for the Non-life segment in 2008 compared to 2007 resulted primarily from the growth in the Company s agriculture line of business in its U.S.

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sub-segment. The decrease in the percentage of proportional gross premiums written for the Life segment in 2008 compared to 2007 results primarily from the non-renewal of a large longevity treaty in 2008, which was written on a proportional basis.

2010 Outlook

Based on renewal information from cedants and brokers, and assuming that similar conditions experienced during the January 1, 2010 renewals continue throughout the year, Management expects an increase in the relative distribution of facultative business following the acquisition of Paris Re and expects the relative distribution of gross premiums written by other treaty types in 2010 to be similar to 2009.

Premium Distribution by Geographic Region

The geographic distribution of gross premiums written for the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	2008	2007
North America	**41%**	41%	42%
Europe	**41**	46	45
Latin America, Caribbean and Africa	**10**	8	7
Asia, Australia and New Zealand	**8**	5	6
Total	**100%**	100%	100%

The distribution of gross premiums written in Europe was affected by foreign exchange fluctuations, as premiums denominated in currencies that have depreciated against the U.S. dollar were converted into U.S. dollars at lower average exchange rates. The increase in gross premiums written in Latin America, Caribbean and Africa and Asia, Australia and New Zealand is primarily due to an increase in the property line in the Global (Non-U.S.) P&C sub-segment and the acquisition of Paris Re, which writes a proportionately higher percentage in these regions.

2010 Outlook

Based on renewal information from cedants and brokers, and assuming that similar conditions experienced during the January 1, 2010 renewals continue throughout the year and assuming constant foreign exchange rates, Management expects the distribution of gross premiums written by geographic region in 2010 to be similar to 2009.

Premium Distribution by Production Source

The Company generates its gross premiums written both through brokers and through direct relationships with cedants. The percentage of gross premiums written by production source for the years ended December 31, 2009, 2008 and 2007 was as follows:

	2009	2008	2007
Broker	**72%**	**71%**	69%
Direct	**28**	**29**	31

The distribution of gross premiums written by production source reflects an increase in gross premiums written through brokers in Europe, and a modest shift in the mix of gross premiums written in other geographic locations.

2010 Outlook

Based on renewal information from cedants and brokers, and assuming that similar conditions experienced during the January 1, 2010 renewals continue throughout the year, Management expects the production source of gross premiums written in 2010 to be similar to 2009.

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Corporate and Other

Corporate and Other is comprised of the Company s capital markets and investment related activities, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses. Corporate and Other includes the investment related and corporate activities of Paris Re from October 2, 2009 through December 31, 2009.

Net Investment Income

The table below provides net investment income by asset source for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Fixed maturities	**$ 559**	**9%**	$ 515	22%	$ 422
Short-term investments, trading securities, cash and cash equivalents	**12**	**(38)**	19	(66)	56
Equities	**14**	**(53)**	29	(19)	36
Funds held and other	**33**	**(12)**	37	15	32
Funds held directly managed	**18**	**NM**			
Investment expenses	**(40)**	**44**	(27)	20	(23)
Net investment income	**$ 596**	**4**	$ 573	9	$ 523

Because of the interest-sensitive nature of some of the Company s Life products, net investment income is considered in Management s assessment of the profitability of the Life segment (see Life segment above). The following discussion includes net investment income from all investment activities, including the net investment income allocated to the Life segment.

2009 over 2008

Net investment income increased in 2009 compared to 2008 due to:

- an increase in net investment income from fixed maturities due to the reinvestment of cash flows from operations and from the purchase of higher yielding investments. This increase was mitigated by cash flows of $294 million used for the repayment of debt and the purchase of CENts during the first quarter of 2009;

- an increase in net investment income from fixed maturities and from funds held directly managed following the acquisition of Paris Re; partially offset by

- the strengthening of the U.S. dollar, on average, in 2009 compared to 2008 contributed a 4% decrease in net investment income;

- a decrease in net investment income from equities due to a lower level of equity exposures held, on average, in 2009 compared to 2008;

- increased investment expenses; and

- the impact of lower yields on short-term investments.

2008 over 2007

Net investment income increased in 2008 compared to 2007 due to:

- an increase in net investment income from fixed maturities due to an increase in the asset base resulting from the reinvestment of cash flows from operations of $1,159 million and from a change in asset allocation from equities to fixed maturities given the uncertainty and turmoil in equity markets, and higher average reinvestment rates on fixed maturities in 2008 compared to 2007; and

- the weakening of the U.S. dollar, on average, during 2008 compared to 2007 contributed 2% of the increase in net investment income; partially offset by

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a decrease in net investment income from short-term investments and cash and cash equivalents due to a lower average balance of cash and cash equivalents and lower yields on short-term investments and cash and cash equivalents during 2008 compared to the same period in 2007;

a decrease in net investment income from equities due to the reduction in the level of equity exposures held and lower dividends received on equity securities in 2008 compared to 2007; and

an increase in investment expenses of $4 million due to the increase in invested assets from 2007 to 2008.

2010 Outlook

Assuming constant foreign exchange rates, Management expects net investment income to increase in 2010 as compared to 2009 primarily due to the Company s larger invested asset base following the acquisition of Paris Re and the expected positive cash flow from operations (including net investment income). Management expects these favorable factors to be partially offset by lower reinvestment rates due to lower U.S. and European interest rates.

Net Realized and Unrealized Investment Gains (Losses)

The Company s portfolio managers have dual investment objectives of optimizing current investment income and achieving capital appreciation. To meet these objectives, it is often desirable to buy and sell securities to take advantage of changing market conditions and to reposition the investment portfolios. Accordingly, recognition of realized gains and losses is considered by the Company to be a normal consequence of its ongoing investment management activities. In addition, the Company records changes in fair value for substantially all of its investments as unrealized investment gains or losses in its Consolidated Statements of Operations. Realized and unrealized investment gains and losses are generally a function of multiple factors, with the most significant being prevailing interest rates, credit spreads, and equity market conditions.

As discussed in Overview above, the global economy and financial markets improved in 2009 and this had a significant impact on the Company s investment portfolio and the related level of realized and unrealized gains (losses) on investments compared to 2008. For the year ended December 31, 2009, the investment portfolio and net realized and unrealized investment gains were primarily impacted by decreases in credit spreads and increases in worldwide equity markets, which were partially offset by increases in risk-free rates.

The components of net realized and unrealized investment gains (losses) for the years ended December 31, 2009, 2008 and 2007 were as follows (in millions of U.S. dollars):

	2009	**2008**	**2007**
Net realized investment gains (losses) on fixed maturities and short-term investments, excluding other-than-temporary impairments	**$ 105**	$ (16)	$ (17)
Net realized investment (losses) gains on equities, excluding other-than-temporary impairments	**(45)**	(230)	82
Other-than-temporary impairments			(125)
Net realized gains and change in net unrealized investment losses on trading securities			(12)
Net realized (losses) gains on other invested assets	**(36)**		10
Change in net unrealized gains on other invested assets	**58**	3	
Change in net unrealized investment gains (losses) on fixed maturities and short-term investments subject to the fair value option	**323**	(150)	
Change in net unrealized investment gains (losses) on equities subject to the fair value option	**186**	(145)	
Net other realized and unrealized investment gains (losses)	**2**	7	(10)
Net realized losses and change in net unrealized investment gains on funds held directly managed	**(2)**		
Net realized and unrealized investment gains (losses)	**$ 591**	$ (531)	$ (72)

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Effective January 1, 2008, the Company s available for sale securities were reclassified as trading securities and all changes in pre-tax unrealized investment gains and losses are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. Prior to the election of the fair value option, unrealized gains and losses, net of tax, on available for sale securities were recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. Effective January 1, 2008, the Company is no longer required to record other-than-temporary impairment charges, as changes in market value are now recorded in net income.

2009 over 2008

Net realized and unrealized investment gains improved by $1.1 billion, from a loss of $531 million in 2008 to a gain of $591 million in 2009. The improvement in net realized and unrealized investment gains (losses) was primarily due to the narrowing of credit spreads and improvements in worldwide equity markets, which were partially offset by an increase in risk-free rates. Net realized and unrealized investment gains of $591 million in 2009 were primarily due to the change in net unrealized investment gains on fixed maturities and short-term investments, equities and other invested assets of $567 million, and net realized investment gains on fixed maturities and short-term investments of $105 million. These gains were partially offset by net realized investment losses on equities and other invested assets of $81 million.

Net realized losses on other invested assets of $36 million in 2009 primarily relate to losses on treasury futures and credit default swaps, which were partially offset by gains on equity futures. Net unrealized gains on other invested assets of $58 million primarily relate to unrealized gains on total return swaps, treasury futures and assumed credit default swaps, which were partially offset by unrealized losses on purchased credit default swaps. The net change in unrealized gains on other invested assets of $3 million in 2008 primarily related to changes in unrealized gains on treasury and equity futures and credit default swaps, which were partially offset by the change in unrealized losses on insurance linked securities and principal finance transactions.

Net other realized and unrealized investment gains of $7 million in 2008 resulted primarily from a $15 million gain related to the expiration of certain representations and warranties the Company provided related to the sale of its U.S. life operations in 2000. This gain was partially offset by an unrealized loss of $7 million from the Company s application of the U.S. GAAP guidance related to embedded derivatives that exist in certain types of funds held contracts.

2008 over 2007

Net realized and unrealized investment losses increased by $459 million, from a $72 million loss in 2007 to a $531 million loss in 2008 due to increases in credit spreads, declines in worldwide equity markets and defaults on certain corporate bonds, which were partially offset by decreases in U.S. and European risk-free interest rates. Net realized and unrealized investment losses of $531 million in 2008 were primarily due to net realized losses on equities of $230 million, change in net unrealized losses on fixed maturities of $151 million, change in net unrealized losses on equities of $145 million, and net realized losses on fixed maturities of $16 million, partially offset by other net realized and unrealized gains of $11 million. The unrealized investment losses reflect the Company s adoption of the fair value option, which was effective January 1, 2008. Thus, the results of 2008 and 2007 are not comparable.

The other-than-temporary impairments in 2007 of $125 million related to fixed maturities ($57 million) and equities ($68 million). Net realized gains on other invested assets of $10 million in 2007 primarily related to treasury futures. Net other realized and unrealized investment losses of $10 million in 2007 resulted primarily from the impact of foreign exchange on the sale of equity securities.

Interest in Earnings (Losses) of Equity Investments

The interest in the results of equity investments represents the Company s share of earnings or losses related to private placement investments and limited partnerships in which the Company has more than a minor interest.

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2009 over 2008

The Company s interest in earnings of equity investments was $16 million in 2009, compared to losses of $5 million in 2008. These results represent the aggregate activity of several limited partnerships and unrelated private placement investments.

2008 over 2007

Losses from the Company s interest in the results of equity investments amounted to $5 million in 2008, compared to losses of $83 million in 2007. The loss in 2008 is primarily related to unrealized mark-to-market losses and write-downs related to several unrelated private placement and limited partnership investments, while the loss in 2007 primarily reflected the write-down of $93 million of the Company s investment in ChannelRe Holdings as discussed below.

In 2004, the Company purchased a 20% ownership in ChannelRe Holdings, a non-publicly traded financial guaranty reinsurer, which assumed a portfolio of in-force business from MBIA and provides reinsurance services exclusively to MBIA. At December 31, 2007, the value of the Company s investment in ChannelRe Holdings was written down to $nil.

ChannelRe Holdings is a non-publicly traded financial guaranty reinsurer based in Bermuda, which assumed a portfolio of in-force business from MBIA, and which participated in MBIA reinsurance treaties and provided facultative reinsurance support to MBIA. The Company s investment represents 20% of the common shares of Channel Reinsurance Ltd. (Channel Reinsurance), which is a subsidiary and the primary asset of ChannelRe Holdings. The investment in ChannelRe Holdings is accounted for using the equity method. The Company s share of ChannelRe Holdings net income and accumulated other comprehensive income is reported in the Company s net income and accumulated other comprehensive income, respectively, on a one-quarter lag. The Company calculates its share of ChannelRe Holdings net income and accumulated other comprehensive income on the basis of the Company s ownership percentage of ChannelRe Holdings common shares currently outstanding.

In addition to the Company s interest of $6 million in ChannelRe Holdings results for the twelve month period ended September 30, 2007 (see Note 24 to Consolidated Financial Statements), the Company recorded an additional charge of $87 million in its Consolidated Statements of Operations for the year ended December 31, 2007. This additional charge represented the write-down to $nil of its investment in ChannelRe Holdings due to unrealized mark-to-market losses on Channel Reinsurance s credit derivative portfolio, which Channel Reinsurance expected to incur during the three months ended December 31, 2007, and which were expected to result in ChannelRe Holdings having negative U.S. GAAP shareholders equity at that date. ChannelRe Holdings financial statements as of December 31, 2007 and September 30, 2008 and 2009 did present negative U.S. GAAP shareholders equity, and accordingly at December 31, 2009 and 2008, the carrying value of the Company s investment in ChannelRe Holdings remains $nil.

Partially offsetting the charge related to ChannelRe Holdings in 2007, the Company recorded $10 million of interest in earnings of equity investments related to other private placement investments and limited partnerships in which the Company has more than a minor interest.

2010 Outlook

With respect to strategic investments, the Company expects to see a similar level of potential opportunities during 2010 compared to 2009, as global financial markets continue to improve. The Company will evaluate these potential new opportunities for attractiveness during the year.

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Technical Result and Other Income (Loss)

2009 over 2008

Technical result and other income included in Corporate and Other primarily relates to income on insurance linked securities and principal finance transactions and reflects a gain of $17 million combined in 2009, compared to a gain of $7 million combined in 2008. The increase of $10 million in 2009 compared to 2008 is primarily related to $13 million of losses, net of reinstatement premiums, from Hurricane Ike incurred in 2008.

2008 over 2007

Technical result and other income (loss) included in Corporate and Other was a gain of $7 million combined in 2008 compared to a $21 million loss combined in 2007. The increase of $28 million in 2008 primarily related to write-downs and mark-to-market adjustments on various transactions in the principal finance line in 2007. Subsequent to the adoption of the fair value option on January 1, 2008, these are now reflected in net realized and unrealized investment gains (losses) in the Consolidated Statements of Operations.

Other Operating Expenses

Other operating expenses were as follows (in millions of U.S. dollars):

	2009	% Change 2009 over 2008	2008	% Change 2008 over 2007	2007
Other operating expenses	**$ 431**	18%	$ 365	12%	$ 327

Other operating expenses represent 10.5%, 9.3% and 8.6% of the net premiums earned (both life and non-life) in 2009, 2008 and 2007, respectively. Other operating expenses included in Corporate and Other were $131 million, $91 million and $80 million, of which $117 million, $75 million and $67 million are related to corporate activities for 2009, 2008 and 2007, respectively.

2009 over 2008

The increase in other operating expenses of 18% in 2009 compared to 2008 was primarily due to Paris Re acquisition-related expenses of $36 million, the inclusion of Paris Re s other operating expenses of $30 million and higher personnel costs. These increases were partially offset by the strengthening of the U.S. dollar, on average, which contributed a 3% decrease in other operating expenses in 2009.

2008 over 2007

The increase in other operating expenses of 12% in 2008 compared to 2007 was primarily a result of higher personnel costs of $22 million, including salaries and stock-based compensation expense, and an increase in withholding taxes of $7 million, which were partially offset by a decrease in fixed asset depreciation charges. The weakening of the U.S. dollar, on average, in 2008 compared to 2007, contributed 5% to the increase in other operating expenses.

Financial Condition, Liquidity and Capital Resources

The Company purchased, as part of its acquisition of Paris Re, an investment portfolio and a funds held directly managed account. The discussion of the acquired Paris Re investment portfolio is included in the discussion of Investments below. The discussion of the segregated investment portfolio underlying the funds held directly managed account is included separately in Funds Held Directly Managed below.

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Investments

Total investments and cash were $16.0 billion at December 31, 2009, compared to $11.7 billion at December 31, 2008. The major factors influencing the increase during 2009 were:

- investments and cash of $3,207 million acquired from Paris Re;
- net cash provided by operating activities of $1,099 million;
- an increase in the market value of the investment portfolio (realized and unrealized) of $592 million, resulting from an increase in the fixed maturity and short-term investment portfolios of $428 million, an increase in the equity portfolio of $141 million, an increase in other invested assets of $23 million; and
- other factors, primarily the net positive influence of the effect of a weaker U.S. dollar at December 31, 2009 relative to the euro and other currencies as it relates to the conversion of invested assets into U.S. dollars, amounting to approximately $193 million; partially offset by
- the share capital repayment of $330 million by Paris Re to its former shareholders;
- reductions of $294 million related to the repayment of debt of $200 million and the purchase of CENts of $94 million; and
- dividend payments on common and preferred shares totaling $152 million.

The Company employs a prudent investment philosophy. It maintains a high quality, well-balanced and liquid portfolio having the dual objectives of optimizing current investment income and achieving capital appreciation. The Company s invested assets are comprised of total investments, cash and cash equivalents and accrued investment income. From a risk management perspective, the Company allocates its invested assets into two categories: liability funds and capital funds. Liability funds (including funds held - directly managed) represent invested assets supporting the net reinsurance liabilities, defined as the Company s operating and reinsurance liabilities net of reinsurance assets, and are invested primarily in high quality fixed income securities. The preservation of liquidity and protection of capital are the primary investment objectives for these assets. The portfolio managers are required to adhere to investment guidelines as to minimum ratings and issuer and sector concentration limitations. Liability funds are invested in a way that generally matches them to the corresponding liabilities in terms of both duration and currency composition to protect the Company against changes in interest and foreign exchange rates. Capital funds represent the capital of the Company and contain most of the asset classes typically viewed as offering a higher risk and higher return profile, subject to risk assumption and portfolio diversification guidelines which include issuer and sector concentration limitations. Capital funds may be invested in investment grade and below investment grade fixed income securities, preferred and common stocks, private equity and bond investments, and convertible fixed income securities. The Company believes that an allocation of a portion of its investments to equities is both prudent and desirable, as it helps to achieve broader asset diversification (lower risk) and maximizes the portfolio s total return over time.

At December 31, 2009, the liability funds totaled $10.4 billion (including funds held - directly managed) and were comprised primarily of cash and cash equivalents and high quality fixed income securities. The capital funds, which totaled $7.8 billion, were comprised of cash and cash equivalents, investment grade and below investment grade fixed income securities, accrued investment income, preferred and common stocks, private equity and bond investments, and convertible fixed income securities.

The Company s investment strategy allows for the use of derivative instruments, subject to strict limitations. The Company utilizes various derivative instruments such as futures contracts, credit default swaps, foreign currency option contracts, foreign exchange forward contracts, and total return and interest rate swaps for the purpose of hedging market risk, replicating investment positions, managing market exposure and duration risks,

hedging certain investments, or enhancing investment performance that would be allowed under the Company s investment policy if implemented in other ways. The use of financial leverage, whether achieved through derivatives or margin borrowing, requires approval from the Risk Management and Finance Committee of the Board.

Trading securities

The Company elected the fair value option for substantially all of its invested assets, including all of Paris Re s fixed maturities, short-term investments and other invested assets as of the Acquisition Date. The market value of investments classified as trading securities (excluding funds held - directly managed) was $15.1 billion at December 31, 2009. Trading securities are carried at fair value with changes in fair value included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

At December 31, 2009, approximately 96% of the Company s fixed income securities, including fixed income type mutual funds were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent) and 92% were publicly traded. At December 31, 2008, approximately 97% of the Company s fixed income securities, including bank loans and other fixed income type mutual funds, were rated investment-grade by Standard & Poor s (or estimated equivalent) and 96% were publicly traded. The average credit quality of the Company s fixed income securities at December 31, 2009 was AA, comparable to the position at December 31, 2008.

The average duration of the Company s investment portfolio was 3.1 years at December 31, 2009 and 2008. For the purposes of managing portfolio duration, the Company uses exchange traded treasury note futures. The use of treasury note futures allowed the Company to reduce the duration of its investment portfolio from 3.7 years to 3.1 years at December 31, 2009 and from 3.6 years to 3.1 years at December 31, 2008.

The average yield to maturity on fixed maturities, short-term investments and cash and cash equivalents at December 31, 2009 decreased to 3.6% compared to 5.2% as at December 31, 2008, reflecting narrowing credit spreads and lower reinvestment rates, partially offset by higher risk-free interest rates.

The Company s investment portfolio generated a positive total return of 9.7% (excluding the effects of foreign exchange) for the year ended December 31, 2009, compared to 0.2% (excluding the effects of foreign exchange) for the year ended December 31, 2008. The higher total return was primarily due to the narrowing of credit spreads and improvements in worldwide equity markets, and was partially offset by an increase in risk-free interest rates.

The cost, gross unrealized gains, gross unrealized losses and fair value of investments classified as trading at December 31, 2009 and 2008 were as follows (in millions of U.S. dollars):

2009	**Cost (1)**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
U.S. government and agencies	**$ 1,273**	**$ 9**	**$ (12)**	**$ 1,270**
Other foreign governments	**3,012**	**61**	**(14)**	**3,059**
Corporate	**6,438**	**223**	**(30)**	**6,631**
Mortgage/asset-backed securities	**3,134**	**88**	**(39)**	**3,183**
Total fixed maturities	**13,857**	**381**	**(95)**	**14,143**
Short-term investments	**135**	**2**		**137**
Equities	**731**	**82**	**(17)**	**796**
Total	**$ 14,723**	**$ 465**	**$ (112)**	**$ 15,076**

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2008	Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and agencies	$ 881	$ 51	$ (1)	$ 931
Other foreign governments	2,651	180	(7)	2,824
Corporate	3,568	62	(217)	3,413
Mortgage/asset-backed securities	3,119	72	(177)	3,014
Total fixed maturities	10,219	365	(402)	10,182
Short-term investments	117			117
Equities	637	10	(134)	513
Total	$ 10,973	$ 375	$ (536)	$ 10,812

(1) Cost is amortized cost for fixed maturities and short-term investments and cost for equities. For investments acquired from Paris Re, cost is based on the fair value at the date of acquisition and subsequently adjusted for amortization of fixed maturities and short-term investments.

The increase in fixed maturities and short-term investments from $10.3 billion at December 31, 2008 to $14.3 billion at December 31, 2009 is primarily related to the acquisition of Paris Re s fixed maturity and short-term investment portfolio, new cash flows, the reinvestment of net investment income and increasing asset values due to reduced credit spreads in 2009, which were partially offset by a change in the asset allocation from fixed maturities to equities and an increase in risk-free interest rates.

U.S. government and agencies included U.S. treasuries, agencies of the U.S. government and U.S. municipalities. At December 31, 2009, U.S. treasuries and agencies of the U.S. government accounted for 63% and 36% of this category respectively. Although U.S. treasuries and agencies are not rated, they are generally considered to have a credit quality equivalent to or greater than AAA corporate issues.

Included in other foreign governments are obligations of non-U.S. governments and their agencies. At December 31, 2009, 64% of this category was rated AAA (compared to 88% at December 31, 2008, as the Company reallocated exposure from certain AAA rated government securities to AA and A rated government securities), while investment grade foreign government and agency obligations accounted for the remaining 36%. The largest four foreign government issuers (France, Canada, Germany and Italy) accounted for 77% of this category at December 31, 2009.

Corporate bonds are comprised of obligations of U.S. and foreign corporations. At December 31, 2009, 94% of these investments were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent), while 72% were rated A- or better. In addition, government guaranteed corporate debt represented 11% of the total corporate bonds held at December 31, 2009. While the ten largest issuers accounted for 20% of the corporate bonds held by the Company at December 31, 2009 (8% of total investments and cash), no single issuer accounted for more than 3% of total corporate bonds (2% of the Company s total investments and cash at December 31, 2009). At December 31, 2009, U.S. bonds comprised 63% of this category, and the main exposures by economic sector were 29% in finance (13% were banks), 13% in consumer noncyclicals, 11% in government guaranteed corporate debt and 10% in communications. Within the finance sector, 99% of corporate bonds were rated investment grade and 89% were rated A- or better at December 31, 2009.

At December 31, 2009, other foreign governments and corporate bonds included approximately $835 million of foreign government obligations and government guaranteed corporate debt related to Italy, Spain, Greece, Portugal, and Ireland. During January 2010, substantially all of the foreign government obligations and government guaranteed corporate debt (excluding funds held directly managed) related to Italy, Spain, Greece, Portugal and Ireland had been sold.

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In the mortgage/asset-backed securities category, 91% were U.S. mortgage/asset-backed securities at December 31, 2009. These securities generally have a low risk of default as most are backed by an agency of the U.S. government, which enforces standards on the mortgages before accepting them into the program. They are considered prime mortgages and the major risk is uncertainty of the timing of pre-payments. Although these securities do not carry a formal rating, they are generally considered to have a credit quality equivalent to or greater than AAA corporate issues. While there have been recent market concerns regarding sub-prime mortgages, the Company did not have direct exposure to these types of securities in its own portfolio at December 31, 2009, other than a $17 million investment in a distressed asset vehicle (included in other invested assets). At December 31, 2009, the Company s U.S. mortgage/asset-backed securities included approximately $145 million (5%) of collateralized mortgage obligations and commercial mortgage-backed securities, where the Company deemed the entry point and price of the investments to be attractive. Of the Company s U.S. mortgage/asset-backed securities of $2.9 billion at December 31, 2009, approximately 11% were rated below AA by Standard & Poor s (or estimated equivalent). The remaining 9% of this category at December 31, 2009 was comprised of non-U.S. mortgage/asset-backed securities, all of which were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent). Within that, 99% were rated AA or higher by Standard & Poor s (or estimated equivalent).

Short-term investments primarily consisted of obligations of U.S. and foreign corporations, U.S. asset-backed securities, foreign governments and U.S. government and agencies. At December 31, 2009, corporates (consisting primarily of non-U.S. finance sector, catastrophe and mortality bonds) comprised 50% of this category, of which 97% were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent), while U.S. asset-backed securities, foreign governments and U.S. government and agencies comprised 24%, 22% and 4%, respectively, and were rated AA or higher.

Publicly traded common stocks (including public exchange traded funds and real estate investment trust (REITs)) comprised 96% of equities at December 31, 2009. The majority of the remaining balance was comprised of a $35 million emerging markets mutual fund, which accounted for 4% of equities, with the balance primarily in convertible investments. Of the publicly traded common stocks, exchange traded funds and REITs, U.S. issuers represented 98% at December 31, 2009. While the ten largest common stocks accounted for 26% of equities (excluding equities held in public exchange traded funds and mutual funds) at December 31, 2009, no single common stock issuer accounted for more than 5% of total equities (excluding equities held in public exchange traded funds and mutual funds) or 1% of the Company s total investments and cash at December 31, 2009. At December 31, 2009, the largest publicly traded common stock exposures by economic sector were 16% in technology, 14% in energy, 13% in finance, 13% in consumer noncyclical, and 12% in industrials and communications. The increase in the Company s equity portfolio from $513 million at December 31, 2008 to $796 million at December 31, 2009 was primarily due to a modest change in asset allocation from fixed income securities to equities and also due to an increase in market values, driven by increases in worldwide equity markets during 2009.

Maturity Distribution

The distribution of fixed maturities and short-term investments at December 31, 2009, by contractual maturity date, is shown below (in millions of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Cost	Fair Value
One year or less	$ 858	$ 869
More than one year through five years	6,223	6,346
More than five years through ten years	3,249	3,343
More than ten years	528	539
Subtotal	10,858	11,097
Mortgage/asset-backed securities	3,134	3,183
Total	$ 13,992	$ 14,280

Rating Distribution

The following table provides a breakdown of the credit quality of the Company s fixed income securities at December 31, 2009:

	% of total fixed income securities
Rating Category	
AAA	50%
AA	10
A	24
BBB	12
Below investment-grade/unrated	4
	100%

The Company s AAA (or equivalent) rated securities, as a percentage of its total fixed income portfolio, decreased from 62% at December 31, 2008 to 50% at December 31, 2009. This decrease was primarily the result of a change in asset allocation from U.S. and other foreign government securities to corporate bonds and mortgage/asset-backed securities which provide an increased spread, and was partially offset by the acquisition of the Paris Re fixed maturity portfolio, which had a higher allocation to U.S. and other foreign government exposures. As a result of the change in asset allocations, the Company s AA and A (or equivalent) rated securities increased from 24% at December 31, 2008 to 34% at December 31, 2009. The average credit quality of the Company s fixed maturity investment portfolio at December 31, 2009 and 2008 was AA.

Other Invested Assets

At December 31, 2009 and 2008, the Company had other invested assets of $226 million and $74 million, respectively. The Company s other invested assets consist primarily of investments in non-publicly traded companies, private placement equity investments, and other specialty asset classes. These assets, together with the Company s derivative financial instruments that were in an unrealized gain position at December 31, 2009, are reported within other invested assets in the Company s Consolidated Balance Sheets.

As part of its principal finance transactions, the Company has entered into total return, interest rate, and credit default swaps, which are accounted for as derivative financial instruments.

For total return and interest rate swaps within principal finance, the Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, such as the timing of future cash flows, credit spreads and general level of interest rates. At December 31, 2009, the fair value of the Company s assumed exposure in the form of total return and interest rate swaps was an unrealized loss of $1 million and $8 million, respectively. At December 31 2009, the notional value of the Company s assumed exposure in the form of total return swaps was $229 million.

The principal finance total return and interest rate swap portfolio mix that relates to apparel and retail future flow or intellectual property backed transactions was 43% and 50% as of December 31, 2009 and 2008, respectively, with the remainder distributed over a number of generally unrelated risks. At December 31, 2009 and 2008, approximately 49% and 50%, respectively, of the underlying investments were rated investment grade.

For credit default swaps within principal finance, the Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value. At December 31, 2009, the fair value of the Company s assumed exposure in the form of credit default swaps was $nil. At December 31, 2009, the notional value of the Company s assumed exposure in the form of credit default swaps was $18 million. At December 31, 2008, the fair value of the Company s assumed exposure in the form of credit default swaps was an unrealized loss of $5 million, which was offset by purchased protection in the form of credit default swaps with an unrealized gain of $7 million.

The Company continues to utilize credit default swaps to mitigate the risk associated with its underwriting obligations, most notably in the credit/surety line, to replicate investment positions or to manage market exposures and to reduce the credit risk for specific fixed maturities in its investment portfolio. The counterparties to the Company s credit default swaps are all highly rated financial institutions, rated A- or better by Standard & Poor s at December 31, 2009. Excluding the credit default swaps within the principal finance portfolio described above, the fair value of these credit default swaps was a net unrealized loss of $1 million and a net unrealized gain of $2 million at December 31, 2009 and 2008, respectively. At December 31, 2009, the notional value was $188 million, comprised of $193 million of credit protection purchased and $5 million of credit exposure assumed. As discussed above, the Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value of these swaps.

The Company has entered into various weather derivatives and a longevity total return swap for which the underlying risks include parametric weather risks and longevity risk, respectively. The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment. The fair value and notional value of both the weather derivatives and the longevity total return swap was $nil and $49 million, respectively, at December 31, 2009.

The Company uses exchange traded treasury note futures for the purposes of managing portfolio duration. The notional value of the treasury note futures was a net short position of $1,820 million and $1,112 million at December 31, 2009 and 2008, respectively. The fair value of the futures contracts was a net unrealized gain of $30 million and $9 million at December 31, 2009 and 2008, respectively. The Company also uses equity futures to replicate equity investment positions. While no equity futures were outstanding at December 31, 2009, the notional value and fair value of the equity futures was a short position of $10 million and a net unrealized loss of $1 million respectively, at December 31, 2008.

The Company utilizes foreign exchange forward contracts and foreign currency option contracts as part of its overall currency risk management and investment strategies. Foreign exchange forward contracts outstanding as of December 31, 2009 and 2008 resulted in a net unrealized gain of $6 million and an unrealized loss of $5 million, respectively. Foreign currency option contracts outstanding as of December 31, 2009 and 2008 resulted in an unrealized gain of $2 million and an unrealized loss of $8 million, respectively.

The Company has entered into an interest rate derivative to mitigate exposure to interest rates. The Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value. At December 31, 2009, the notional value of this derivative was $400 million with an unrealized gain of $6 million.

At December 31, 2009 and 2008, the Company had $160 million and $83 million, respectively, in strategic investments. These strategic investments included investments in non-publicly traded companies, private placement equity investments and other specialty asset classes. As part of its strategic investment activities, the

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Company entered into commodity futures contracts which are accounted for as derivative financial instruments. The notional value of the commodity futures contract was a net short position of $6 million at December 31, 2009 and the fair value of the futures contracts was a net unrealized loss of $2 million at December 31, 2009. The Company also had $25 million in notes receivable and $9 million of other invested assets at December 31, 2009.

Funds Held Directly Managed

For a discussion of the funds held directly managed account and the related Quota Share Retrocession Agreement, see Summary of certain agreements between AXA SA, Colisée Re and Paris Re in Item 1 of Part I of this report. The composition of the investments underlying the funds held directly managed account at December 31, 2009 is discussed below.

Substantially all of the investments in the segregated investment portfolio underlying the funds held directly managed account are carried at fair value. Realized and unrealized investment gains and losses and net investment income related to this account inure to the benefit of Paris Re. The Company elected the fair value option as of the Acquisition Date of Paris Re for all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying this account, and accordingly, all changes in its fair value subsequent to the Acquisition Date are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

At December 31, 2009, approximately 98% of fixed income securities underlying the funds held directly managed account were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent) and 99% of these securities were publicly traded. The average credit quality of fixed income securities underlying the funds held directly managed account at December 31, 2009 was AA.

The average duration of investments underlying the funds held directly managed account was 3.0 years at December 31, 2009. The average yield to maturity on fixed maturities and short-term investments and cash and cash equivalents underlying the funds held directly managed account was 2.6% at December 31, 2009. The average yield to maturity was lower than the book yield of 3.5% reported prior to the acquisition due to an increase in the cost basis of the portfolio under U.S. GAAP, which is based on the fair value of the investments at the Acquisition Date. The increased cost basis of the fixed maturity investments underlying the funds held directly managed account is the result of the securities trading at a premium to their par value at maturity. The premium will be amortized over the remaining period to maturity.

The cost, gross unrealized gains, gross unrealized losses and fair value of investments underlying the funds held directly managed account at December 31, 2009 were as follows (in thousands of U.S. dollars):

	Cost (1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and agencies	$ 302	$	$ (2)	$ 300
Other foreign governments	549	3	(4)	548
Corporate	900	3	(3)	900
Mortgage/asset-backed securities	14	5	(1)	18
Total fixed maturities	1,765	11	(10)	1,766
Short-term investments	28			28
Other invested assets	41	1	(3)	39
Total	$ 1,834	$ 12	$ (13)	$ 1,833

(1) Cost is based on the fair value at the date of acquisition and subsequently adjusted for amortization of fixed maturities and short-term investments.

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In addition to the investments underlying the funds held directly managed account in the above table at December 31, 2009, were cash and cash equivalents of $145.4 million, other assets and liabilities of $120.9 million and accrued investment income of $25.2 million. The other assets and liabilities represent working capital assets held by Colisée Re related to the underlying business. The discussion below focuses on the investments underlying the funds held directly managed account.

U.S. government and agencies underlying the funds held directly managed account included U.S. treasuries, agencies of the U.S. government and U.S. municipalities. At December 31, 2009, U.S. treasuries and agencies of the U.S. government accounted for 40% and 60% of this category, respectively. Although U.S. treasuries and agencies are not rated, they are generally considered to have a credit quality equivalent to or greater than AAA corporate issues.

Included in other foreign government underlying the funds held directly managed account are obligations of non-U.S. governments and their agencies. At December 31, 2009, 35% of this category was rated AAA, while investment grade foreign government and agency obligations accounted for the remaining 65%. The largest four foreign government issuers (Canada, France, Italy and Austria) accounted for 82% of this category at December 31, 2009. During January 2010, a significant portion of the non-U.S. governments and their agencies was sold.

Corporate bonds underlying the funds held directly managed account are comprised of obligations of U.S. and foreign corporations. At December 31, 2009, 97% of these investments were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent), while 88% were rated A- or better. In addition, government guaranteed corporate debt represented 10% of the corporate bond investments underlying the funds held directly managed account at December 31, 2009. While the ten largest issuers accounted for 22% of the corporate bonds underlying the funds held directly managed account at December 31, 2009, no single issuer accounted for more than 6% of total corporate bonds or 3% of the investments underlying the funds held directly managed account. At December 31, 2009, U.S. bonds comprised 44% of this category, while French and Dutch bonds comprised 14% and 10%, respectively. The main exposures of this category by economic sector were 45% in finance (26% were banks), 14% in consumer noncyclicals and 11% in government guaranteed corporate debt. Within the finance sector, 99% of corporate bonds were rated investment grade and 96% were rated A- or better at December 31, 2009.

Other invested assets underlying the funds held directly managed account consist primarily of real estate fund investments.

Maturity Distribution

The distribution of fixed maturities and short-term investments underlying the funds held directly managed account at December 31, 2009, by contractual maturity date, is shown below (in millions of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Cost	Fair Value
One year or less	$ 360	$ 361
More than one year through five years	901	903
More than five years through ten years	426	422
More than ten years	92	90
Subtotal	1,779	1,776
Mortgage/asset-backed securities	14	18
Total	$ 1,793	$ 1,794

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Rating Distribution

The following table provides a breakdown of the credit quality of fixed income securities underlying the Company s funds held directly managed account at December 31, 2009:

Rating Category	% of total fixed income securities
AAA	38%
AA	26
A	29
BBB	5
Below investment-grade/unrated	2
	100%

Funds Held by Reinsured Companies (Cedants)

In addition to the funds held directly managed account described above, the Company writes certain business on a funds held basis. The following discussion excludes the funds held directly managed account. Under such contractual arrangements, the cedant retains the net funds that would have otherwise been remitted to the Company and credits the net fund balance with investment income.

As of December 31, 2009 and 2008, the Company recorded $938 million and $786 million, respectively, of funds held assets in its Consolidated Balance Sheets. The increase in funds held assets at December 31, 2009 compared to December 31, 2008 is primarily due to the acquisition of Paris Re and the impact of the weaker U.S. dollar conversion of funds held assets on contracts that are denominated in currencies that have appreciated against the U.S. dollar.

At December 31, 2009, the five largest cedants represented 62% of the funds held balance, with overall net offsetting liabilities owed by the Company to those cedants. Approximately 76% of the funds held at December 31, 2009 earned investment income based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized market index (e.g., LIBOR). Interest rates at December 31, 2009 ranged from 1.0% to 6.0%. Under these contractual arrangements, there are no specific assets linked to the funds held assets, and the Company is only exposed to the credit risk of the cedant. These arrangements include three of the five cedants with the largest funds held assets, which represented 41% of the Company s funds held balance.

With respect to the remaining 24% of funds held at December 31, 2009, the Company receives an investment return based upon either the results of a pool of assets held by the cedant, or the investment return earned by the cedant on its entire investment portfolio. This portion of the Company s funds held assets at December 31, 2009 included two of the five cedants with the largest funds held assets, representing 21% of the Company s total funds held assets. The Company does not legally own or directly control the investments underlying its funds held assets and only has recourse to the cedant for the receivable balances and no claim to the underlying securities that support the balances. Decisions as to purchases and sales of assets underlying the funds held balances are made by the cedant; in some circumstances, investment guidelines regarding the minimum credit quality of the underlying assets may be agreed upon between the cedant and the Company as part of the reinsurance agreement, or the Company may participate in an investment oversight committee regarding the investment of the net funds, but investment decisions are not otherwise influenced by the Company.

Within this portion of the funds held assets, the Company has several annuity treaties which are structured so that the return on the funds held balances is tied to the performance of an underlying group of assets held by the cedant, including fluctuations in the market value of the underlying assets. One such treaty is a retrocessional

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agreement under which the Company receives more limited data than what is generally received under a direct reinsurance agreement. In these arrangements, the objective of the reinsurance agreement is to provide for the covered longevity risk and to earn a net investment return on an underlying pool of assets greater than is contractually due to the annuity holders. While the Company is also exposed to the creditworthiness of the cedant, the risk of loss to the Company is somewhat mitigated, as the Company generally has the contractual ability to offset a shortfall in the funds held asset with amounts owed to the cedant. The Company also has non-life treaties in which the investment performance of the net funds held asset corresponds to the interest income on the assets held by the cedant; however, the Company is not directly exposed to the underlying credit risk of these investments, as they serve only as collateral for the Company s receivables. That is, the amount owed to the Company is unaffected by changes in the market value of the investments underlying the funds held.

In those cases where the Company is exposed to the credit or interest rate risk of an underlying pool of assets, the Company recognizes as a realized gain or loss the value of the credit and/or interest rate derivative embedded within the funds held asset balance. In the case of the Company s annuity contracts, there is also generally a resulting offsetting adjustment to deferred acquisition costs related to this business. At December 31, 2009, the cumulative value of such embedded derivatives was determined to be a loss of approximately $5 million, which is substantially offset by a comparable but opposite adjustment to deferred acquisition costs.

Unpaid Losses and Loss Expenses

The Company establishes loss reserves to cover the estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that the Company writes. Loss reserves do not represent an exact calculation of the liability. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. The Company believes that the recorded unpaid losses and loss expenses represent Management s best estimate of the cost to settle the ultimate liabilities based on information available at December 31, 2009.

At December 31, 2009 and 2008, the Company recorded gross Non-life reserves for unpaid losses and loss expenses of $10,811 million and $7,511 million, respectively, and net Non-life reserves for unpaid losses and loss expenses of $10,475 million and $7,385 million, respectively. The increase of $3,090 million in net Non-life reserves for unpaid losses and loss expenses from December 31, 2008 to December 31, 2009 was primarily due to the acquisition of Paris Re s net Non-life reserves for unpaid losses and loss expenses. The following table provides a reconciliation of the net Non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars):

	2009	**2008**	**2007**
Net liability at beginning of year	**$ 7,385**	$ 7,099	$ 6,732
Net liability acquired related to Paris Re	**3,176**		
Net incurred losses related to:			
Current year	**2,341**	2,564	2,042
Prior years	**(486)**	(418)	(414)
	1,855	2,146	1,628
Change in Paris Re Reserve Agreement	**(32)**		
Net paid losses	**(2,044)**	(1,581)	(1,620)
Effects of foreign exchange rate changes	**135**	(279)	359
Net liability at end of year	**$ 10,475**	$ 7,385	$ 7,099

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits and Review of Net Income Results by Segment above for a discussion of losses and loss expenses and prior years reserve developments. See also Business Reserves in Item 1 of Part I of this report for a discussion of the impact of foreign exchange on the net reserves.

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The net Non-life reserves for unpaid losses and loss expenses at December 31, 2009 include $1,500 million of reserves guaranteed by Colisée Re under the Reserve Agreement (see Summary of certain agreements between AXA SA, Colisée Re and Paris Re in Item 1 of Part I of this report and Note 8 to Consolida