Annual Report 2009

securing the future

PartnerRe

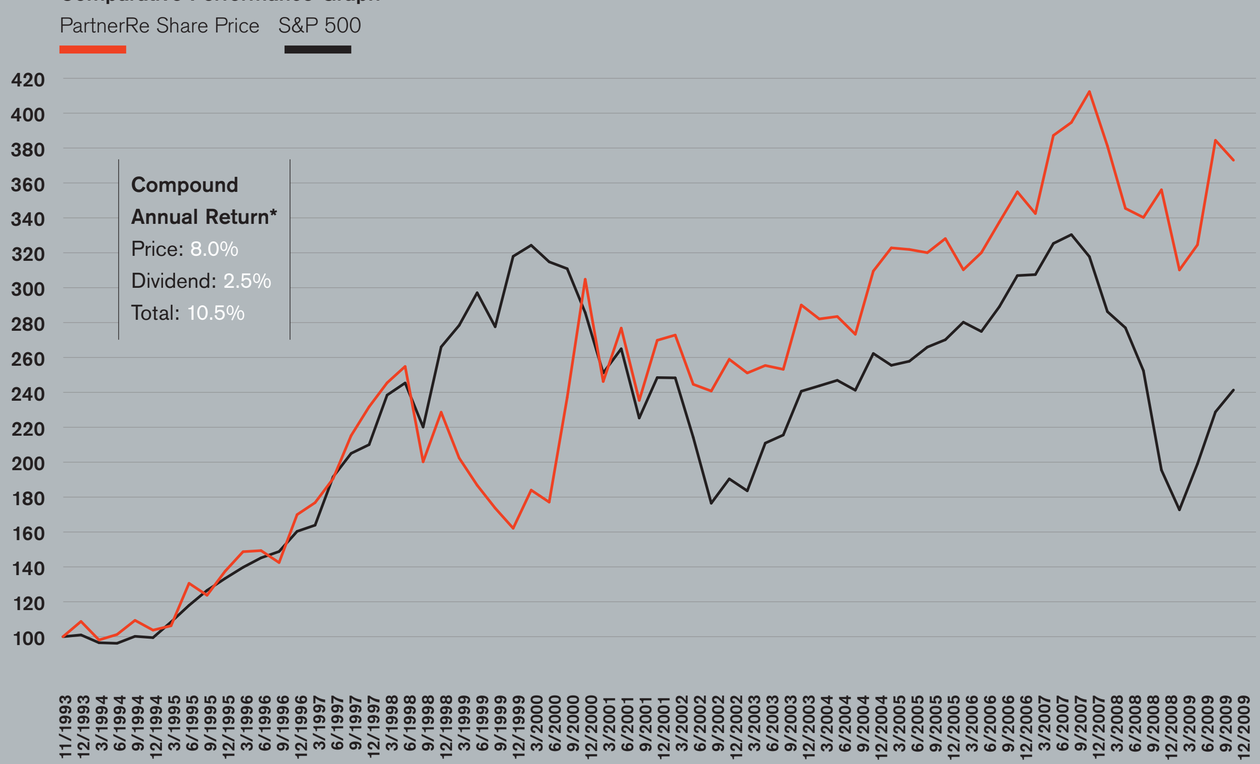
Financial Highlights

(expressed in millions of U.S. dollars, except per share data)

For the years ended December 31,	2005	2006	2007	2008	2009	
	$ 3,616	$ 3,689	$ 3,757	$ 3,989	$ 3,949	Net premiums written
	4,206	4,187	4,211	3,980	5,418	Total revenues
	(51)	749	718	47	1,537	Net (loss) income
	(252)	656	822	469	932	Operating (loss) earnings available to common shareholders
						(Loss) earnings per common share:
	$ (4.59)	$ 11.36	$ 14.29	$ 8.43	$ 14.59	Diluted operating (loss) earnings per share
	(1.56)	12.37	11.87	0.22	23.51	Diluted net (loss) income per share
	(8.9)%	25.5%	25.2%	12.3%	22.3%	Operating return on beginning common shareholders' equity
	(3.0)%	27.8%	20.9%	0.3%	37.5%	Return on beginning common shareholders' equity calculated with net (loss) income available to common shareholders
						Non-life ratios:
	87.3%	54.8%	50.8%	63.9%	52.7%	Loss ratio
	23.0	23.1	22.9	23.3	21.9	Acquisition ratio
	6.0	6.5	6.7	6.9	7.2	Other operating expense ratio
	116.3%	84.4%	80.4%	94.1%	81.8%	Combined ratio

At December 31,	2005	2006	2007	2008	2009	
	$ 13,783	$ 15,034	$ 16,149	$ 16,279	$ 23,733	Total assets
	3,093	3,786	4,322	4,199	7,646	Total shareholders' equity
	44.57	56.07	67.96	63.95	84.51	Diluted book value per common share and common share equivalents
	3,725	4,054	4,477	4,023	6,165	Market capitalization

Comparative Performance Graph



** Source: Bloomberg*

The Company's Annual Report contains measures such as operating earnings, operating earnings per share and operating return on equity that are considered non-GAAP measures. See page 24 for a reconciliation of those non-GAAP measures to the most comparable GAAP measures.

annual report 2009

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Letter from the Chairman

To Our Shareholders:

2009 began with the challenges of the financial crisis and subsequent economic fallout. It is against this backdrop that PartnerRe's results are particularly gratifying. As a testament to the Company's intelligent risk-taking and risk management skills, we achieved record operating earnings and total net income, and excellent growth in book value per share – surpassing our 10%+ goal.

The end of 2009 also marked the successful completion of the Company's acquisition of PARIS RE – solidifying our presence in the reinsurance marketplace. I would like to offer special thanks and congratulations to our CEO, Patrick Thiele, his executive staff and to all PartnerRe and PARIS RE employees for their part in that success. On behalf of the Board, I would like to express particular gratitude to Bruno Meyenhofer, who was instrumental in the successful execution of the transaction and who has adeptly guided the integration process in the early part of 2010.

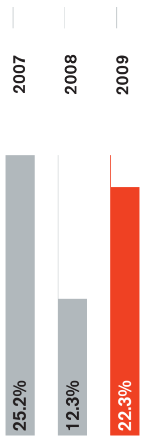
Beyond the PARIS RE transaction, Bruno's dedication and contribution as CEO of PartnerRe Global, and member of the Executive Management team, has been a considerable influence in the growth and success of the PartnerRe franchise. Having retired in March of 2010, Bruno leaves behind a management team that can move the Global organization forward with strength and confidence. We wish him much happiness in his retirement.

2010 brings with it the challenge of smoothly integrating PARIS RE into PartnerRe. While the Board and I will continue to monitor the progress, we have confidence that PartnerRe's strong management team will ensure a successful transition. Against the backdrop of anticipated regulatory changes, we will also conduct a full governance review of the Board to ensure ongoing best practices are in place as PartnerRe continues to respond to the needs of its shareholders.

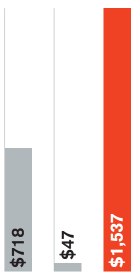
Looking ahead, I am confident that with the benefits that the acquisition of PARIS RE brings – additional capital, talent and improved diversification – the larger and stronger PartnerRe has the foundation to capitalize on opportunities, and successfully withstand whatever the future brings.

John A. Rollwagen
Chairman of the Board

Patrick Thiele
President and Chief Executive Officer



Operating Return on Beginning Common Shareholders' Equity



Net Income
($ millions)

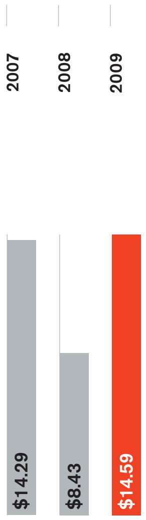
To Our Shareholders:

2009 was an interesting and important year in the history of PartnerRe. First, because it began in the worst economic and financial environment we had ever faced, followed by one of the strongest ever recoveries in the capital markets. Secondly, we made our first major acquisition since 1998; an acquisition that will have a significant impact on your Company going forward. Despite these challenges, we had an excellent year for operating profitability and created more economic value than any year in our history. I believe that this performance is a testament to the values and skills of the employees of PartnerRe.

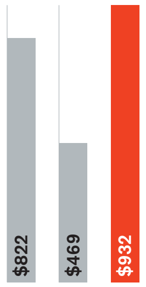
2009 in Review

It's hard now to remember just how frightening and difficult the environment was in January of 2009. Financial markets were collapsing and many banks were being kept alive only through considerable support from their national governments. Jobs were being lost by the millions in Europe and the U.S., while economic activity was plunging. And in our industry, there was speculation that some insurers and reinsurers were facing significant problems in their asset portfolios and financial guarantee businesses.

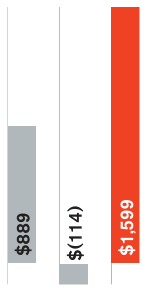
I am very proud of the way our organization responded. Having reduced our investment risk in 2007 and 2008, we began increasing our investment risk in the second quarter of 2009 as the financial markets stabilized. We continued to provide large risk capacities to our clients, some of whom needed the support urgently because of the financial turmoil. And we took the time to think about our future – how we could further reduce the operating risk in the Company, and create new opportunities. This thinking led to our purchase of PARIS RE.



Diluted Operating Earnings per Common Share



Operating Earnings Available to Common Shareholders
($ millions)



Comprehensive Income (Loss)
($ millions)

The end result of these actions was an extraordinary year in financial terms. Our total shareholders' equity increased by $3.4 billion to $7.6 billion. A significant portion of that was due to net income of $1.5 billion, with most of the remainder coming from the issuance of shares to acquire PARIS RE.

On a per share basis, including PARIS RE in the fourth quarter, we achieved excellent results. Operating income was a record $14.59 per share and operating ROE was a very healthy 22%. Book value per share (BVPS) was up 32% to a record $84.51.

Most importantly, our BVPS from the end of 2007 to the end of 2009, a period that includes the financial crisis and the rebound, was up almost 25%, demonstrating both our tenacity and our responsiveness. And we achieved all of this without deviating from our risk management principles and framework.

Regrettably, the stock market neglected to recognize these achievements and our stock price rose only modestly with a total return to shareholders in 2009 of 7.6%. We remain hopeful that we will see a revaluation of our shares that appropriately reflects our risk-adjusted returns. In the meantime, we intend to continue to build the shareholder wealth of this Company at our target annual rate of 13%, including dividends.

PARIS RE Acquisition

On July 5, 2009 we announced our intent to acquire all the shares of PARIS RE, a well-established, successful reinsurer headquartered in Switzerland and listed on the Paris Exchange. The terms were an exchange of 0.3 PartnerRe shares for each PARIS RE share. We completed the acquisition in December and are now integrating the two organizations.

When we began the acquisition process late in 2008 in the midst of the crisis we saw an opportunity to do two things – further strengthen our balance sheet and reduce our operating risk through the additional people, capital, and premiums that PARIS RE would bring. Both at a price that was consistent with our view of value.

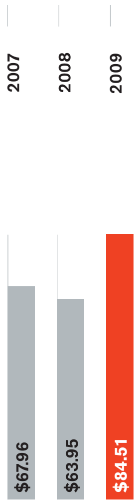
The outcome is a larger, stronger PartnerRe; large enough to compete with the bigger market players, but small enough to maintain our flexibility and responsiveness to clients. We've increased our financial strength and reduced the risk within the Company through additional diversification – enhancing the stability of the Company, without sacrificing the consistency and continuity that our clients prize. All of which will continue to differentiate us from the mass of mid-sized reinsurers in the eyes of our clients, giving us a long-term competitive advantage.

2010 and Beyond

And so we move forward into the future a stronger, better balanced company. What are our tasks in 2010 and what can we expect to achieve?

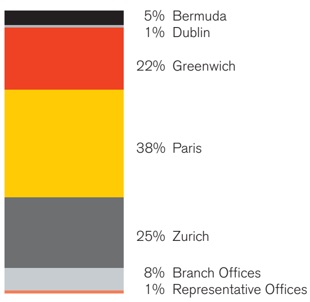
In our view, the reinsurance markets are likely to be quite stable in 2010, with continued muted loss trends offsetting historically low interest rates. This will keep priced risk-adjusted profitability at "acceptable" levels for the average reinsurer and at "attractive" levels for the better ones. Yet, without a catalytic event, there is likely to be a gradual decrease in pricing, flat to declining return on premium and flat exposure growth as a result of the economic recession. This no-growth environment will undoubtedly be the biggest challenge facing reinsurers until the next phase of the cycle emerges.

Our purchase of PARIS RE will help us respond to that challenge, with our increased financial strength, additional capacity and broader underwriting capabilities.



Diluted Book Value per Common and Common Share Equivalents

Dividends Declared and Paid per Common Share



Distribution of Employees
Total 1,406

While we do not have a strongly held view on the direction of capital markets, we will respond to the opportunities that their volatility may present us. We have the people and tools to evaluate and value capital markets risks and are confident we can add value here for the benefit of our shareholders.

At PartnerRe, one of the fundamental principles in how we approach risk is that the responsibility for managing risk rests with every single employee. But we also recognize that with our increased size and complexity as well as the increased regulatory scrutiny, we need to deepen our focus and continue to develop our risk management practices. As part of this process of constant improvement, we have established the new position of Group Risk Management Officer to help build on our solid risk management and return management skills.

The financial crisis has also brought about an increasing regulatory focus on the financial services sector – including reinsurance. As an active member of the newly formed Global Reinsurance Forum (GRF), we will continue to address the impact this brings to the global reinsurance landscape. By doing so, we aim to promote a stable, innovative and competitive reinsurance environment on a worldwide basis.

PartnerRe remains committed to creating long-term shareholder value. Despite our increased size and our reduced operating risk, we maintain our goals of 13% operating ROE and 10% growth in BVPS over a cycle.

Thank You

PartnerRe's success comes through the actions of its employees. We have a depth of skills and experience that has contributed to the successful execution of our strategy and the consistent achievement of our long-term return goals. But even with this depth, we should acknowledge certain individuals' achievements when they decide to leave us through retirement. In March 2010, Bruno Meyenhofer retired after a 12-year career at PartnerRe. I can honestly say that PartnerRe would not be as successful as it is today without his significant contribution. Bruno has helped shape this Company through his commitment to the business and his people. The consummate professional, his intelligence, judgment and loyalty have been an inspiration for us all. We wish him and his wife Jacqueline much happiness in their retirement.

Finally, I'd like to acknowledge the exceptional performance of all our employees. The last 12 months have been particularly challenging, not only because of the financial chaos and market disruption, but also because of the upheaval and additional work that an acquisition brings. They have remained focused and committed to the task at hand, and as a result, PartnerRe is now even more prepared for whatever the future throws at us.

Patrick Thiele
President and Chief Executive Officer

Executive Management

Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.
CEO, Capital Markets

Costas Miranthis
CEO,
PartnerRe Global

Bruno Meyenhofer
Chairman,
PartnerRe Global

Tad Walker
President and CEO,
PartnerRe North America

	Group Functions		Business Units			
	Finance and Actuarial	**Support**	**North America** **Standard Lines**	**Specialty Lines**	**Managed Programs**	**Canada**
Organization	Aligned with Group organizational structure, along Group and business unit lines, to ensure appropriate financial controls and maximize shareholder returns, while minimizing financial risk.	Aligned with Group organizational structure, along Group and business unit lines: ▪ Group roles include strategic planning, policy and control. ▪ Business unit roles focus on execution and operational support.	Organized into four departments by market segment or line of business: ▪ Property ▪ Casualty ▪ Regional Multiline ▪ Structured Risk	Organized by line of business and serving U.S. clients: ▪ Specialty Casualty ▪ Surety and Fidelity ▪ Space	Organized by line of business serving U.S. and Canadian clients.	Organized around clients in the Canadian market.
Clients/ Objectives	▪ Ensure appropriate control environment. ▪ Asset/liability management across the Group. ▪ Groupwide capital allocation. ▪ Financial performance measurement. ▪ Financial reporting. ▪ Actuarial reserving. ▪ Tax analysis and planning.	Human Resources: Attract, develop and retain talent in the organization. Information Technology: Provide effective information technology tools worldwide. Legal and Compliance: Provide legal advice to all business units and Group functions and ensure compliance with all legal and regulatory requirements. Corporate Communications: Ensure consistent understanding of messages and information internally and externally. Internal Audit: Provide internal control and risk assurance services, as well as Sarbanes-Oxley compliance testing.	National and regional insurance companies, as well as E&S property divisions. Traditional and structured reinsurance solutions and services are provided to clients through reinsurance intermediaries.	Leading property and casualty insurance companies within the U.S. market, specifically: ▪ Specialty Casualty: Specialty U.S. carriers or dedicated departments within large U.S. companies underwriting in their areas of expertise. ▪ Surety and Fidelity: Regional and national companies. ▪ Space: Satellite manufacturing, satellite launch and satellite operations companies. Products and services are provided through reinsurance intermediaries, and through retail brokers for space business only.	Leading property and casualty companies/groups and associations within the U.S. and Canadian markets. Products and services are provided through reinsurance intermediaries.	National and regional insurance companies in Canada. Traditional reinsurance solutions and services are provided to clients directly and through reinsurance intermediaries.
Lines of Business/ Scope of Work	Responsible for the Group's fiduciary and control functions; transactional accounting and processing; external reporting; decision support; actuarial analysis and reserving; planning; risk management and treasury; rating agencies and investor relations.	Responsible for ensuring that all support requirements – Human Resources, Information Technology, Legal and Compliance, Corporate Communications, Internal Audit – are met on a Group and local basis.	▪ Property: E&S, specialty property, standard property, builders risk, pro-rata and excess of loss. ▪ Casualty: Supported umbrella, workers compensation, auto liability, general liability, clash, personal liability. ▪ Regional Multiline: All standard property and casualty lines of business for companies with surplus less than $300 million. ▪ Structured Risk: Prospective aggregate stop loss, LPT/adverse development covers, and single or multi-year structured programs.	▪ Specialty Casualty: Directors and officers liability, professional liability, umbrella, E&S, excess casualty, medical malpractice, hospital professional liability, environmental, miscellaneous E&O, workers compensation, fiduciary, governmental entity, clash, EPLI. ▪ Surety and Fidelity: Pro-rata and excess of loss. ▪ Space: Launch and initial operations as well as in-orbit coverage.	▪ Agriculture ▪ Programs Business ▪ Risk Retention Groups ▪ Terrorism	▪ Automobile ▪ Casualty ▪ Multiline (All Classes) ▪ Property ▪ Specialty Casualty: Products Liability, Professional Liability, Medical Malpractice, D&O.

New organizational structure effective July 1, 2010

Global					Capital Markets
Property & Casualty	**Specialty**	**Catastrophe**	**Life**	**Facultative**	
Organized into four departments along geographic lines: ▪ Latin America, Turkey, Greece, Cyprus, Israel, Middle East, Africa ▪ Asia–Pacific, India ▪ U.K., Ireland, France, Benelux, Southern Europe ▪ Northern, Central and Eastern Europe, and Russia, including CIS countries.	Organized into eight departments by client or line of business: ▪ Agriculture ▪ Aviation/Space ▪ Credit/Surety ▪ Energy Onshore ▪ Engineering ▪ Marine/Energy Offshore ▪ Specialty Casualty ▪ Special Risks	One worldwide business unit managing underwriting and research operations, and organized in three locations: ▪ Bermuda ▪ Paris ▪ Zurich	One business unit organized into five departments by line of business and geography: ▪ U.K. and Ireland ▪ France, Canada, Northern and Southern Europe ▪ Central and Eastern Europe ▪ Asia, Spain, Portugal and Latin America ▪ Longevity	Organized into five departments by client or line of business: ▪ Energy ▪ Engineering ▪ Property Americas ▪ Property Europe and Asia ▪ Global Property Accounts	Organized into two business units and backed by a common risk management and operations support function: Fixed Income ▪ U.S. Treasury ▪ European Governments ▪ U.S. Credit ▪ European Credit ▪ U.S. Mortgage-backed Securities ▪ Asset-backed Securities Capital Assets ▪ Public Equity ▪ Principal Finance ▪ Insurance-linked Securities
Regional, national and international insurance companies and pools in all geographic markets, excluding U.S. and Canada. Traditional and structured reinsurance solutions and services are provided to clients directly and through reinsurance intermediaries.	Regional, national, international and monoline insurance companies, pools and captives worldwide for Aviation/Space, Credit, Energy Onshore, Engineering, Marine/Energy Offshore. All other lines exclude business from U.S. and Canadian clients. Traditional and structured reinsurance solutions and services are provided to clients directly and through reinsurance intermediaries.	Regional, national and international insurance companies, pools and captives in all geographic markets. Non-traditional business clients include individual corporations. Traditional reinsurance and insurance-linked securities solutions and services are provided to clients directly and through reinsurance intermediaries. Services include proprietary modeling of natural hazards such as windstorm and earthquake.	Life insurance companies in Europe, Canada, Asia and Latin America. Traditional reinsurance and insurance-linked securities solutions and services are provided to clients directly and through reinsurance intermediaries. Services include support on existing products and assistance in the development of new products such as impaired life annuities, long-term care products or mortality.	Regional, national, international and monoline insurance companies worldwide. Reinsurance solutions and services are provided to clients directly and through reinsurance intermediaries.	▪ Strategic investments. ▪ Identify, analyze and assume capital markets risks. ▪ Preserve liquidity and protection of capital. ▪ Generate investment income and capital gains. ▪ Diversify across asset risk classes and geographies. ▪ Leverage investment skills to capitalize on convergence of reinsurance and capital markets.
▪ Property ▪ General Liability ▪ Employers Liability ▪ Workers Compensation ▪ Personal Accident ▪ Motor	▪ Agriculture: Crop hail, MPCI, aquaculture, forestry, bloodstock, livestock, index covers. ▪ Aviation/Space: Airlines, manufacturers, airport operators, general aviation, space. ▪ Credit/Surety: Domestic and export credit, surety bonds, political risk. ▪ Energy Onshore: Onshore oil and gas operations, mining, power generation. ▪ Engineering: Construction/erection, delay in start-up, boiler/machinery, business interruption. ▪ Marine/Energy Offshore: Hull, cargo, specie, marine liabilities, loss of hire, P&I, energy offshore. ▪ Specialty Casualty: Products liability, professional liability, medical malpractice, D&O. ▪ Special Risks: Global property accounts, direct and facultative reinsurance, nuclear pools, terrorism covers.	▪ Natural perils ▪ Catastrophe bonds ▪ Industry loss warranties ▪ Advanced research and event modeling using our own CatFocus® proprietary and vendor models for tropical storms, earthquakes and European windstorm.	▪ Mortality and morbidity risks ▪ Longevity risks	▪ Energy: Onshore and offshore oil and gas operations. ▪ Engineering: Construction/erection, delay in start-up, boiler/machinery, business interruption, civil engineering completed risks and electronic equipment. ▪ Property: Property damage, business interruption, power generation, mining. ▪ Sports, Leisure and Entertainment: Contingency, cancellation of event, prize indemnity and personal accident for athletes.	Responsible for the assumption and management of PartnerRe's capital markets risks, including our investment portfolio and alternative risk products worldwide, with an approach that distinguishes between funds that support our reinsurance operations and those that represent the investment of our shareholders' capital.

securing the future

PartnerRe has evolved continuously since it was formed in 1993. Originally a catastrophe-only reinsurer, we took the decision to broaden our strategy to become a global, multiline reinsurer through the purchase of SAFR in 1997 and Winterthur Re in 1998. We spent the next three years integrating the three operations into one, refining the new elements of the strategy, designing a new organizational structure and coping with a difficult market. By the end of 2001 – and after the tragedy of September 11 – we were ready to execute our long-term strategy as one company in an improved market.

Over the last eight years, PartnerRe has increased its size, diversification and risk management capabilities, reducing our vulnerability to external events and increasing our stability. The acquisition of PARIS RE is the latest step in our evolution, taking us from mid-sized specialist to "light heavyweight" specialist reinsurer. Our enhanced market presence, risk diversification, capital strength and scale bring significant benefits.

At the same time, PartnerRe's strategy, financial goals, values and the way we think about, evaluate and manage risk – all of which have made the Company successful – will not change. We will simply be a more stable, better balanced, larger and stronger version of the Company you know today.

In the following pages we give an overview of how the steps taken over the last eight years have made us a stable, secure company and how the acquisition of PARIS RE puts us in an even stronger position for the future.

The Fundamentals of Our Success

The period from 2002-2009 included the worst natural catastrophe event in history and the worst financial crisis in the last 75 years. Despite these challenges, PartnerRe achieved all the financial goals that we had set for ourselves in 2001. The components of that financial performance are shown in the following graphs – included are our risk/volatility metrics as well as return measures.

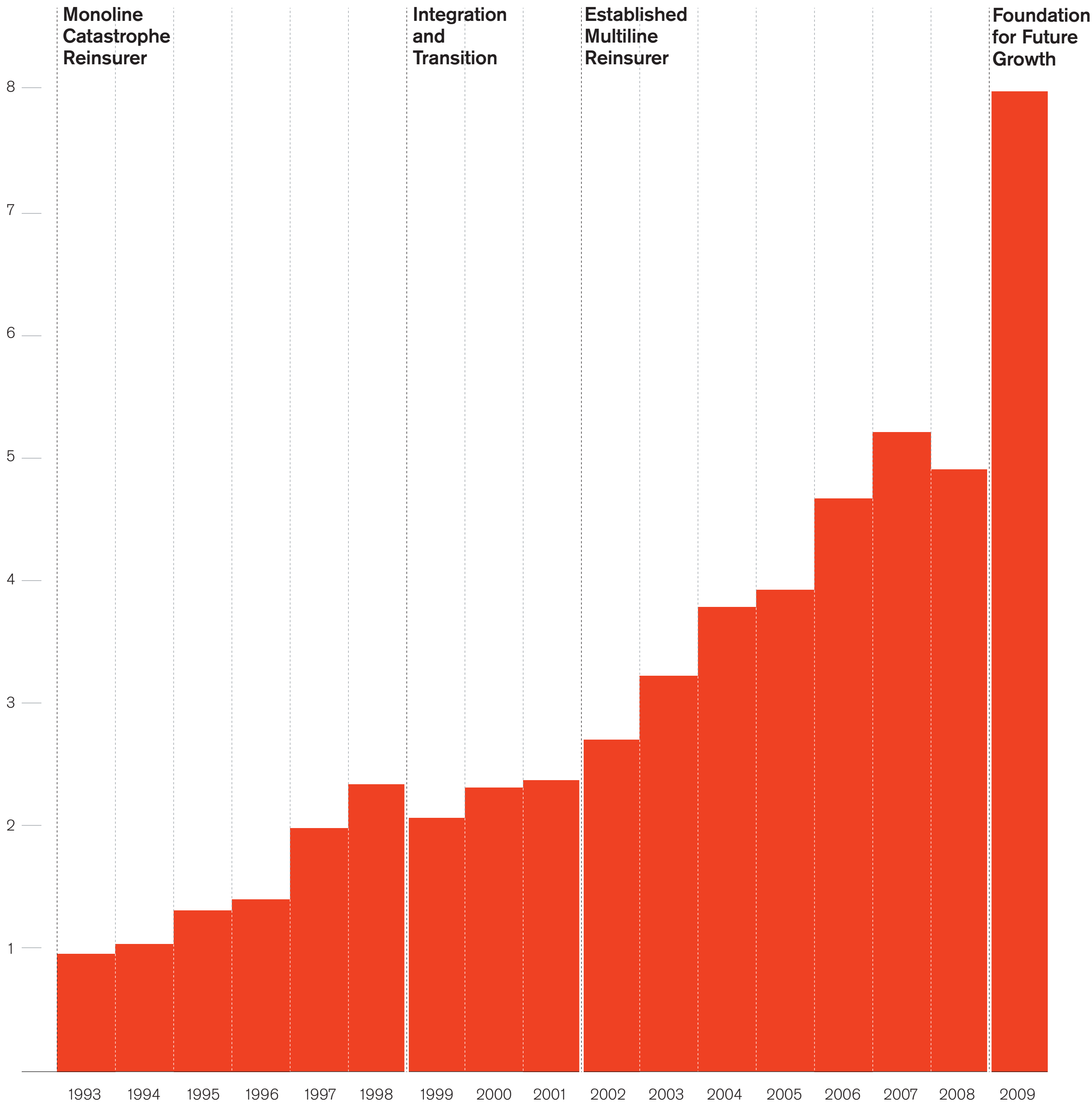
But historical financial performance and financial strength – while important – are not the whole story. To truly secure the future and drive performance going forward, one has to be able to describe those components of strategy and culture that led to the numbers. Why did we perform as well as we did over the last eight years?

First and foremost, we have a **decentralized decision-making structure**. This business unit structure is the foundation of our success, with most risk decisions being made in the business units, not at the Group level. This approach ensures a clear focus on each specialized market, and decentralized decision-making allows for quicker, more informed actions as well as flexibility. If there is an issue in a particular geography or product line, it can be dealt with in the relevant unit without having to affect the whole organization. As an added benefit, this culture helps build a highly motivated and capable cadre of operating executives.

Evolution of PartnerRe

Total Capital
in billions of U.S. dollars

Our steadily increasing capital has enhanced our stability and financial security. Since 2002, we have withstood some of the worst natural and man-made crises in history. With the additional capital from PARIS RE and our 2009 results, we have further strengthened our stable platform and positioned the Company for financial flexibility and growth.



We focus on **risk *and* return**, not just return. Risks with high expected returns are not attractive if they endanger the Company, so we don't overuse leverage to achieve our return goals. Our combined exposure to all key risks remains within our established guidelines and limits, expressed as percentages of our economic value.

We view the Company as an **integrated whole** and do not draw artificial barriers between our reinsurance units and our capital markets units. PartnerRe's integrated risk management framework provides a common basis for identifying, evaluating and managing all our assumed risks across different risk categories and business units. This is critical in ensuring consistent decision-making and execution on both the reinsurance and capital markets sides of our business and at all levels of the Company.

We have built a **consistent pricing methodology** that is used everywhere in the Company. So while we have different evaluation (underwriting) techniques across the Company to respond to different risks and different markets, we have one valuation (pricing) method. This allows us to compare expected risk-adjusted returns across all our risk and asset classes.

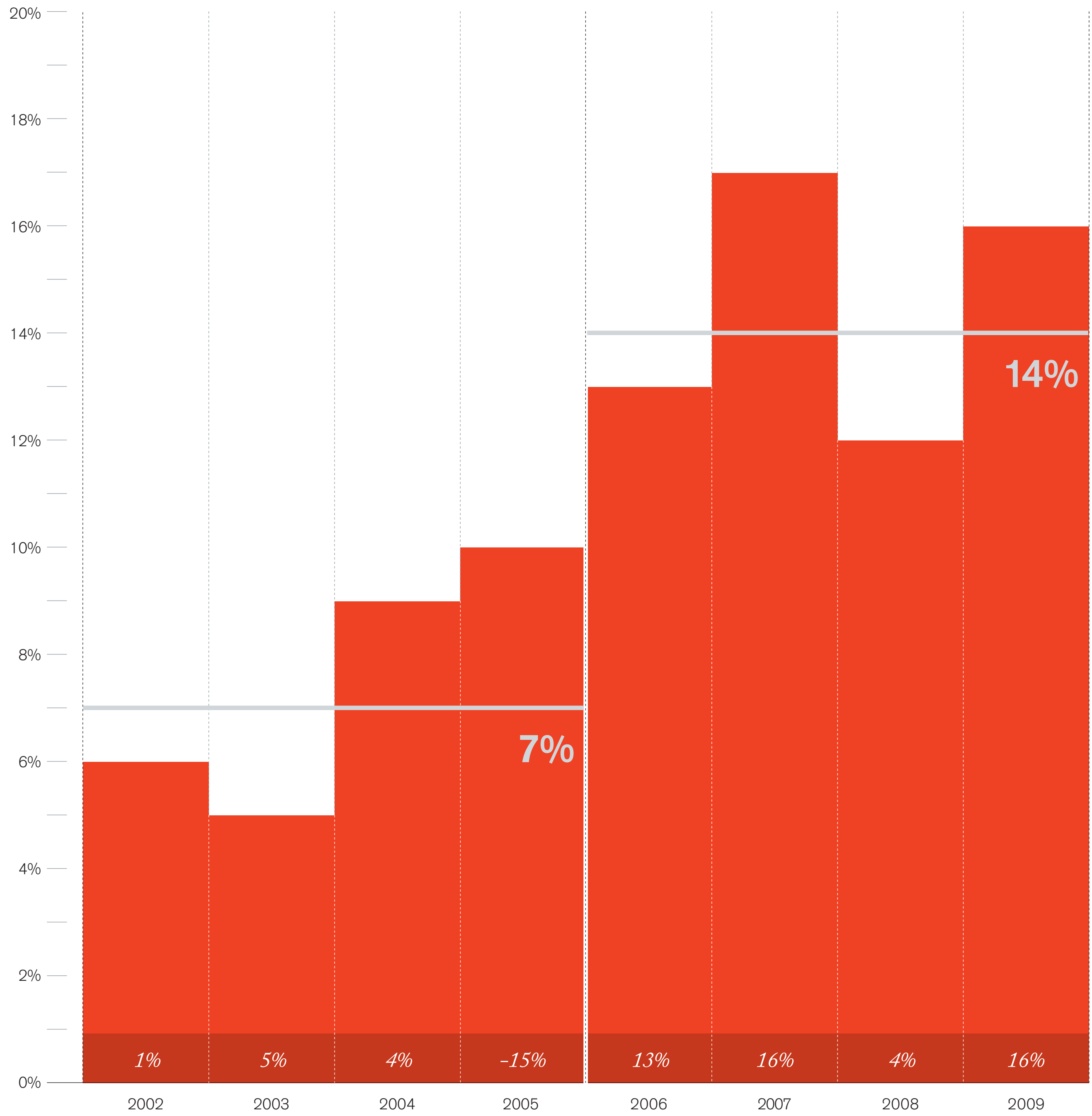
We think about and manage risk in a **portfolio context**, not just at a transactional level. We try to build an optimized portfolio that balances risk and return, leveraging the maximum benefit from diversification. Active capital and human resource management across the cycle is another critical aspect of our portfolio management philosophy. We are proactive rather than reactive in allocating resources to the areas of greatest potential return, which contributes to our long-term consistency and stability.

Increased Stability in Underwriting Result

We have increased our underwriting result over the last four-year period. While we will always write catastrophe business and therefore accept a certain level of volatility, stable results in the diversifying lines have brought stability to the organization overall.

Underwriting Result

- Underwriting result, excluding catastrophe losses/Net premiums earned
- Four-year average period, excluding catastrophe losses
- Underwriting result, including catastrophe losses/Net premiums earned



We try to engender a culture of trust in the organization through mutual respect, transparency and good communication. Our people – their technical skills and their understanding and engagement in our risk management approach – have always been and will continue to be one of PartnerRe's strengths. One way we can be sure that everyone is working together is if there is trust up, down and across the organization. This leads to the right people making the right decisions at the right time.

We believe that these fundamentals – our DNA – are the reason that we've been successful over the last eight years. They have provided us with stability and balance despite the external challenges we have faced. Going forward, we remain committed to these fundamentals as we believe that they provide a solid foundation and secure our future for the long term.

Building on a Strong Foundation

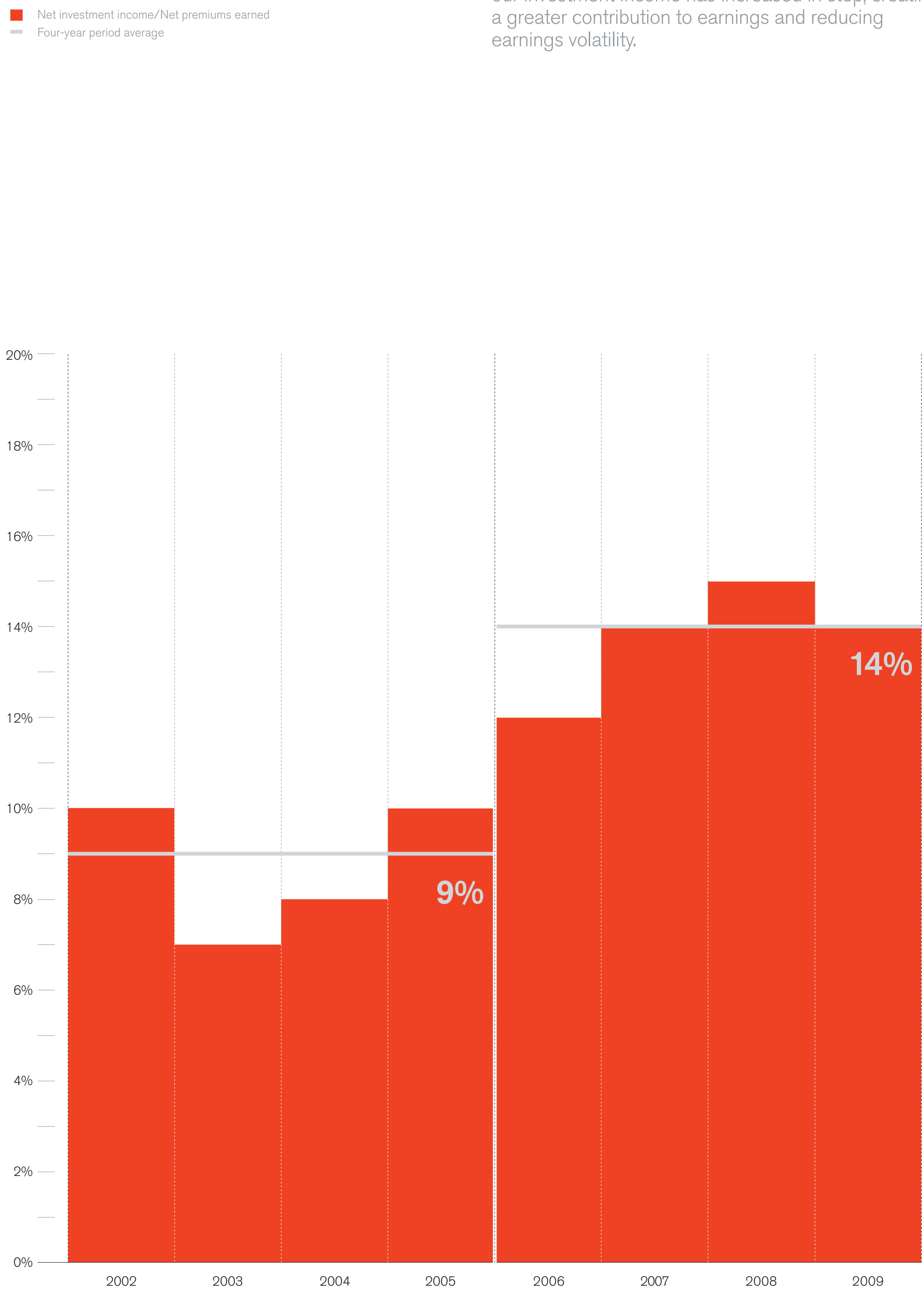
Despite our historical success, we understand that complacency is not an option. The world continues to change, and for a company to remain successful, it must continue to evolve.

For the reinsurance industry there are many factors impacting growth and profitability including changes in buying behavior caused by a decline in exposures, a lower level of risk-free rates on government securities, the uncertainty of loss trends, increased regulation and inflation. All of this highlights how important it is to be well positioned in the market and to be prepared to withstand extreme scenarios.

Increasing Investment Contribution

As our assets have grown over the past eight years, our investment income has increased in step, creating a greater contribution to earnings and reducing earnings volatility.

Investment Result



We felt that whatever happens in the external environment, it would be better to be larger. We saw a place in the competitive structure of the reinsurance industry, midway between the mid-sized and the “scale” players, where we could differentiate ourselves: big enough to take on the larger reinsurers in selected markets and selected lines, but small enough to maintain our flexibility and responsiveness to clients.

PARIS RE had a compatible book of business and was the right size acquisition for us to achieve this differentiation. It brings PartnerRe $1.7 billion of capital, in excess of $1 billion of premium and around 400 people with strong technical skills and existing relationships.

With the acquisition, our diversification in terms of geography and lines of business continues to improve. Our combined catastrophe book is now more broadly spread across a range of clients and treaty layers; we are stronger in facultative business and emerging markets and have expanded our excess of loss book. This broader and more diversified book of business, with more uncorrelated risk classes, should result in further reduction in earnings volatility as well as decreased vulnerability to shock losses.

In our capital markets operations, the increased size of our investment portfolio from approximately $12 billion to $18 billion can be expected to generate substantially greater returns: approximately $700 million in investment income per year. This provides a much more predictable and steady income stream than the reinsurance portfolio and so also contributes to the reduction in earnings volatility, while providing a larger cushion against shock losses when they occur. The larger portfolio also allows us to add new asset classes in an efficient, cost-effective way, thereby increasing our capital markets diversification and better leveraging our investment skills sets.

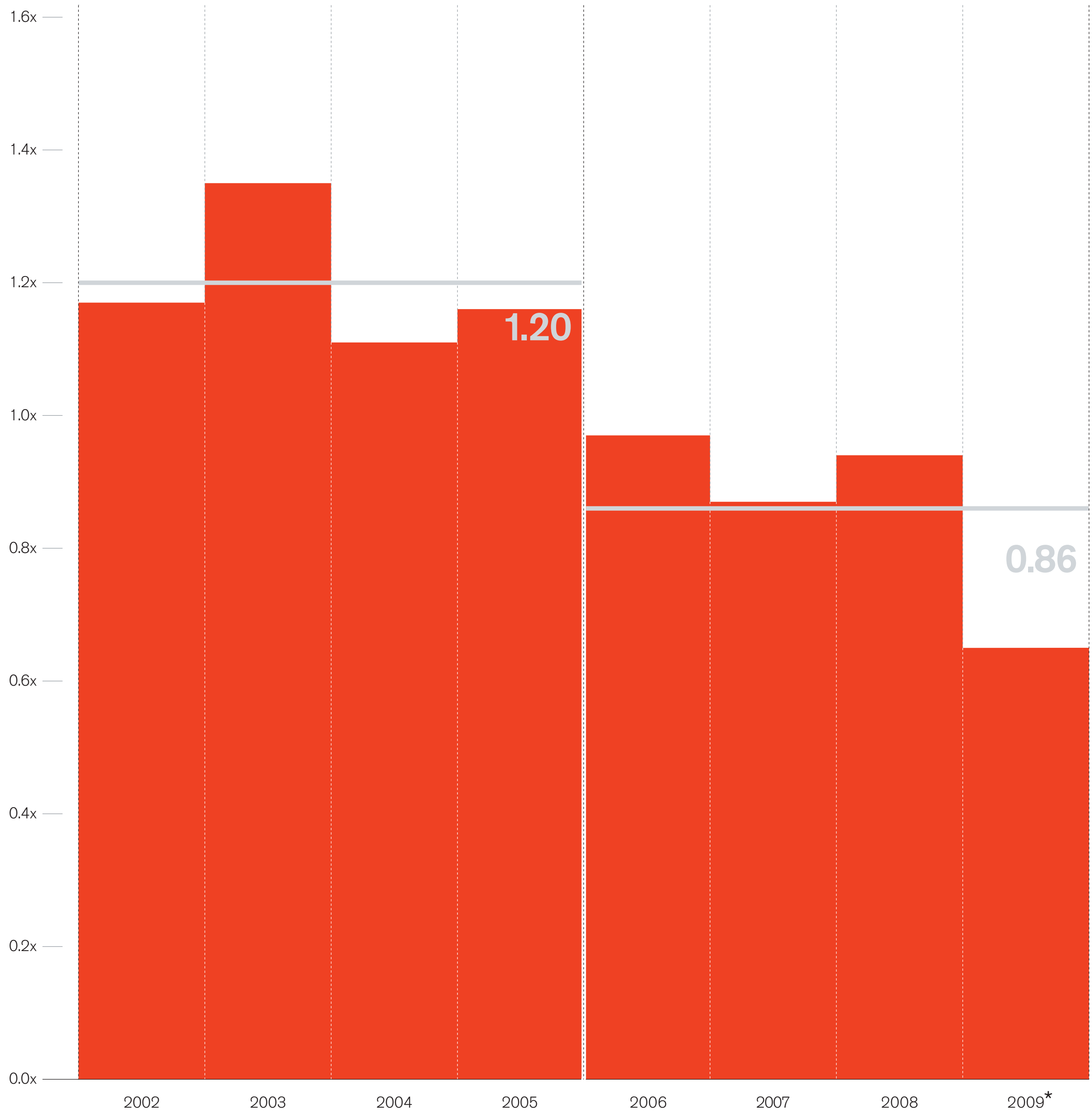
Steadily Decreasing Leverage

Our leverage through the income statement has come down over the eight-year period, demonstrating that the improvement in our results has not been a result of overleveraging our shareholders' equity.

Premium Leverage

- Net premiums earned/Shareholders' equity
- Four-year period average

* 2009 net premiums earned to shareholders' equity ratio is calculated on a pro-forma basis, including PARIS RE net premiums earned for the first three quarters of 2009.



As the world continues to change and the organization continues to grow, our expanded size gives us more options for how we move forward: our larger capital base and greater capabilities present us with enhanced growth opportunities; our stronger market position will also make us a more attractive reinsurer to clients and brokers as we resize our risk appetite at the transactional level.

Our excitement at the opportunities the acquisition provides is, however, tempered by the knowledge that change is not always an unalloyed good. If not properly understood and managed, it can damage a company. We have to integrate PARIS RE into our Company and change those things in PartnerRe that should change, while keeping our successful "DNA" intact. In many respects, however, there is compatibility: our people share a high level of technical skill, a similar underwriting culture and familiarity with their specialized marketplaces. There will inevitably be some challenging times during the integration, but we are prepared for this and will address it through regular, consistent and open communication at all levels.

Over the long term, we can be sure of two things: the world will continue to change and our industry will remain volatile. There will be major catastrophe events and more financial crises; casualty loss trends, inflation and interest rates will continue to cycle up and down. PartnerRe's strong fundamentals and balanced approach mean we are ready and able to respond to events and adapt as the market requires. Our track record of success, combined with our enhanced strength, provides the reassurance that we can successfully navigate through the uncertain times ahead.

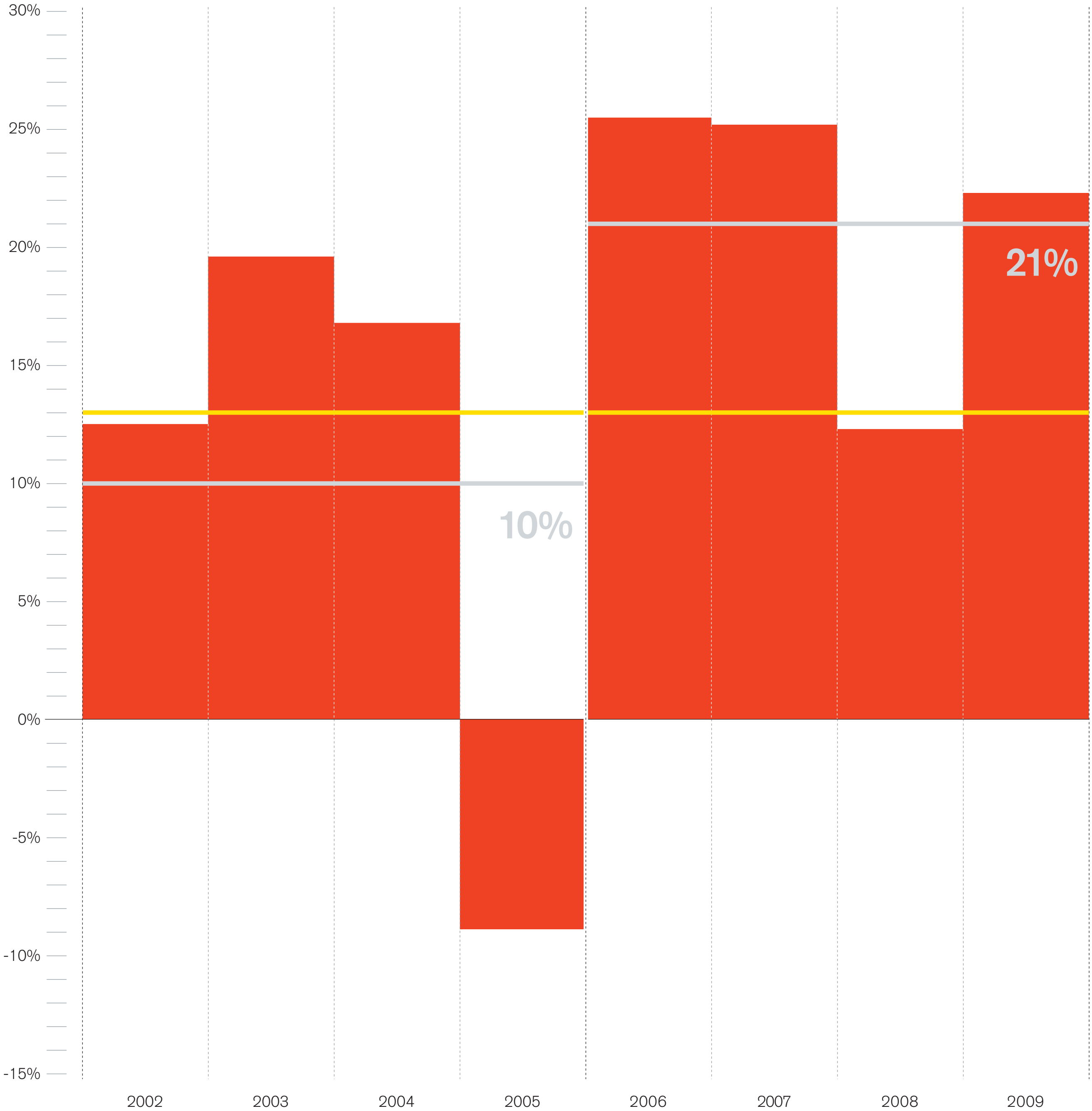
More Stable Risk-Adjusted Returns

Increased stability in our underwriting returns, increased investment returns and decreased volatility have led to higher, more stable risk-adjusted returns.

Operating Return on Equity

	2002-2005	2006-2009	2002-2009
Standard deviation of annual operating ROE	12.8%	6.3%	11.1%

Operating ROE
Four-year period average
Target



The Result: Better Risk-Adjusted Returns

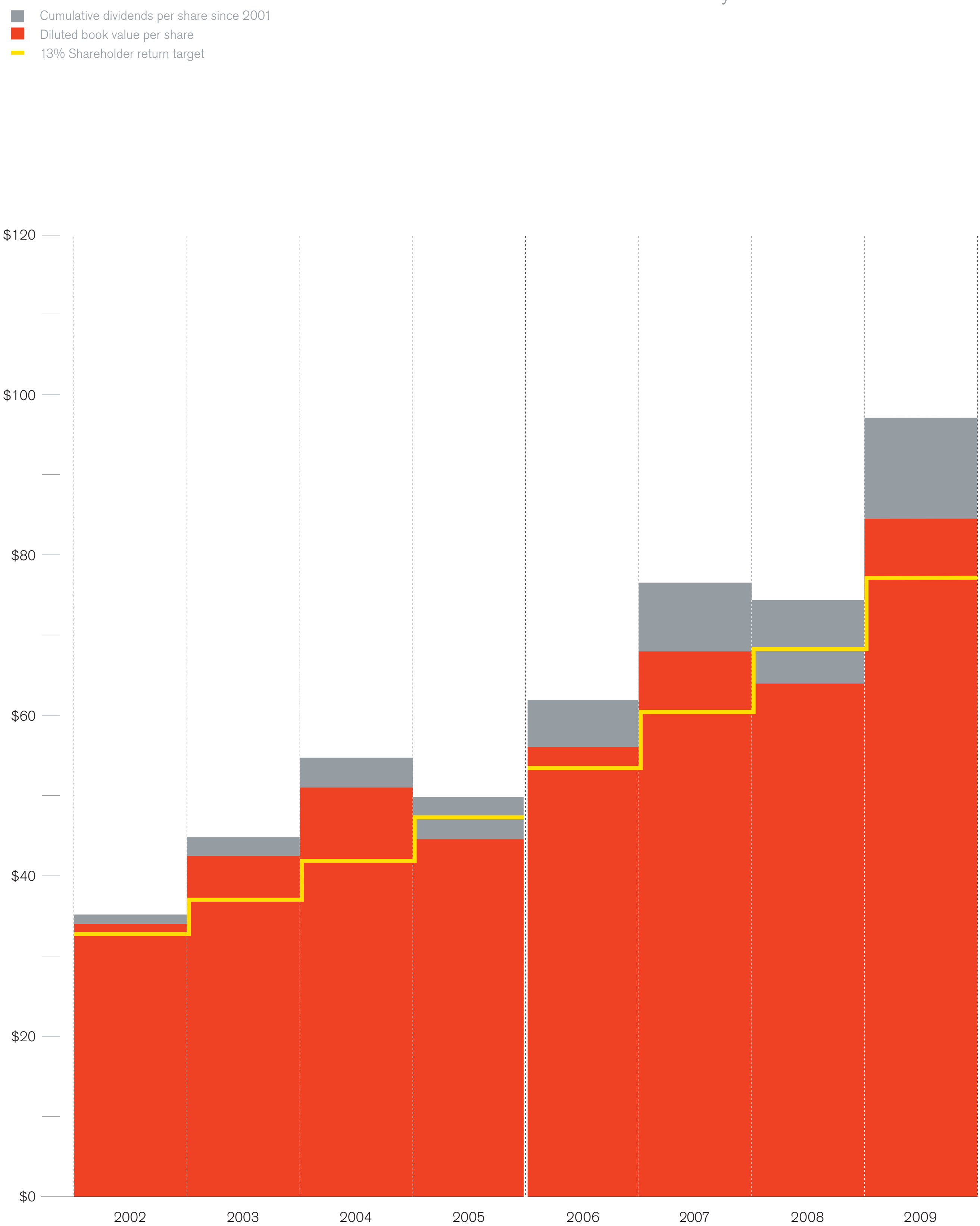
PartnerRe remains committed to achieving a 13% return goal over the cycle and a 10% growth in book value per share. As we have shown in the previous pages, since 2002, we have increased stability in our operating results and consistently met our book value growth targets with an acceptable level of volatility. Going forward, the benefits of PARIS RE should allow us to continue to achieve these return targets without an increase in earnings volatility. With more capital and greater diversification, the risk will be reduced, increasing the probability that we will achieve or surpass our targets more consistently. These better risk-adjusted returns mean PartnerRe offers a higher quality investment for shareholders.

Increased Book Value and Shareholder Return

Since 2002, we have consistently met our book value growth targets, with acceptable levels of volatility, and we have increased our dividend per share every year. While we do not expect that future market conditions will allow us to provide the extraordinary returns we've seen in the past four years, we remain committed to achieving an annual operating ROE and a shareholder return of 13% over a cycle.

Diluted Book Value and Dividends per share

	2002-2005	2006-2009	2002-2009
Growth in diluted book value per share	11.3%	17.3%	14.3%
Growth in diluted book value per share plus dividends	14.4%	19.7%	16.2%



Reconciliation of Non-GAAP Measures

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

2005	2006	2007	2008	**2009** (A)(B)	
$ (51)	$ 749	$ 718	$ 47	**$ 1,537**	Net (loss) income
					Less:
157	46	(56)	(453)	**497**	Net realized and unrealized investment gains (losses), net of tax
–	–	–	–	**57**	Net realized gain on purchase of capital efficient notes, net of tax
10	12	(83)	(4)	**16**	Interest in earnings (losses) of equity investments, net of tax
34	35	35	35	**35**	Dividends to preferred shareholders
$ (252)	$ 656	$ 822	$ 469	**$ 932**	Operating (loss) earnings available to common shareholders
$ (1.56)	$ 12.37	$ 11.87	$ 0.22	**$ 23.51**	Diluted net (loss) income per common share
					Less:
2.86	0.80	(0.98)	(8.15)	**7.78**	Net realized and unrealized investment gains (losses), net of tax
–	–	–	–	**0.89**	Net realized gain on purchase of capital efficient notes, net of tax
0.17	0.21	(1.44)	(0.06)	**0.25**	Interest in earnings (losses) of equity investments, net of tax
$ (4.59)	$ 11.36	$ 14.29	$ 8.43	**$ 14.59**	Diluted operating (loss) earnings per common share

(3.0)%	27.8%	20.9%	0.3%	**37.5%**	Return on beginning common shareholders' equity (1) calculated with net (loss) income available to common shareholders
5.6	1.8	(1.7)	(11.9)	**13.3**	Net realized and unrealized investment gains (losses), net of tax, on beginning common shareholders' equity
–	–	–	–	**1.6**	Net realized gain on purchase of capital efficient notes, net of tax, on beginning common shareholders' equity
0.3	0.5	(2.6)	(0.1)	**0.3**	Interest in earnings (losses) of equity investments, net of tax, on beginning common shareholders' equity
(8.9)%	25.5%	25.2%	12.3%	**22.3%**	Operating return on beginning common shareholders' equity

(1) *Excluding cumulative preferred shares.*

(A) *The Company's results for the year ended December 31, 2009 include the results of Paris Re from October 2, 2009, the date of acquisition.*

(B) *For the year ended December 31, 2009, return on beginning common shareholders' equity is the summation of the results for the nine months ended September 30, 2009 divided by beginning of the year common shareholders' equity plus the results for the three months ended December 31, 2009 divided by the beginning of the year common shareholders' equity plus the equity issued, related to the acquisition of Paris Re, of $1,980 million.*

Forward-Looking Statements

PartnerRe Ltd. has made statements in Management's Discussion and Analysis of Financial Condition and Results of Operation 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," "estimates," "predicts," "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. These risks, uncertainties and assumptions are described in more detail in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 1, 2010.

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 the Company's Annual Report on Form 10-K to conform our prior statements to actual results or revised expectations.

PartnerRe Ltd.

Selected Consolidated Financial Data

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

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

					Non-life Ratios
87.3%	54.8%	50.8%	63.9%	**52.7%**	Loss ratio
23.0	23.1	22.9	23.3	**21.9**	Acquisition ratio
6.0	6.5	6.7	6.9	**7.2**	Other operating expense ratio
116.3%	84.4%	80.4	94.1	**81.8%**	Combined ratio

At December 31, 2005	2006	2007	2008	**2009**	**Balance Sheet Data**
$ 9,579	$ 10,679	$ 11,572	$ 11,724	**$ 18,165**	Total investments, funds held – directly managed and cash and cash equivalents
13,783	15,034	16,149	16,279	**23,733**	Total assets
7,962	8,301	8,773	8,943	**12,427**	Unpaid losses and loss expenses and policy benefits for life and annuity contracts
620	620	620	200	**—**	Long-term debt
—	—	—	250	**250**	Debt related to senior notes
206	258	258	258	**71**	Debt related to capital efficient notes or trust preferred securities
3,093	3,786	4,322	4,199	**7,646**	Total shareholders' equity
$ 44.57	$ 56.07	$ 67.96	$ 63.95	**$ 84.51**	Diluted book value per common and common share equivalents outstanding
56.7	57.1	54.3	56.5	**82.6**	Number of common shares outstanding, net of treasury shares

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 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.

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.

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.

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.

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. 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.

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 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 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.

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.

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.

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.

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;
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.

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.

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.

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.

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.

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 the Company's report on Form 10-K.

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.

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.

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 millions 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 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.

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.

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.

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 the Company's report on Form 10-K 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 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.

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.

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.

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.

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 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. 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.

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.

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 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

U.S. ***(continued)***

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
- 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.

U.S. *(continued)*

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.

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.

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

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

- 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%

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

Global (Non-U.S.) Specialty *(continued)*

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
- 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 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.

Catastrophe *(continued)*

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.

Catastrophe *(continued)*

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.

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.

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

Life Segment *(continued)*

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.

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.

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%

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. 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.

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
- 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)

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.

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.

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.

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**

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.

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:

Rating Category	% of total fixed income securities
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 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 the Company's report on Form 10-K. 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.*

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

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 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 the Company's report on Form 10-K for a discussion of the impact of foreign exchange on the net reserves.

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 the Company's report on Form 10-K and Note 8 to Consolidated Financial Statements for a discussion of the Reserve Agreement).

The 2009 net incurred losses reflected low large loss activity, while 2008 net incurred losses included $332 million for Hurricane Ike and the 2007 net incurred losses included $53 million for European windstorm Kyrill. The Non-life ratio of paid losses to net premiums earned was 58%, 47% and 51%, and the Non-life ratio of paid losses to incurred losses was 110%, 74% and 100% for the years ended December 31, 2009, 2008 and 2007, respectively. The higher non-life ratio of paid losses to incurred losses for the year ended December 31, 2009 compared to 2008 is primarily due to an increase in paid losses related to the annual settlement in 2009 of agricultural business written in 2008 within the Company's U.S. sub-segment, as well as a lower level of net incurred losses for the year ended December 31, 2009.

Policy Benefits for Life and Annuity Contracts

At December 31, 2009 and 2008, the Company recorded gross policy benefits for life and annuity contracts of $1,615 million and $1,432 million, respectively, and net policy benefits for life and annuity contracts of $1,595 million and $1,408 million, respectively.

The following table provides a reconciliation of the net policy benefits for life and annuity contracts 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	$ 1,408	$ 1,499	$ 1,388
Net incurred losses	440	463	455
Net paid losses	(323)	(353)	(430)
Effects of foreign exchange rate changes	70	(201)	86
Net liability at end of year	$ 1,595	$ 1,408	$ 1,499

The increase in net policy benefits for life and annuity contracts of $187 million from December 31, 2008 compared to December 31, 2009 is due to the impact of the weaker U.S. dollar conversion of policy benefits for life and annuity contracts that are denominated in currencies that have appreciated against the U.S. dollar, and net incurred losses, offset by net paid losses.

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 life policy benefits and prior years' reserve developments.

Reinsurance Recoverable on Paid and Unpaid Losses

The Company has exposure to credit risk related to reinsurance recoverable on paid and unpaid losses. See Note 9 to Consolidated Financial Statements and Quantitative and Qualitative Disclosures about Market Risk – Counterparty Credit Risk below for a discussion of the Company's risk related to reinsurance recoverable on paid and unpaid losses and the Company's process to evaluate the financial condition of its reinsurers.

The increase in reinsurance recoverable on paid and unpaid losses of $208 million from $149 million at December 31, 2008 compared to $357 million at December 31, 2009 is primarily due to the acquisition of Paris Re. The distribution of the Company's reinsurance recoverable on paid and unpaid losses categorized by the reinsurer's Standard & Poor's rating at December 31, 2009 was as follows:

	% of total reinsurance recoverable on paid and unpaid losses
AAA	3%
AA	19
A	38
Less than A/Unrated/Other	28
Collateralized	12
Total	100%

At December 31, 2009, 72% of the Company's reinsurance recoverable on paid and unpaid losses were either due from reinsurers with an A- or better rating from Standard and Poor's or from reinsurers with collateralized balances.

Contractual Obligations and Commitments

In the normal course of its business, the Company is a party to a variety of contractual obligations as summarized below. These contractual obligations are considered by the Company when assessing its liquidity requirements, and the Company is confident in its ability to meet all of its obligations. Contractual obligations at December 31, 2009, were as follows (in millions of U.S. dollars):

	Total	< 1 year	1-3 years	3-5 years	> 5 years
Contractual obligations:					
Current portion of long-term debt-principal	$ 200.0	$ 200.0	$ —	$ —	$ —
Operating leases	155.2	35.7	65.8	28.3	25.4
Other operating agreements	44.2	18.9	20.3	3.9	1.1
Other invested assets (1)	128.0	59.5	58.5	10.0	—
Unpaid losses and loss expenses (2)	10,811.5	2,966.2	2,896.4	1,627.1	3,321.8
Policy benefits for life and annuity contracts (3)	2,500.6	313.1	324.4	239.0	1,624.1
Deposit liabilities (3)	450.7	33.5	72.9	49.9	294.4
Other long-term liabilities:					
Senior Notes – principal (4)	250.0	—	—	—	250.0
Senior Notes – interest	N/A	17.2	34.4	34.4	17.2 per annum
Capital Efficient Notes – principal (5)	63.4	—	—	—	63.4
Capital Efficient Notes – interest	N/A	4.1	8.2	8.2	4.1 per annum
Series C cumulative preferred shares – principal (6)	290.0	—	—	—	290.0
Series C cumulative preferred shares – dividends	N/A	19.6	39.2	39.2	19.6 per annum
Series D cumulative preferred shares – principal (6)	230.0	—	—	—	230.0
Series D cumulative preferred shares – dividends	N/A	15.0	29.9	29.9	15.0 per annum

N/A: *not applicable*

(1) *The amounts above for other invested assets represent the Company's expected timing of funding capital commitments related to its strategic investments.*

(2) *The Company's unpaid losses and loss expenses represent Management's best estimate of the cost to settle the ultimate liabilities based on information available as of December 31, 2009, and are not fixed amounts payable pursuant to contractual commitments. The timing and amounts of actual loss payments related to these reserves might vary significantly from the Company's current estimate of the expected timing and amounts of loss payments based on many factors, including large individual losses as well as general market conditions.*

(3) *Policy benefits for life and annuity contracts and deposit liabilities recorded in the Company's Consolidated Balance Sheet at December 31, 2009 of $1,615 million and $330 million, respectively, are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.*

(4) *PartnerRe Finance A LLC does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $250 million in its Consolidated Balance Sheet at December 31, 2009.*

(5) *PartnerRe Finance II Inc. does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Consolidated Balance Sheet at December 31, 2009.*

(6) *The Company's Series C and Series D preferred shares are perpetual and have no mandatory redemption requirement. See Note 17 to Consolidated Financial Statements for further information.*

The Contractual Obligations and Commitments table above does not include an estimate of the period of cash settlement of its tax liabilities with the respective taxing authorities given the Company cannot make a reasonably reliable estimate of the timing of cash settlements.

Due to the limited nature of the information presented above, it should not be considered indicative of the Company's liquidity or capital needs. See Liquidity below.

Shareholders' Equity and Capital Resources Management

Shareholders' equity at December 31, 2009 was $7.6 billion, an 82.1% increase compared to $4.2 billion at December 31, 2008. The major factors contributing to the increase in shareholders' equity in 2009 were:

- $1,966 million related to the acquisition of Paris Re, which is comprised of the fair value of 25.7 million common shares issued (1.3 million of which were issued out of treasury) of $1,960 million and the fair value of outstanding replacement share-based awards of $6 million;
- net income of $1,537 million;
- a $48 million increase in the currency translation adjustment, resulting primarily from the translation of PartnerRe Holdings Europe Limited's financial statements into the U.S. dollar, including the Company's designated foreign exchange forward contracts that partially hedged its net investment in foreign subsidiaries and branches;
- share-based compensation expense and the issuance of common shares under the Company's employee equity plans and other increases totaling $34 million; and
- a $14 million increase in other comprehensive income; partially offset by
- dividends declared on both the Company's common and preferred shares of $152 million.

As part of its long-term strategy, the Company will continue to actively manage capital resources to support its operations throughout the reinsurance cycle and for the benefit of its shareholders, subject to the ability to maintain strong ratings from the major rating agencies and the unquestioned ability to pay claims as they arise. Generally, the Company seeks to increase its capital when its current capital position is not sufficient to support the volume of attractive business opportunities available. Conversely, the Company will seek to reduce its capital, through dividends or stock repurchases, when available business opportunities are insufficient to fully utilize the Company's capital at adequate returns. The Company may also seek to reduce or restructure its capital through the repayment or purchase of debt obligations, or increase or restructure its capital through the issuance of debt, when opportunities arise.

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 and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities). The Company's diluted book value per share increased by 32% to $84.51 at December 31, 2009 from $63.95 at December 31, 2008, primarily due to the increase in shareholders' equity noted above, which was also impacted by an increase in the number of fully diluted common and common share equivalents outstanding following the Company issuing 25.7 million common shares related to the acquisition of Paris Re.

The table below sets forth the capital structure of the Company at December 31, 2009 and 2008 (in millions of U.S. dollars):

	2009		2008	
Capital Structure:				
Long-term debt	**$ —**	**— %**	$ 200	4 %
Senior notes [1]	**250**	**3**	250	5
Capital efficient notes [2]	**63**	**1**	250	5
6.75% Series C cumulative preferred shares, aggregate liquidation	**290**	**4**	290	6
6.5% Series D cumulative preferred shares, aggregate liquidation	**230**	**3**	230	5
Common shareholders' equity	**7,126**	**89**	3,679	75
Total Capital	**$ 7,959**	**100 %**	$ 4,899	100 %

(1) *PartnerRe Finance A LLC, the issuer of the Senior Notes, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $250 million in its Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.*

(2) *PartnerRe Finance II, the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million and $258 million in its Condensed Consolidated Balance Sheets at December 31, 2009 and December 31, 2008, respectively.*

Debt

In October 2005, the Company entered into a loan agreement with Citibank, N.A. under which the Company borrowed $400 million. The loan, which had an original maturity of April 2009, bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company was not permitted to prepay the loan prior to its maturity, and the loan was not callable or puttable by the lender other than upon an event of default (see Note 18 to Consolidated Financial Statements).

On July 31, 2008, the Company entered into an amendment (Loan Amendment) to the loan agreement with Citibank N.A. Under the terms of the Loan Amendment, the maturity of half of the original $400 million loan was extended to July 12, 2010. The remaining half of the original loan retained its original maturity of April 27, 2009. Under the Loan Amendment, the amended half of the loan bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50% through April 27, 2009 and at a rate of 3-month LIBOR plus 0.85% thereafter. The interest rate on the unamended half of the loan remained unchanged at 3-month LIBOR plus 0.50%.

On January 8, 2009, the Company entered into a second amendment to the loan agreement with Citibank N.A. Under the terms of the second loan amendment, the Company had a right to prepay the half of the original $400.0 million loan that had a maturity of April 27, 2009. Any such prepayment under the terms of the second loan amendment would be accompanied by payment of accrued and unpaid interest on the prepayment amount. The remaining half of the loan has a maturity of July 12, 2010 and the Company does not have a right to prepay this amount. The loan was otherwise unchanged. On January 14, 2009, the Company elected to repay the half of the original $400.0 million loan that was due April 27, 2009. As of December 31, 2009, the remaining half of the loan with a maturity of July 12, 2010 has been reclassified from long-term debt to current portion of long-term debt and is excluded from the table above.

Senior Notes

In May 2008, PartnerRe Finance A LLC (PartnerRe Finance A), an indirect wholly-owned subsidiary of the Company, issued $250 million aggregate principal amount of 6.875% Senior Notes (Senior Notes). The Senior Notes will mature on June 1, 2018 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest on the Senior Notes is payable semi-annually commencing on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

The Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance A. The Company has fully and unconditionally guaranteed all obligations of PartnerRe Finance A under the Senior Notes. The Company's obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the Company (see Note 15 to Consolidated Financial Statements).

Contemporaneously, PartnerRe U.S. Holdings issued a 6.875% promissory note, with a principal amount of $250.0 million to PartnerRe Finance A. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance A the principal amount on June 1, 2018, unless previously paid. Interest on the promissory note is payable semi-annually and commenced on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

Capital Efficient Notes

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued $250.0 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated CENts. The CENts will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. Interest on the CENts is payable semi-annually and commenced on June 1, 2007 through to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

PartnerRe Finance II may elect to defer one or more interest payments for up to ten years, although interest will continue to accrue and compound at the rate of interest applicable to the CENts. The CENts are ranked as junior subordinated unsecured obligations of PartnerRe Finance II. The Company has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II under the CENts. The Company's obligations under this guarantee are unsecured and rank junior in priority of payments to the Company's current portion of long-term debt and Senior Notes.

Contemporaneously, PartnerRe U.S. Holdings issued a 6.440% Fixed-to-Floating Rate promissory note, with a principal amount of $257.6 million to PartnerRe Finance II. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance II the principal amount on December 1, 2066, unless previously paid. Interest on the promissory note is payable semi-annually and commenced on June 1, 2007 through to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

On March 2, 2009, the Company announced the commencement of a cash tender offer for any and all of the CENts. Under the terms of the tender offer, PartnerRe Finance II paid holders $500 per $1,000 principal amount of CENts tendered. In addition, holders of the CENts were paid any accrued and unpaid interest on the purchased CENts from the last interest payment date.

On March 13, 2009, PartnerRe Finance II purchased approximately 75% of the issue, or $186.6 million, for $93.3 million. Contemporaneously, under the terms of a cross receipt agreement, PartnerRe U.S. Holdings paid PartnerRe Finance II consideration of $93.3 million for the extinguishment of $186.6 million of the principal amount of PartnerRe U.S. Holdings' 6.440% Fixed-to-Floating Rate promissory note due December 1, 2066. All other terms and conditions of the remaining CENts and promissory note remain unchanged. A pre-tax gain of $88.4 million, net of deferred issuance costs and fees, was realized on the foregoing transactions. The aggregate principal amount of the CENts and promissory note outstanding at December 31, 2009 was $63.4 million and $71.0 million, respectively (See Note 16 to Consolidated Financial Statements).

Common Shareholders' Equity

During 2009, and pursuant to the acquisition of Paris Re, the Company issued 25.7 million common shares, of which 1.3 million common shares were reissued from treasury. (See Notes 3 and 17 to Consolidated Financial Statements).

During 2008, under a maturing forward sale agreement, the Company delivered 3.4 million common shares to the forward counterparty over a 40 day valuation period for total proceeds of $211.6 million. The value received per share was the average daily market price per share over the valuation period, subject to a minimum price per share of $59.37. See Notes 15 and 18 to Consolidated Financial Statements.

During 2009, no shares were repurchased and at December 31, 2009, the Company had 5 million common shares remaining under its then existing share repurchase authorization approved by the Company's Board of Directors. 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 share repurchase authorization up to a total of 8 million common shares.

During 2008, the Company repurchased 1.5 million of its common shares pursuant to its repurchase program at a total cost of $110.0 million, representing an average cost of $71.79 per share. During 2007, the Company repurchased 3.6 million of its common shares at a total cost of $275.0 million, representing an average cost of $76.06 per share.

At December 31, 2009, 5,000 common shares are held in treasury and available for reissuance.

Liquidity

Liquidity is a measure of the Company's ability to access sufficient cash flows to meet the short-term and long-term cash requirements of its business operations. Management believes that its significant cash flows from operations and high quality liquid investment portfolio will provide sufficient liquidity for the foreseeable future. Cash and cash equivalents were $738 million at December 31, 2009 compared to $838 million at December 31, 2008.

Cash flows from operations decreased from $1,159 million in 2008 to $1,099 million in 2009. This decrease in cash flows from operations was due to lower underwriting cash flows. The lower underwriting cash flows in 2009 compared to 2008 was primarily attributable to higher paid losses in 2009 related to the annual settlement of agriculture business written within the Company's U.S. sub-segment, as well as loss payments related to Hurricane Ike.

Net cash used in investing activities of $447 million in 2009 reflects the cash that was acquired in the Paris Re acquisition of $492 million. Without the impact of Paris Re's cash balance, net cash used in investing activities was $939 million compared to $944 million in 2008.

Net cash used in financing activities of $765 million in 2009 was primarily comprised of Paris Re's share capital repayment to its former shareholders ($330 million), repayment of debt ($200 million), purchase of CENts ($94 million) and dividends on common and preferred shares ($152 million).

The Company is a holding company with no operations or significant assets other than the capital stock of the Company's subsidiaries and other intercompany balances. The Company has cash outflows in the form of operating expenses, interest payments related to its debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for principal repayments related to its debt, and the repurchase of its common shares under its share repurchase program. For the year ended December 31, 2009, the Company incurred operating expenses of $103 million, interest paid was $14 million, common dividends paid were $117 million and preferred dividends paid were $35 million. In January

2010, the Company announced that it was increasing its quarterly dividend to $0.50 per common share, or approximately $165 million in total for 2010, assuming a constant number of common shares outstanding and a constant dividend rate, and it will pay approximately $35 million in dividends to preferred shareholders.

The Company relies primarily on cash dividends and payments from its subsidiaries to pay the operating expenses, interest expense, shareholder dividends and other obligations of the holding company that may arise from time to time. The Company expects future dividends and other permitted payments from its subsidiaries to be the principal source of its funds to pay such expenses and dividends. The payment of dividends by the reinsurance subsidiaries to the Company is limited under Bermuda, Irish, Swiss and French laws and certain statutes of various U.S. states in which PartnerRe U.S. is 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 (see Note 14 to Consolidated Financial Statements).

The reinsurance subsidiaries of the Company depend upon cash inflows from the collection of premiums as well as investment income and proceeds from the sales and maturities of investments to meet their obligations. Cash outflows are in the form of claims payments, purchase of investments, operating expenses, income tax payments, intercompany payments as well as dividend payments to the holding company, and additionally, in the case of PartnerRe U.S. Holdings, interest payments on the Senior Notes and the CENts. PartnerRe U.S. Holdings and its subsidiaries have $250 million in Senior Notes as well as $63 million of CENts outstanding at December 31, 2009 and will pay approximately $22 million in aggregate interest payments in 2010 related to this debt.

Historically, the operating subsidiaries of the Company have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of the business written by the Company, the seasonality in the timing of payments by cedants, the irregular timing of loss payments, the impact of a change in interest rates and credit spreads on the investment income as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary significantly between periods. The Company expects that annual positive cash flows from operating activities will be sufficient to cover claims payments through 2010, absent a series of unusual catastrophic events. In the unlikely event that paid losses accelerate beyond the ability to fund such payments from operating cash flows, the Company would use its cash balances available, or liquidate a portion of its high quality and liquid investment portfolio. As discussed under Investments above, the Company's investments and cash, excluding the funds held – directly managed account, totaled $16.0 billion at December 31, 2009, the main components of which were investment grade fixed income securities, short-term investments and cash and cash equivalents totaling $14.4 billion.

The Company and its subsidiaries have access to a revolving line of credit of up to $330 million as part of the Company's syndicated unsecured credit facility (see Credit Facilities below). As of December 31, 2009, there were no borrowings under this line of credit.

Financial strength ratings and senior unsecured debt ratings represent the opinions of rating agencies on the Company's capacity to meet its obligations. In the event of a significant downgrade in ratings, the Company's ability to write business and to access the capital markets could be impacted. Some of the Company's reinsurance treaties contain special funding and termination clauses that would be triggered in the event the Company or one of its subsidiaries is downgraded by one of the major rating agencies to levels specified in the treaties, or the Company's capital is significantly reduced. If such an event were to occur, the Company would be required, in certain instances, to post collateral in the form of letters of credit and/or trust accounts against existing outstanding losses, if any, related to the treaty. In a limited number of instances, the subject treaties could be cancelled retroactively or commuted by the cedant (see Risk Factors in Item 1A of Part I of the Company's report on Form 10-K for the Company's financial strength ratings).

Credit Facilities

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured and secured credit facilities. As of December 31, 2009, the total amount of such credit facilities available to the Company was $1,118.4 million. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued on an unsecured and secured basis in the amount of $502.6 million and $250.0 million, respectively, at December 31, 2009, in respect of reported loss and unearned premium reserves.

Included in the total credit facilities available to the Company at December 31, 2009 is a $660 million five-year syndicated, unsecured credit facility. This unsecured credit facility enables the Company to potentially increase its available credit from $660 million to $960 million. The ability of the Company to increase its available credit to $960 million is subject to the agreement of the credit facility participants and, given the recent financial crisis and related credit environment, this may be limited.

The Company and its subsidiaries have access to a revolving line of credit of up to $330 million as part of the Company's syndicated unsecured credit facility. At December 31, 2009 and 2008, there were no borrowings under this revolving line of credit.

Additionally, the syndicated unsecured credit facility allows for an adjustment to the level of pricing should the Company experience a change in its senior unsecured debt ratings. The pricing grid provides the Company greater flexibility and simultaneously provides participants under the facility some price protection. As long as the Company maintains a minimum senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's, the pricing on the facility will not change significantly.

Some of the credit facilities contain customary default, cross payment and acceleration provisions and require that the Company maintain certain covenants. The Company's breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under these facilities. At December 31, 2009 and 2008, the Company was not in breach of any of the covenants and no conditions of default existed under its facilities.

In addition to the unsecured credit facilities available to the Company, Paris Re maintains two committed secured letter of credit facilities with a total amount available of $350.0 million. The facilities are used for the issuance of letters of credit, which must be secured fully or partially with cash and/or government bonds and/or investment grade bonds. These credit facilities have maturity dates of January 20, 2011, with respect to a $150.0 million facility, and November 18, 2011, with respect to a $200.0 million facility. The agreements include default covenants, which could require Paris Re to fully secure the outstanding letters of credit to the extent that the facility is not already fully secured, and disallow the issuance of any new letters of credit. At December 31, 2009, no conditions of default existed under these facilities. At December 31, 2009, the outstanding letters of credit issued under these facilities was $250.0 million.

Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it agreed to sell approximately 6.7 million of its common shares to an affiliate of Citigroup Global Markets Inc., which affiliate is referred to as the forward counterparty. Under the forward sale agreement, the Company would deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008.

Under the terms of the unamended half of the forward sale agreement, in 2008 the Company delivered 3.4 million common shares to the forward counterparty for total proceeds of $211.6 million.

On July 31, 2008, the Company amended the existing forward sale agreement. Under the terms of the amendment, half the contract matured according to its original term beginning on September 26, 2008, while the remaining half is extended to April 2010.

The extension with the forward counterparty allows the Company to deliver 3,366,295 of the 6,732,590 common shares subject to the original contract to the forward counterparty at any time during the remaining term of the agreement, which will mature beginning on April 28, 2010. The future sale price of the Company's common shares under the amended half of the forward sale agreement will vary depending upon the market price of its common shares over a 40 trading day period surrounding the maturity of the forward sale agreement in April 2010, subject to a minimum price per share of $59.13 and a maximum price per share of $84.23 at December 31, 2009. If the Company elects to settle all or a portion of the forward sale agreement prior to its maturity, the Company will deliver common shares to the forward counterparty and will initially receive the present value of the minimum price per share, and the remaining payment, if any, due to the Company will be made at maturity of the agreement based on the excess of the market price of the Company's common shares over the minimum price per share at maturity of the contract. Settlement of the forward sale agreement may be accelerated by the forward counterparty upon the occurrence of certain events, and the maximum and minimum purchase prices will be reduced or increased quarterly depending on the amount of the Company's dividends.

Currency

The Company's reporting currency is the U.S. dollar. The Company has exposure to foreign currency risk due to both its ownership of its Irish, French and Canadian subsidiaries and branches, whose functional currencies are the euro and the Canadian dollar, and to underwriting reinsurance exposures, collecting premiums and paying claims and other operating expenses in currencies other than the U.S. dollar and holding certain net assets in such currencies. The Company's most significant foreign currency exposure is to the euro.

At December 31, 2009, the value of the U.S. dollar weakened approximately 16% against the Canadian dollar, 10% against the British pound, and 2% against the euro compared to December 31, 2008. Since a large proportion of the Company's assets and liabilities are expressed in these currencies, there was an increase in the U.S. dollar value of the assets and liabilities denominated in these currencies at December 31, 2009.

The foreign exchange gain or loss resulting from the translation of the Company's subsidiaries' and branches' financial statements (expressed in euro or Canadian dollar functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income in shareholders' equity. The currency translation adjustment account increased by $48 million during the year ended December 31, 2009 compared to a decrease of $163 million and an increase of $129 million during the years ended December 31, 2008 and 2007, respectively, due to both the Company's net asset exposure to currencies other than the U.S. dollar and the impact of foreign exchange fluctuations.

The following table provides a reconciliation of the currency translation adjustment for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars):

	2009	2008	2007
Currency translation adjustment at beginning of year	**$ 35**	$ 198	$ 69
Change in currency translation adjustment included in accumulated other comprehensive income	**77**	(126)	129
Net realized and unrealized loss on designated net investment hedges included in accumulated other comprehensive income	**(29)**	(37)	—
Currency translation adjustment at end of year	**$ 83**	$ 35	$ 198

From time to time, the Company enters into net investment hedges. During the fourth quarter of 2009, the Company entered into foreign exchange contracts (with notional amounts of euro 125 million and Canadian $50 million) to hedge a portion of its net investment exposure to euro and Canadian dollar exchange fluctuations resulting from the translations of its Irish, French and Canadian subsidiaries and branches. Subsequently, in the fourth quarter of 2009, the Company neutralized its existing net investment hedge by entering into foreign exchange contracts in an equal and opposite direction to those originally entered into. As a result, the Company's net notional exposure and net fair value of its net investment hedge at December 31, 2009 is $nil and a gain of $5 million, respectively. The net unrealized gain of $5 million at December 31, 2009 is included in the table above. See Quantitative and Qualitative Disclosures About Market Risk — Foreign Currency Risk for a discussion of the Company's risk related to changes in foreign currency movements.

Effects of Inflation

The effects of inflation are considered implicitly in pricing and estimating reserves for unpaid losses and loss expenses. The actual effects of inflation on the results of operations of the Company cannot be accurately known until claims are ultimately settled.

New Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new accounting guidance which requires an enterprise to perform ongoing reassessments of its variable interest entities and requires enhanced disclosures of an enterprise's involvement in variable interest entities. The guidance will be effective for annual and interim periods beginning after November 15, 2009, with early adoption prohibited. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated shareholders' equity and net income.

In January 2010, the FASB issued new accounting guidance which requires companies to disclose additional information about their fair value measurements at a greater level of disaggregation. The additional disclosures include information about transfers into and/or out of the Level 1 and 2 categories of inputs, increased disclosures of activity in Level 3 fair value measurements, and other disclosures about inputs and valuation techniques. The guidance related to disclosures at a greater level of disaggregation, disclosures about transfers into and/or out of the Level 1 and 2 categories and expanded disclosures about inputs and valuation techniques will be effective for annual and interim periods beginning after December 15, 2009. Expanded disclosures related to the Level 3 activity will be effective for fiscal years beginning after December 15, 2010. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

Overview

Management believes that the Company is principally exposed to five types of market related risk: interest rate risk, credit spread risk, foreign currency risk, counterparty credit risk and equity price risk. How these risks relate to the Company, and the process used to manage them, is discussed below.

As discussed previously in this report, the Company's investment philosophy distinguishes between assets that are generally matched against the estimated net reinsurance assets and liabilities (liability funds) and those assets that represent shareholder capital (capital funds). At December 31, 2009, liability funds (including the investment portfolio underlying the funds held – directly managed account) represented 57% (or $10.4 billion) of the Company's total invested assets (including the investments underlying the funds held – directly managed account and accrued interest). Liability funds are invested in a way that generally matches them to the corresponding liabilities in both duration and currency composition. This practice seeks to protect the Company against changes in interest rates and foreign exchange rates. Although the focus of this discussion is to identify risk exposures that impact the market value of assets alone, it is important to recognize that the risks discussed herein are significantly mitigated to the extent that the Company's investment strategy allows market forces to influence the economic valuation of assets and liabilities in a way that is generally offsetting.

At December 31, 2009, capital funds represented 43% (or $7.8 billion) of the Company's total invested assets. These assets represent shareholders' capital and are invested in a diversified portfolio with the objective of maximizing investment return, subject to prudent risk constraints. Capital funds contain most of the asset classes typically viewed as offering a higher risk and higher return profile, such as preferred and common stocks, private equity and bond investments and convertible and high-yield fixed income securities, in addition to investment-grade securities. At December 31, 2009, 63% of the Company's capital funds were invested in investment grade fixed income securities compared to 80% at December 31, 2008, reflecting the Company's current view of available returns for higher risk assets. The Company's investment philosophy is to reduce foreign currency risk on capital funds by investing primarily in U.S. dollar denominated investments. In considering the market risk of capital funds, it is important to recognize the benefits of portfolio diversification. Although these asset classes in isolation may introduce more risk into the portfolio, market forces have a tendency to influence each class in different ways and at different times. Consequently, the aggregate risk introduced by a portfolio of these assets should be less than might be estimated by summing the individual risks.

The Company's investment strategy allows the use of derivative investments, subject to strict limitations. The Company also imposes a high standard for the credit quality of counterparties in all derivative transactions and aims to diversify its counterparty credit risk exposure. See Note 20 to the Consolidated Financial Statements for additional information concerning derivatives.

The following comments address those areas where the Company believes it has exposure to material market risk in its operations.

Interest Rate Risk

The Company's fixed income portfolio and the fixed income securities in the investment portfolio underlying the funds held – directly managed account are exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. The Company manages interest rate risk on liability funds by constructing bond portfolios in which the economic impact of a general interest rate shift is comparable to the impact on the related liabilities. This process involves matching the duration of the investment portfolio to the estimated duration of the liabilities. For loss reserves and policy benefits related to non-life and traditional life business, the estimated duration of the Company's liabilities is based on projected claims payout patterns. For policy benefits related to annuity business, the Company estimates duration based on its commitment to annuitants. The Company believes that this matching process mitigates the overall interest rate risk on an economic basis. The Company manages the exposure to interest rate volatility on capital funds by choosing a duration profile that it believes will optimize the risk-reward relationship.

While this matching of duration insulates the Company from the economic impact of interest rate changes, changes in interest rates do impact the Company's shareholders' equity. The Company's liabilities are carried at their nominal value, and are not adjusted for changes in interest rates, with the exception of certain policy benefits for life and annuity contracts and deposit liabilities that are interest rate sensitive. However, substantially all of the Company's invested assets (including the investment portfolio underlying the funds held – directly managed account) are carried at fair value, which reflects such changes. As a result, an increase in interest rates will result in a decrease in the fair value of the Company's investments (including the investment portfolio underlying the funds held – directly managed account) and a corresponding decrease, net of applicable taxes, in the Company's shareholders' equity. A decrease in interest rates would have the opposite effect.

At December 31, 2009, the Company held approximately $3,201 million of its total invested assets (including the investment portfolio underlying the funds held – directly managed account) in mortgage/asset-backed securities. These assets are exposed to prepayment risk, the adverse impact of which is more evident in a declining interest rate environment.

At December 31, 2009, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global bond curves would result in a change in fair value of investments exposed to interest rates and total invested assets (including the investment portfolio underlying the funds held – directly managed account) and shareholders' equity as follows (in millions of U.S. dollars):

	-200 basis points	% change	-100 basis points	% change	December 31, 2009	+100 basis points	% change	+200 basis points	% change
Fair value of investments exposed to interest rates (including accrued interest)	$16,210	6%	$15,741	3%	$ 15,272	$ 14,803	(3)%	$ 14,334	(6)%
Fair value of funds held – directly managed exposed to interest rate risk (including accrued interest)	2,083	6	2,024	3	1,965	1,906	(3)	1,847	(6)
Total invested assets (including funds held – directly managed exposed to interest rate risk and including accrued interest)	19,319	6	18,791	3	18,263	17,735	(3)	17,207	(6)
Shareholders' equity	8,702	14	8,174	7	7,646	7,118	(7)	6,590	(14)

This change does not take into account any potential mitigating impact from the equity market, taxes or the corresponding change in the economic value of the Company's reinsurance liabilities, which, as noted above, would substantially offset the economic impact on invested assets, although the offset would not be reflected in the Consolidated Balance Sheets.

As discussed above, the Company strives to match the foreign currency exposure in its fixed income portfolio to its multicurrency liabilities. The Company believes that this matching process creates a diversification benefit. Consequently, the exact market value effect of a change in interest rates will depend on which countries experience interest rate changes and the foreign currency mix of the Company's fixed income portfolio at the time of the interest rate changes. See Foreign Currency Risk.

At December 31, 2008, the Company estimated that the hypothetical case of an immediate 100 basis point adverse parallel shift in global bond curves would result in an approximate 3%, or $343 million, increase in the fair value of investments exposed to interest rates, or an approximate 3% and 8% increase of the total invested assets and shareholders' equity, respectively. The percentage impact of an immediate change in interest rates on the Company's total invested assets and shareholders' equity has not changed significantly at December 31, 2009 compared to December 31, 2008. The absolute impact of an immediate change in interest rates on the Company's total invested assets and shareholders' equity has increased from $343 million at December 31, 2008 to $469 million at December 31, 2009, reflecting the increase in the fair value of investments following the acquisition of Paris Re.

Interest rate movements also affect the economic value of the Company's outstanding debt obligations and preferred securities in the same way that they affect the Company's fixed income investments, and this can result in a liability whose economic value is different from the value reported in the Consolidated Balance Sheets. The Company believes that the economic fair value of its outstanding senior notes, CENts and preferred securities at December 31, 2009 was as follows (in millions of U.S. dollars):

	Carrying Value	Fair Value
Debt related to Senior Notes (1)	$ 250	$ 264
Debt related to Capital Efficient Notes (2)	63	56
Series C cumulative preferred shares	290	273
Series D cumulative preferred shares	230	205

(1) *PartnerRe Finance A LLC, the issuer of the Senior Notes, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $250 million in its Consolidated Balance Sheet at December 31, 2009.*

(2) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71 million in its Consolidated Balance Sheet at December 31, 2009. The fair value of the CENts was based on the aggregate principal amount outstanding from PartnerRe Finance II Inc. of $63 million at December 31, 2009.*

The fair value of the debt related to Senior Notes and CENts has been calculated using quoted market prices based on the aggregate principal amount outstanding of $250 million from PartnerRe Finance A and $63 million from PartnerRe Finance II, respectively. For the Company's Series C and Series D cumulative preferred shares, fair value is based on quoted market prices, while carrying value is based on the liquidation value of the securities.

The fair value of the Company's Senior Notes, Series C and Series D cumulative preferred shares increased at December 31, 2009 as a result of narrowing credit spreads. The fair value of the CENts decreased from $95 million at December 31, 2008 to $56 million at December 31, 2009 due to the repurchase of $187 million of the principal amount outstanding in March 2009 (see Shareholders Equity and Capital Resources Management above), partially offset by the impact of narrowing credit spreads.

Credit Spread Risk

The Company's fixed income portfolio and the fixed income securities in the investment portfolio underlying the funds held – directly managed account are exposed to credit spread risk. Fluctuations in market credit spreads have a direct impact on the market valuation of these securities. The Company manages credit spread risk by the selection of securities within its fixed income portfolio. Changes in credit spreads directly affect the market value of certain fixed income securities, but do not necessarily result in a change in the future expected cash flows associated with holding individual securities. Other factors, including liquidity, supply and demand, and changing risk preferences of investors, may affect market credit spreads without any change in the underlying credit quality of the security.

As with interest rates, changes in credit spreads impact the shareholders' equity of the Company as invested assets are carried at fair value, which includes changes in credit spreads. As a result, an increase in credit spreads will result in a decrease in the fair value of the Company's investments (including the investment portfolio underlying the funds held – directly managed account) and a corresponding decrease, net of applicable taxes, in the Company's shareholders' equity. A decrease in credit spreads would have the opposite effect.

At December 31, 2009, the Company estimates that the hypothetical case of an immediate 100 basis points or 200 basis points parallel shift in global credit spreads would result in a change in fair value of investments exposed to such spreads and total invested assets (including the investment portfolio underlying the funds held – directly managed account) and shareholders' equity as follows (in millions of U.S. dollars):

	-200 basis points	% change	-100 basis points	% change	December 31, 2009	+100 basis points	% change	+200 basis points	% change
Fair value of investments exposed to interest rates (including accrued interest)	$ 16,018	5%	$ 15,645	2%	$ 15,272	$ 14,899	(2)%	$ 14,526	(5)%
Fair value of funds held – directly managed exposed to interest rate risk (including accrued interest)	2,041	4	2,003	2	1,965	1,927	(2)	1,889	(4)
Total invested assets (including funds held – directly managed exposed to interest rate risk and including accrued interest)	19,085	5	18,674	2	18,263	17,852	(2)	17,441	(5)
Shareholders' equity	8,468	11	8,057	5	7,646	7,235	(5)	6,824	(11)

The impacts of changes in credit spreads for all parallel shifts in basis points are lower than the impacts of changes in interest rates, as the change in credit spreads does not impact government fixed income securities. However, the change in credit spreads does assume that mortgage-backed securities issued by government sponsored entities are affected, even though these typically exhibit significantly lower spread volatility than corporate fixed income securities. This change also excludes any impact from the equity market, taxes, and the change in the economic value of the Company's reinsurance liabilities, which may offset the economic impact on invested assets, although the offset would not be reflected in the Consolidated Balance Sheets.

At December 31, 2008, the Company estimated that the hypothetical case of an immediate 100 basis point adverse change in credit spreads would result in an approximate 2%, or $216 million, increase in the fair value of investments exposed to interest rates, or an approximate 2% and 5% increase in the total invested assets and shareholders' equity, respectively. The percentage impact of an immediate change in credit spreads on the Company's total invested assets and shareholders' equity has not changed significantly at December 31, 2009 compared to December 31, 2008. The absolute impact of an immediate change in credit spreads on the Company's total invested assets and shareholders' equity has increased from $216 million at December 31, 2008 to $373 million at December 31, 2009, reflecting the increase in the fair value of investments following the acquisition of Paris Re.

Foreign Currency Risk

Through its multinational reinsurance operations, the Company conducts business in a variety of non-U.S. currencies, with the principal exposures being the euro, British pound, Canadian dollar, Swiss Franc and Singapore dollar. As the Company's reporting currency is the U.S. dollar, foreign exchange rate fluctuations may materially impact the Company's Consolidated Financial Statements.

The Company is generally able to match its liability funds against its net reinsurance liabilities both by currency and duration to protect the Company against foreign exchange and interest rate risks. However, a natural offset does not exist for all currencies. For the non-U.S. dollar currencies for which the Company deems the net asset or liability exposures to be material, the Company employs a hedging strategy utilizing foreign exchange forward contracts and other derivative financial instruments, as appropriate, to ensure that its liability funds are matched by currency. The Company does not hedge currencies for which its asset or liability exposures are not material or where it is unable or impractical to do so. In such cases, the Company is exposed to foreign currency risk. However, the Company does not believe that the foreign currency risks corresponding to these unhedged positions are material.

For the Company's capital funds, including its net investment in foreign subsidiaries and branches, the Company does not typically employ hedging strategies. However, due to recent foreign exchange volatility, the Company did enter into euro and Canadian dollar net investment hedges during 2009 (see Currency above).

The table below summarizes the Company's gross and net exposure in its December 31, 2009 Consolidated Balance Sheet to foreign currency as well as the associated foreign currency derivatives the Company has put in place to manage this exposure (in millions of U.S. dollars):

	euro	GBP	CAD	CHF	SGD	Other	Total [1]
Total assets	$ 5,990	$ 1,112	$ 1,316	$ 71	$ 330	$ 371	$ 9,190
Total liabilities	(5,203)	(896)	(791)	(326)	(81)	(914)	(8,211)
Total foreign currency exposure	787	216	525	(255)	249	(543)	979
Total derivative amount	251	(190)	88	196	(32)	405	718
Net foreign currency exposure	$ 1,038	$ 26	$ 613	$ (59)	$ 217	$ (138)	$ 1,697

[1] *As the U.S. dollar is the Company's reporting currency, there is no currency risk attached to the U.S. dollar and it is excluded from this table. The U.S. dollar accounted for the difference between the Company's total foreign currency exposure in this table and the invested assets and other net liabilities in the Company's Consolidated Balance Sheet at December 31, 2009.*

The above numbers include the Company's investment in PartnerRe Europe, whose functional currency is the euro, and certain of its branches, whose functional currencies are the euro or Canadian dollar. The above numbers also include the Company's investment in Paris Re France, whose functional currency is the euro, and its Canadian branch, whose functional currency is the Canadian dollar.

Assuming all other variables remain constant and disregarding any tax effects, a change in the U.S. dollar of 10% or 20% relative to the other currencies held by the Company would result in a change in the Company's net assets of $170 million and $339 million, respectively, inclusive of the effect of foreign exchange forward contracts and other derivative financial instruments.

At December 31, 2008, the Company's net foreign currency exposure in its Consolidated Balance Sheet, after the effect of derivatives, was $635 million. The $1,062 million increase in the Company's net foreign currency exposure compared to December 31, 2008 is primarily related to increases in euro and Canadian dollar exposure following the acquisition of Paris Re and lower net notional investment hedges at December 31, 2009.

Counterparty Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed income securities. The Company controls this exposure by emphasizing investment grade credit quality in the fixed income securities it purchases. At December 31, 2009, approximately 48% of the Company's fixed income portfolio (including the funds held – directly managed account) was rated AAA (or equivalent rating), 85% was rated A- or better and 4% of the Company's fixed income portfolio was rated below investment-grade. The Company believes this high quality concentration reduces its exposure to credit risk on fixed income investments to an acceptable level. At December 31, 2009, the Company is not exposed to any significant credit concentration risk on its investments, excluding securities issued by the U.S. and other AAA-rated sovereign governments, with the single largest corporate issuer and the top 10 corporate issuers accounting for 2.7% and 20.4% of the Company's total corporate fixed income securities (excluding the funds held – directly managed account), respectively. Within the segregated investment portfolio underlying the funds held – directly managed account, the single largest corporate issuer and the top 10 corporate issuers accounted for 5.6% and 21.9% of total corporate fixed income securities underlying the funds held – directly managed account at December 31, 2009, respectively. The Company keeps cash and cash equivalents in several banks and may keep up to $500 million, excluding custodial accounts, at any point in time in any one bank.

To a lesser extent, the Company also has credit risk exposure as a party to foreign exchange forward contracts and other derivative contracts. To mitigate this risk, the Company monitors its exposure by counterparty, aims to diversify its counterparty credit risk and ensures that counterparties to these contracts are high credit quality international banks or counterparties. These contracts are generally of short duration (approximately 90 days) and settle on a net basis, which means that the Company is exposed to the movement of one currency against the other, as opposed to the notional amount of the contracts. At December 31, 2009, the Company's absolute notional value of foreign exchange forward contracts and foreign currency option contracts, including the net investment hedge, was $1,442 million, while the net value of those contracts was an unrealized gain of $8 million.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and as part of it principal finance activities. Loss experience in these lines of business is cyclical and is affected by the general economic environment. The Company provides its clients in these lines of business with protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the protection provided and, accordingly, the Company is exposed to the credit risk of those credits. As with all of the Company's business, these risks are subject to rigorous underwriting and pricing standards. In addition, the Company strives to mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps. The Company purchased protection related to its investment portfolio and credit/surety line primarily in the form of credit default swaps with a notional value of $193 million and an unrealized loss of $2 million at December 31, 2009.

The Company is subject to the credit risk of its cedants in the event of their insolvency or their failure to honor the value of the funds held balances due to the Company for any other reason. However, the Company's credit risk is somewhat mitigated by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to cedants for losses payable and other amounts contractually due. Funds held balances for which 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 investment portfolio are exposed to an additional layer of credit risk. The Company is also exposed to some extent to the underlying financial market risk of the pool of assets, inasmuch as the underlying policies may have guaranteed minimum returns.

Following the acquisition of Paris Re, the funds held balances due to the Company have significantly increased and the balance due from one cedant, Colisée Re, has also significantly increased. Paris Re and its subsidiaries entered into a Quota Share Retrocession Agreement to assume business written by Colisée Re (see Summary of certain agreements between AXA SA, Colisée Re, and Paris Re in Item 1 of Part I of the Company's report on Form 10-K). The agreement provided that the premiums related to the transferred business were retained by Colisée Re and credited to a funds held account. At December 31, 2009, the funds held – directly managed account due from Colisée Re was $2.1 billion, including $1.8 billion in a segregated investment portfolio. The assets underlying the funds held – directly managed account are maintained in a segregated investment portfolio by Colisée Re and managed by Paris Re. The Company is subject to the credit risk of this cedant in the event of insolvency or Colisée Re's failure to honor the value of the funds held balances for any other reason. However, the Company's credit risk is somewhat mitigated by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due. See Risk Factors in Item 1 of Part I of the Company's report on Form 10-K for additional discussion of the Company's exposure if Colisée Re, or its affiliates, breach or do not satisfy their obligations.

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency. See Risk Factors in Item 1A of Part I of the Company's report on Form 10-K for detailed information on two brokers that accounted for approximately 44% of the Company's gross premiums written for the year ended December 31, 2009.

The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. Reinsurance balances receivable from the Company's clients at December 31, 2009 were $2,249 million, including balances both currently due and accrued. The Company believes that credit risk related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the vast majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Provisions are made for amounts considered potentially uncollectible and the allowance for uncollectible reinsurance balances receivable was $10 million at December 31, 2009.

The Company purchases retrocessional reinsurance and requires its reinsurers to have adequate financial strength. The Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis. Provisions are made for amounts considered potentially uncollectible. The balance of reinsurance recoverable on paid and unpaid losses was $357 million, which is net of the allowance provided for uncollectible reinsurance recoverables of $7 million at December 31, 2009. Following the acquisition of Paris Re, the Company's reinsurance recoverable on paid and unpaid losses has increased and the concentration of those balances has changed. At December 31, 2009, 72% of the Company's reinsurance recoverable on paid and unpaid losses were either due from reinsurers with an A- or better rating from Standard & Poor's or from reinsurers with collateralized balances. See Financial Condition, Liquidity and Capital Resources – Reinsurance Recoverable on Paid and Unpaid Losses above for details of the Company's reinsurance recoverable on paid and unpaid losses categorized by the reinsurer's Standard & Poor's rating.

Other than the concentration related to Colisée Re discussed above, the concentrations of the Company's counterparty credit risk exposures have not changed materially compared to December 31, 2008.

Equity Price Risk

The Company invests a portion of its capital funds in marketable equity securities (fair market value of $761 million, excluding fixed income mutual funds of $35 million) at December 31, 2009. These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. The Company believes that the effects of diversification and the relatively small size of its investments in equities relative to total invested assets mitigate its exposure to equity price risk. The Company estimates that its equity investment portfolio has a beta versus the S&P 500 Index of approximately 1.04 on average. Portfolio beta measures the response of a portfolio's performance relative to a market return, where a beta of 1 would be an equivalent return to the index. Given the estimated beta for the Company's equity portfolio, a 10% and 20% movement in the S&P 500 Index would result in a change in the fair value of the Company's equity portfolio, total invested assets and shareholders' equity as follows:

	20% decrease	% change	10% decrease	% change	December 31, 2009	10% increase	% change	20% increase	% change
Equities (excluding fixed income mutual funds)	$ 603	(21)%	$ 682	(10)%	$ 761	$ 840	10%	$ 919	21%
Total invested assets (including funds held – directly managed, but excluding accrued interest)	17,861	(1)	17,940	—	18,019	18,098	—	18,177	1
Shareholders' equity	7,488	(2)	7,567	(1)	7,646	7,725	1	7,804	2

This change does not take into account any potential mitigating impact from the fixed income market or taxes.

At December 31, 2008, the Company estimated that a 10% decrease in the S&P 500 and MSCI EAFE Indexes would result in an approximate 9%, or $38 million, decrease in the fair value of the Company's equity portfolio, or an approximate nil% and 1% decrease of the total invested assets and shareholders' equity, respectively. The percentage impact of a decrease in equity markets on the Company's equity portfolio has not changed significantly at December 31, 2009 compared to December 31, 2008. The absolute impact of a decrease in equity markets on the Company's equity portfolio, total invested assets and shareholders' equity have increased to $79 million at December 31, 2009 compared to $38 million at December 31, 2008, as a result of the increase in the equity portfolio, excluding fixed income mutual funds, from $439 million at December 31, 2008 to $761 million at December 31, 2009.

PartnerRe Ltd.

Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except parenthetical share and per share data)

December 31, 2008	**December 31, 2009**	**Assets**
		Investments:
$ 10,181,995	**$ 14,143,093**	Fixed maturities, trading securities, at fair value (amortized cost: 2009, $13,856,840; 2008, $10,219,126)
117,091	**137,346**	Short-term investments, trading securities, at fair value (amortized cost: 2009, $134,830; 2008, $116,445)
512,812	**795,539**	Equities, trading securities, at fair value (cost: 2009, $731,387; 2008, $637,198)
74,493	**225,532**	Other invested assets
10,886,391	**15,301,510**	**Total investments**
—	**2,124,826**	Funds held - directly managed (cost: 2009, $2,126,456)
838,280	**738,309**	Cash and cash equivalents, at fair value, which approximates amortized cost
169,103	**218,739**	Accrued investment income
1,719,694	**2,249,181**	Reinsurance balances receivable
153,594	**367,453**	Reinsurance recoverable on paid and unpaid losses
786,422	**938,039**	Funds held by reinsured companies
617,121	**614,857**	Deferred acquisition costs
342,132	**313,798**	Deposit assets
215,703	**79,044**	Net tax assets
429,519	**455,533**	Goodwill
—	**247,269**	Intangible assets
121,361	**83,986**	Other assets
$ 16,279,320	**$ 23,732,544**	**Total assets**
		Liabilities
$ 7,510,666	**$ 10,811,483**	Unpaid losses and loss expenses
1,432,015	**1,615,193**	Policy benefits for life and annuity contracts
1,273,787	**1,706,816**	Unearned premiums
209,007	**426,091**	Other reinsurance balances payable
362,485	**330,015**	Deposit liabilities
219,679	**444,789**	Net tax liabilities
164,968	**231,441**	Accounts payable, accrued expenses and other
200,000	**200,000**	Current portion of long-term debt
200,000	**—**	Long-term debt
250,000	**250,000**	Debt related to senior notes
257,605	**70,989**	Debt related to capital efficient notes
12,080,212	**16,086,817**	Total liabilities
		Shareholders' Equity
57,749	**82,586**	Common shares (par value $1.00, issued: 2009, 82,585,707 shares; 2008, 57,748,507 shares)
11,600	**11,600**	Series C cumulative preferred shares (par value $1.00, issued and outstanding: 2009 and 2008, 11,600,000 shares; aggregate liquidation preference: 2009 and 2008, $290,000,000)
9,200	**9,200**	Series D cumulative preferred shares (par value $1.00, issued and outstanding: 2009 and 2008, 9,200,000 shares; aggregate liquidation preference: 2009 and 2008, $230,000,000)
1,465,688	**3,357,004**	Additional paid-in capital
		Accumulated other comprehensive income:
34,888	**82,843**	Currency translation adjustment
(12,080)	**2,084**	Other accumulated comprehensive income (loss) (net of tax of: 2009, $3,144; 2008, $4,668)
2,729,662	**4,100,782**	Retained earnings
(97,599)	**(372)**	Common shares held in treasury, at cost (2009, 5,000; 2008, 1,295,173)
4,199,108	**7,645,727**	**Total shareholders' equity**
$ 16,279,320	**$ 23,732,544**	**Total liabilities and shareholders' equity**

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(Expressed in thousands of U.S. dollars, except share and per share data)

For the year ended December 31, 2007	For the year ended December 31, 2008	**For the year ended December 31, 2009**	**Revenues**
$ 3,810,164	$ 4,028,248	**$ 4,000,888**	Gross premiums written
$ 3,757,109	$ 3,989,435	**$ 3,948,704**	Net premiums written
20,362	(61,411)	**171,121**	Decrease (increase) in unearned premiums
3,777,471	3,928,024	**4,119,825**	Net premiums earned
523,259	572,964	**596,071**	Net investment income
(72,492)	(531,360)	**591,707**	Net realized and unrealized investment gains (losses)
—	—	**88,427**	Net realized gain on purchase of capital efficient notes
(17,479)	10,335	**22,312**	Other income (loss)
4,210,759	3,979,963	**5,418,342**	**Total revenues**
			Expenses
2,082,461	2,609,220	**2,295,296**	Losses and loss expenses and life policy benefits
849,715	898,882	**885,214**	Acquisition costs
326,486	365,009	**430,808**	Other operating expenses
54,017	51,228	**28,301**	Interest expense
—	—	**(6,133)**	Amortization of intangible assets
15,552	(6,221)	**1,464**	Net foreign exchange losses (gains)
3,328,231	3,918,118	**3,634,950**	**Total expenses**
882,528	61,845	**1,783,392**	Income before taxes and interest in earnings (losses) of equity investments
81,748	9,705	**262,090**	Income tax expense
(82,968)	(5,573)	**15,552**	Interest in earnings (losses) of equity investments
717,812	46,567	**1,536,854**	**Net income**
34,525	34,525	**34,525**	Preferred dividends
$ 683,287	$ 12,042	**$ 1,502,329**	**Net income available to common shareholders**
			Comprehensive income (loss), net of tax
$ 717,812	$ 46,567	**$ 1,536,854**	Net income
129,043	(162,889)	**47,955**	Change in currency translation adjustment
41,837	2,408	**14,164**	Change in other accumulated comprehensive income, net of tax
$ 888,692	$ (113,914)	**$ 1,598,973**	**Comprehensive income (loss)**
			Per share data
			Net income per common share:
$ 12.18	$ 0.22	**$ 23.93**	Basic net income
$ 11.87	$ 0.22	**$ 23.51**	Diluted net income
56,104,359	54,347,052	**62,786,234**	Weighted average number of common shares outstanding
57,557,920	55,639,600	**63,890,638**	Weighted average number of common and common share equivalents outstanding
$ 1.72	$ 1.84	**$ 1.88**	Dividends declared per common share

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

Consolidated Statements of Shareholders' Equity

(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2007	For the year ended December 31, 2008	**For the year ended December 31, 2009**	**Common shares**
$ 57,076	$ 57,380	**$ 57,749**	Balance at beginning of year
—	—	**24,361**	Issuance of common shares related to the acquisition of Paris Re
791	369	**476**	Issuance of common shares, other
(487)	—	**—**	Repurchase of common shares
57,380	57,749	**82,586**	Balance at end of year
			Preferred shares
20,800	20,800	**20,800**	Balance at beginning and end of year
			Additional paid-in capital
1,413,977	1,441,598	**1,465,688**	Balance at beginning of year
—	—	**1,858,055**	Issue of common shares related to the acquisition of Paris Re
60,918	24,090	**33,261**	Issue of common shares, other
(33,297)	—	**—**	Repurchase of common shares
1,441,598	1,465,688	**3,357,004**	Balance at end of year
			Accumulated other comprehensive income
118,370	289,250	**22,808**	Balance at beginning of year
129,043	(162,889)	**47,955**	Change in currency translation adjustment
41,837	2,408	**14,164**	Change in other accumulated comprehensive income, net of tax
—	(105,961)	**—**	Impact of adopting fair value option for certain investments, net of tax
289,250	22,808	**84,927**	Balance at end of year
			Retained earnings
2,175,624	2,753,784	**2,729,662**	Balance at beginning of year
717,812	46,567	**1,536,854**	Net income
(96,406)	(100,102)	**(117,326)**	Dividends on common shares
(34,525)	(34,525)	**(34,525)**	Dividends on preferred shares
—	—	**(13,883)**	Reissuance of treasury shares related to the acquisition of Paris Re
—	(42,023)	**—**	Reissuance of treasury shares, other
—	105,961	**—**	Impact of adopting fair value option for certain investments, net of tax
(8,721)	—	**—**	Impact of adopting accounting for uncertain tax positions
2,753,784	2,729,662	**4,100,782**	Balance at end of year
			Common shares held in treasury
—	(241,255)	**(97,599)**	Balance at beginning of year
—	—	**97,227**	Reissuance of treasury shares related to the acquisition of Paris Re
—	253,673	**—**	Reissuance of treasury shares, other
(241,255)	(110,017)	**—**	Repurchase of common shares
(241,255)	(97,599)	**(372)**	Balance at end of year
$ 4,321,557	$ 4,199,108	**$ 7,645,727**	**Total shareholders' equity**

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2007	For the year ended December 31, 2008	**For the year ended December 31, 2009**	**Cash flows from operating activities**
$ 717,812	$ 46,567	**$ 1,536,854**	Net income
			Adjustments to reconcile net income to net cash provided by operating activities:
1,800	7,923	**17,312**	Amortization of net premium on investments
—	—	**(6,133)**	Amortization of intangible assets
72,492	531,360	**(591,707)**	Net realized and unrealized investment (gains) losses
—	—	**(88,427)**	Net realized gain on purchase of capital efficient notes
			Changes in:
209,659	(284,771)	**170,986**	Reinsurance balances, net
15,500	2,708	**(20,836)**	Reinsurance recoverable on paid and unpaid losses, net of ceded premiums payable
(34,958)	155,427	**54,416**	Funds held by reinsured companies and funds held – directly managed
(55,642)	(20,289)	**67,899**	Deferred acquisition costs
15,663	(22,680)	**208,052**	Net tax assets and liabilities
16,620	651,021	**(112,108)**	Unpaid losses and loss expenses including life policy benefits
(20,362)	61,411	**(171,121)**	Unearned premiums
161,050	30,321	**33,414**	Other net changes in operating assets and liabilities
127,748	—	**—**	Net sales of trading securities
1,227,382	1,158,998	**1,098,601**	**Net cash provided by operating activities**
			Cash flows from investing activities
4,100,792	6,045,475	**7,271,909**	Sales of fixed maturities
963,975	844,948	**1,065,353**	Redemptions of fixed maturities
(6,362,080)	(8,093,855)	**(9,039,313)**	Purchases of fixed maturities
318,209	193,989	**201,479**	Sales and redemptions of short-term investments
(272,496)	(212,189)	**(182,211)**	Purchases of short-term investments
1,707,193	1,677,671	**688,360**	Sales of equities
(1,653,316)	(1,338,682)	**(826,246)**	Purchases of equities
—	—	**492,466**	Cash acquired related to the acquisition of Paris Re[1]
4,332	(61,451)	**(118,473)**	Other, net
(1,193,391)	(944,094)	**(446,676)**	**Net cash used in investing activities**
			Cash flows from financing activities
(130,931)	(134,627)	**(151,851)**	Cash dividends paid to shareholders
—	—	**(330,103)**	Share capital repayment paid to former shareholders of Paris Re
—	(220,000)	**(200,000)**	Repayment of debt
—	—	**(94,241)**	Purchase of capital efficient notes
37,907	222,736	**16,034**	Net issuance of common shares and treasury shares
(10,414)	(10,006)	**(5,070)**	Contract fees on forward sale agreement
(275,039)	(110,017)	**—**	Repurchase of common shares
—	250,000	**—**	Proceeds from issuance of senior notes
(378,477)	(1,914)	**(765,231)**	**Net cash used in financing activities**
10,593	(29,605)	**13,335**	**Effect of foreign exchange rate changes on cash**
(333,893)	183,385	**(99,971)**	**(Decrease) increase in cash and cash equivalents**
988,788	654,895	**838,280**	**Cash and cash equivalents—beginning of year**
$ 654,895	$ 838,280	**$ 738,309**	**Cash and cash equivalents—end of year**
			Supplemental cash flow information:
$ 65,457	$ 36,007	**$ 118,174**	Taxes paid
$ 55,110	$ 51,190	**$ 32,476**	Interest paid

[1] *The acquisition of Paris Re's assets and liabilities involved non-cash share for share transactions, which have been excluded from the Consolidated Statements of Cash Flows.*

See accompanying Notes to Consolidated Financial Statements.

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its principal 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, life/annuity and health and alternative risk products. The Company's alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

The Company was incorporated in August 1993 under the laws of Bermuda. The Company commenced operations in November 1993 upon completion of the sale of common shares and warrants pursuant to subscription agreements and an initial public offering. In July 1997, the Company completed the acquisition of SAFR (subsequently renamed PartnerRe SA), and in December 1998, the Company completed the acquisition of the reinsurance operations of Winterthur Group (Winterthur Re).

On July 4, 2009, the Company entered into definitive agreements to effect a multi-step acquisition of all the outstanding common shares and warrants of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-based diversified reinsurer and its operating subsidiaries. In July 2009, the Company purchased approximately 6% of the outstanding Paris Re common shares.

On October 2, 2009, the Company closed its block purchase of Paris Re's common shares and warrants (Block Purchase). This purchase represented, in the aggregate, approximately 77% of the outstanding common shares of Paris Re, resulting in the Company's ownership of Paris Re's common shares increasing to approximately 83%. Subsequent to October 2, 2009, the Company acquired additional common shares of Paris Re and effected a statutory merger (Merger), resulting in the Company obtaining 100% ownership of Paris Re on December 7, 2009. 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 (Acquisition Date), to December 31, 2009 (See Note 3).

2. Significant Accounting Policies

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, including those that meet the consolidation requirements of variable interest entities (VIEs). Intercompany accounts and transactions have been eliminated. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

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. While Management believes that the amounts included in the Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Recoverability of deferred tax assets;
- Valuation of goodwill and intangible assets; and
- Valuation of certain assets and derivative financial instruments that are measured using significant unobservable inputs.

In June 2009, the Financial Accounting Standards Board (FASB) established the Accounting Standards Codification (the Codification) as the source of authoritative U.S. GAAP for non-governmental entities, in addition to guidance issued by the Securities and Exchange Commission. The Codification supersedes all previously existing, non-SEC accounting and reporting standards and reorganizes existing U.S. GAAP into authoritative accounting topics and sub-topics. The Company adopted the Codification as of September 30, 2009, and it impacted the Company's disclosures by eliminating all references to pre-Codification standards.

The following are the Company's significant accounting policies:

(a) Premiums

Gross premiums written and earned are based upon reports received from ceding companies, supplemented by the Company's own estimates of premiums written and earned for which ceding company reports have not been received. Differences between such estimates and actual amounts are recorded in the period in which the estimates are changed or the actual amounts are determined. Net premiums written and earned are presented net of ceded premiums, which represent the cost of retrocessional protection purchased by the Company. Premiums are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which is generally one to two years. For U.S. and European wind and certain other risks, premiums are earned commensurate with the seasonality of the underlying exposure. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force. Premiums related to individual life and annuity business are recorded over the premium-paying period on the underlying policies. Premiums on annuity and universal life contracts for which there is no significant mortality or critical illness risk are accounted for in a manner consistent with accounting for interest-bearing financial instruments and are not reported as revenues, but rather as direct deposits to the contract. Amounts assessed against annuity and universal life policyholders are recognized as revenue in the period assessed.

(b) Losses and Loss Expenses and Life Policy Benefits

The liability for unpaid losses and loss expenses includes amounts determined from loss reports on individual treaties (case reserves), additional case reserves when the Company's loss estimate is higher than reported by the cedants (ACRs) and amounts for losses incurred but not yet reported to the Company (IBNR). Such reserves are estimated by Management based upon reports received from ceding companies, supplemented by the Company's own actuarial estimates of reserves for which ceding company reports have not been received, and based on the Company's own historical experience. To the extent that the Company's own historical experience is inadequate for estimating reserves, such estimates may be determined based upon industry experience and Management's judgment. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided. Any adjustments are reflected in the periods in which they are determined, which may affect the Company's operating results in future periods.

The liabilities for policy benefits for ordinary life and accident and health policies have been established 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. Future policy benefit reserves for annuity and universal life contracts are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and critical illness claims in the process of settlement, and claims that have been incurred but not yet reported.

The Company purchases retrocessional contracts to reduce its exposure to risk of losses on reinsurance assumed. Reinsurance recoverable on paid and unpaid losses involves actuarial estimates consistent with those used to establish the associated liabilities for unpaid losses and loss expenses and life policy benefits.

(c) Deferred Acquisition Costs

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. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition costs related to individual life and annuity contracts are deferred and amortized over the premium-paying periods in proportion to anticipated premium income, allowing for lapses, terminations and anticipated investment income. Acquisition costs related to universal life and single premium annuity contracts for which there is no significant mortality or critical illness risk are deferred and amortized over the lives of the contracts as a percentage of the estimated gross profits expected to be realized on the contracts.

(d) Funds Held by Reinsured Companies (Cedants)

The Company writes certain business on a funds held basis. Under such contractual arrangements, the cedant retains the premiums that would have otherwise been paid to the Company and the Company earns interest on these funds. With the exception of those arrangements discussed below, the Company generally earns investment income on the funds held balances based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized index (e.g., LIBOR).

In certain circumstances, the Company may receive an investment return based upon either the result of a pool of assets held by the cedant, generally used to collateralize the funds held balance, or the investment return earned by the cedant on its entire investment portfolio. This is most common in the Company's life reinsurance business. In these arrangements, gross investment returns are typically reflected in net investment income with a corresponding increase or decrease (net of a spread) being recorded as life policy benefits in the Company's Consolidated Statements of Operations. In these arrangements, the Company is exposed, to a limited extent, to the underlying credit risk of the pool of assets inasmuch as the underlying life policies may have guaranteed minimum returns. In such cases, an embedded derivative exists and its fair value is recorded by the Company as an increase or decrease to the funds held balance, which is substantially offset by a comparable but opposite adjustment to deferred acquisition costs.

(e) Funds Held – Directly Managed

The Company elected the fair value option as of the Acquisition Date for substantially all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying the funds held – directly managed account, and accordingly, all changes in the fair value of the segregated investment portfolio underlying the funds held – directly managed account subsequent to the Acquisition Date are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations (see Note 7).

(f) Deposit Assets and Liabilities

In the normal course of its operations, the Company enters into certain contracts that do not meet the risk transfer provisions of U.S. GAAP. While these contracts do not meet risk transfer provisions for accounting purposes, there is a remote possibility that the Company will suffer a loss. The Company accounts for these contracts using the deposit accounting method, originally recording deposit liabilities for an amount equivalent to the consideration received. The consideration to be retained by the Company, irrespective of the experience of the contracts, is earned over the expected settlement period of the contracts, with any unearned portion recorded as a component of deposit liabilities. Actuarial studies are used to estimate the final liabilities under these contracts and the appropriate accretion rates to increase or decrease the liabilities over the term of the contracts. The change for the period is recorded in other income or loss in the Consolidated Statements of Operations.

Under some of these contracts, cedants retain the assets on a funds-held basis. In those cases, the Company records those assets as deposit assets and records the related income in net investment income in the Consolidated Statements of Operations.

(g) Investments

Effective January 1, 2008, the Company adopted the 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 adoption of the guidance on fair value measurements, and subsequent fair value guidance, did not have a material impact on the Company's consolidated shareholders' equity or net income. See Note 5 for additional information on fair value.

Effective January 1, 2008, the Company elected the fair value option for all of its fixed maturities, short-term investments, equities and certain other invested assets (including swaps and derivatives but excluding certain other invested assets, such as those that are accounted for using the equity method of accounting or investment company accounting). Following the election of the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in earnings.

The election of the fair value option resulted in a cumulative effect adjustment of $106.0 million, net of taxes, which decreased accumulated other comprehensive income and increased opening retained earnings as of January 1, 2008. There was no impact on the Company's consolidated net income, shareholders' equity or its comprehensive income.

Following the adoption of the fair value option, all of the Company's fixed maturities, short-term investments and equities that were previously classified as available for sale securities, as well as certain other invested assets, are reported as trading securities. Trading securities are carried at fair value with all changes in fair value included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. Prior to the adoption of the fair value option, fixed maturities, short-term investments and equities that were classified as available for sale were carried at fair value with the difference between cost or amortized cost and fair value, net of the effect of taxes, included as a separate component of accumulated other comprehensive income in the Consolidated Balance Sheets. In addition, prior to the adoption of the fair value option, the Company evaluated the fair value of its investments on a periodic basis to determine whether a decline in fair value below the amortized cost basis (original cost basis for equities) was other-than-temporary. If the decline in fair value was judged to be other-than-temporary, the cost or amortized cost of the individual security was written down to fair value and a new cost basis was established, with the amount of the write-down included as a realized investment loss in the period in which the determination of other-than-temporary impairment was made.

The Company elected the fair value option as of the Acquisition Date for all of Paris Re's fixed maturities, short-term investments and certain other invested assets.

Short-term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase.

Other invested assets consist primarily of investments in non-publicly traded companies, private placement equity investments, derivative financial instruments and other specialty asset classes. Entities in which the Company has an ownership of more than 20% and less than 50% of the voting shares, and limited partnerships in which the Company has more than a minor interest, are accounted for using the equity method. Other invested assets are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company are generally commensurate with standard valuation techniques for each asset class.

Net investment income includes interest and dividend income, amortization of premiums and discounts on fixed maturities and short-term investments and investment income on funds held, and is net of investment expenses and withholding taxes. Investment income is recognized when earned. Realized gains and losses on the disposal of investments are determined on a first-in, first-out basis. Investment purchases and sales are recorded on a trade-date basis.

(h) Cash and Cash Equivalents

Cash equivalents are carried at fair value and include debt securities that, at purchase, have a maturity of three months or less.

(i) Business Combinations

The FASB issued new accounting guidance related to business combinations and noncontrolling interests acquired after December 15, 2008. In April 2009, the FASB issued additional guidance related to accounting for assets acquired and liabilities assumed in a business combination that arise from contingencies.

The Company adopted this new accounting guidance related to business combinations, noncontrolling interests and contingencies in the fourth quarter of 2009 following the closing of the Block Purchase, which resulted in the Company obtaining control of Paris Re on the Acquisition Date. The transaction was accounted for as an acquisition method business combination with the purchase price allocated to identifiable assets and liabilities, including certain intangible assets, based on their estimated fair value at the Acquisition Date. The fair value of noncontrolling interests was also recorded at fair value at the Acquisition Date. The estimates of fair values for assets and liabilities assumed were determined by management based on various market and income analyses and appraisals. All costs associated with the acquisition were expensed as incurred. See Note 3.

(j) 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.

(k) 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.

(l) Income Taxes

Certain subsidiaries and branches of the Company operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or, in certain cases, to accumulated other comprehensive income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the Consolidated Balance Sheets and those used in the various jurisdictional tax returns. When Management's assessment indicates that it is more likely than not that deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets. The Company recognizes a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. A liability must be recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed to be recognized in the financial statements under U.S. GAAP.

(m) Translation of Foreign Currencies

The reporting currency of the Company is the U.S. dollar. The national currencies of the Company's subsidiaries and branches are generally their functional currencies, except for the Bermuda subsidiaries and the Company's Swiss subsidiaries and branch, whose functional currencies are the U.S. dollar. In translating the financial statements of those subsidiaries or branches whose functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the average foreign exchange rates for the period. The effect of translation adjustments are reported in the Consolidated Balance Sheets as currency translation adjustment, a separate component of accumulated other comprehensive income.

In recording foreign currency transactions, revenue and expense items are converted into the functional currency at the average rates of exchange for the period. Assets and liabilities originating in currencies other than the functional currency are translated into the functional currency at the rates of exchange in effect at the balance sheet dates. The resulting foreign exchange gains or losses are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The Company also records realized and unrealized foreign exchange gains and losses on certain hedged items in net foreign exchange gains and losses in the Consolidated Statements of Operations (see Note 2(n)).

(n) Derivatives Used in Hedging Activities

The Company utilizes derivative financial instruments as part of its overall currency risk management strategy. The Company recognizes all derivative financial instruments, including embedded derivative instruments, as either assets or liabilities in the Consolidated Balance Sheets and measures those instruments at fair value. On the date the Company enters into a derivative contract, Management designates whether the derivative is to be used as a hedge of an identified underlying exposure (a designated hedge). The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the Consolidated Financial Statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability being hedged.

Following the adoption of the fair value option, derivatives employed by the Company to hedge currency exposure related to fixed income securities and derivatives employed by the Company to hedge currency exposure related to other reinsurance assets and liabilities, except for the hedge of the Company's net investment in non-U.S. dollar functional currency subsidiaries and branches, are no longer designated as hedges. The changes in fair value of the non-designated hedges are recognized in net foreign exchange gains and losses in the Consolidated Statements of Operations. Prior to the adoption of the fair value option, the Company used currency derivatives, which were designated as fair value hedges, and accordingly, the changes in the fair value of the derivative and the hedged item related to foreign currency were recognized in net realized investment gains and losses in the Consolidated Statements of Operations.

As part of its overall strategy to manage its level of currency exposure, from time to time the Company uses forward foreign exchange derivatives to hedge or partially hedge the net investment in certain non-U.S. dollar functional currency subsidiaries and branches. These derivatives have been designated as net investment hedges, and accordingly, the changes in fair value of the derivative and the hedged item related to foreign currency are recognized in currency translation adjustment in the Consolidated Balance Sheets.

The Company formally documents all relationships between designated hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset or liability that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its designated hedging relationships, both at the hedge inception and on an ongoing basis. The Company assesses the effectiveness of its designated hedges using the period-to-period dollar offset method on an individual currency basis. If the ratio obtained with this method is within the range of 80% to 125%, the Company considers the hedge effective. The time value component of the designated net investment hedges is included in the assessment of hedge effectiveness.

The Company will discontinue hedge accounting prospectively if it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item. To the extent that the Company discontinues hedge accounting related to its net investment in non-U.S. dollar functional currency of subsidiaries and branches, because, based on Management's assessment, the derivative no longer qualifies as an effective hedge, the derivative will continue to be carried in the Consolidated Balance Sheets at its fair value, with changes in its fair value recognized in current period net income through net foreign exchange gains and losses.

(o) **Investment Related Derivatives**

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 written covered call options 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. These instruments are recorded at fair value as assets and liabilities in the Consolidated Balance Sheets. Changes in fair value are included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations, and changes in the fair value of foreign currency option contracts and foreign exchange forward contracts are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The fair value of these derivatives are based on quoted market prices, or internal valuation models where quoted market prices are not available. Margin balances required by counterparties, which are equal to a percentage of the total value of open futures contracts, are included in cash and cash equivalents.

(p) **Weather Derivatives**

The Company has entered into weather related transactions that are structured as insurance, reinsurance or derivatives. When those transactions are determined to be derivatives, they are recorded at fair value with the changes in fair value reported in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. The Company uses internal valuation models to estimate the fair value of these derivatives.

(q) **Total Return and Interest Rate Swaps**

The Company has entered into total return and interest rate swaps. Margins related to these swaps are included in other income or loss in the Consolidated Statements of Operations and any changes in the fair value of the swaps are included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. The Company records these swaps at fair value, based on internal valuation models.

(r) **Treasury Shares**

Common shares repurchased by the Company and not cancelled are classified as treasury shares, and are recorded at cost. This results in a reduction of shareholders' equity in the Consolidated Balance Sheets. When shares are reissued from treasury, the Company uses the average cost method to determine the cost of the reissued shares. Gains on sales of treasury shares are credited to additional paid-in capital, while losses are charged to additional paid-in capital to the extent that previous net gains from sales of treasury shares are included therein, otherwise losses are charged to retained earnings.

(s) **Net Income per Common Share**

Diluted net income per common share is defined as net income available to common shareholders divided by the weighted average number of common and common share equivalents outstanding, calculated using the treasury stock method for all potentially dilutive securities. Net income available to common shareholders is defined as net income less preferred share dividends. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted net income per share. Basic net income per share is defined as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period, giving no effect to dilutive securities.

(t) Share-Based Compensation

The Company currently uses five types of share-based compensation: share options, restricted shares (RS), restricted share units (RSUs), share-settled share appreciation rights (SSARs) and shares issued under the Company's employee share purchase plans.

The fair value of the compensation cost is measured at the grant date and is expensed over the period for which the employee is required to provide services in exchange for the award. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of share-based compensation costs. Awards granted to employees who are eligible for retirement and do not have to provide additional services are expensed at the date of grant.

(u) Pensions

The Company recognizes an asset or a liability in the Consolidated Balance Sheets for the funded status of its defined benefit plans that are overfunded or underfunded, respectively, measured as the difference between the fair value of plan assets and the pension obligation and recognizes changes in the funded status of defined benefit plans in the year in which the changes occur as a component of accumulated other comprehensive income, net of tax.

(v) Variable Interest Entities

A variable interest entity (VIE) is required to be consolidated by the Company if the Company is determined to be the primary beneficiary of the VIE, such that it is subject to a majority of the risk of loss from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both. A VIE is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The Company has determined that PartnerRe Finance A, which issued the Senior Notes, and PartnerRe Finance II, which issued the capital efficient notes (CENts), do not meet consolidation requirements under U.S. GAAP. As a result, the Company has not consolidated PartnerRe Finance A LLC and PartnerRe Finance II Inc. and has reflected the debt issued by the Company related to the Senior Notes and CENts as liabilities in the Consolidated Balance Sheets (see Note 16). The interest on the debt related to the Senior Notes and CENts is reported as interest expense in the Consolidated Statements of Operations.

(w) Segment Reporting

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 or approach to risk management.

(x) Recent Accounting Pronouncements

In June 2009, the FASB issued new accounting guidance which requires an enterprise to perform ongoing reassessments of its variable interest entities and requires enhanced disclosures of an enterprise's involvement in variable interest entities. The guidance will be effective for annual and interim periods beginning after November 15, 2009, with early adoption prohibited. The Company is currently evaluating the impact of the adoption of this guidance on its consolidated shareholders' equity and net income.

In January 2010, the FASB issued new accounting guidance which requires companies to disclose additional information about their fair value measurements at a greater level of disaggregation. The additional disclosures include information about transfers into and/ or out of the Level 1 and 2 categories of inputs, increased disclosures of activity in Level

3 fair value measurements, and other disclosures about inputs and valuation techniques. The guidance related to disclosures at a greater level of disaggregation, disclosures about transfers into and/or out of the Level 1 and 2 categories and expanded disclosures about inputs and valuation techniques will be effective for annual and interim periods beginning after December 15, 2009. Expanded disclosures related to the Level 3 activity will be effective for fiscal years beginning after December 15, 2010. The Company is currently evaluating the impact of the adoption of this guidance on its disclosures.

3. Business Combination

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. The acquisition of Paris Re was undertaken to achieve greater market presence, risk diversification and capital strength, while at the same time maintaining the core of the Company's existing franchise.

In July 2009, the Company purchased approximately 6% of the outstanding Paris Re common shares by issuing approximately 1.5 million of its common shares (approximately 1.3 million of which were treasury shares) for consideration of $95.5 million. Prior to the Acquisition Date, the Paris Re common shares were recorded as equity investments in the Company's Consolidated Balance Sheet with the change in fair value from the date of purchase to the Acquisition Date of $18.3 million recorded in net realized and unrealized gains in the Consolidated Statement of Operations. The fair value of the Paris Re shares held immediately before the Acquisition Date was determined based on the closing market price of the Company's common shares as of the Acquisition Date.

On the Acquisition Date, the Company caused a wholly-owned subsidiary (Merger Subsidiary) to complete the 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 the Acquisition Date. Accordingly, the Company obtained a controlling interest in Paris Re as of the Acquisition Date. In connection with the Block Purchase, the Company issued approximately 20.0 million of its common shares.

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 and issued approximately 1.4 million of its common shares to the holders of those 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.

On October 26, 2009, the Company declared a cash dividend of $0.47 per common share payable to common shareholders of record on November 20, 2009. As the record date for this dividend was after the closing of the Block Purchase and prior to the effective time of the Merger, the per share consideration payable in the Merger was adjusted upwards to

0.3018 Company common shares for each Paris Re common share and Paris Re warrant in accordance with the Transaction Agreements.

On November 2, 2009, Paris Re, having met all of the conditions precedent to the payment of its previously announced extraordinary cash distribution by way of a capital reduction to all Paris Re shareholders in the amount of CHF 4.17 per Paris Re common share (the Swiss franc equivalent of $3.85 as of July 7, 2009, the date on which Paris Re fixed the U.S. dollar/Swiss franc currency exchange rate to be used for the extraordinary cash distribution) (Share Capital Repayment), effected the Share Capital Repayment. The Paris Re shareholders that previously sold their Paris Re common shares to the Company in July 2009, received a payment of $3.85 at the closing of the Block Purchase for each Paris Re common share sold (net of dividends paid on the Company's common shares with respect to the period after such sale and prior to the closing of the Block Purchase). All other Paris Re shareholders who sold their common shares to the Company prior to the Share Capital Repayment received a payment of CHF 4.17 for each Paris Re common share sold either in cash or in the form of a promissory note issued by the Company at the time of the acquisition of their Paris Re common shares. On November 3, 2009, the Company paid in full all promissory notes issued to such sellers of Paris Re common shares.

On December 7, 2009, the Company completed its acquisition of Paris Re, achieving 100% ownership. The final step of the acquisition was effected by the 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 dated as of July 4, 2009, as amended, among Paris Re, the Company and Merger Subsidiary.

By virtue of the Merger, each remaining issued and outstanding Paris Re common share (other than those held by Merger Subsidiary) was converted into the right to receive 0.3018 PartnerRe common shares, which is the same per share consideration paid by the Company in connection with its previous purchases of Paris Re common shares, as adjusted upwards to account for the cash dividend declared on the Company's common shares as described above. In connection with the Merger, the Company issued approximately 2.8 million of its common shares.

The total purchase price, fair value of net assets acquired and goodwill as of the Acquisition Date, are calculated as follows (in millions of U.S. dollars, except share (in thousands) and per share data):

Purchase Price	
Paris Re common shares held as of the Acquisition Date	67,061
Exchange ratio	0.300
PartnerRe common shares issued for Paris Re common shares as of the Acquisition Date	20,118
Paris Re warrants held as of the Acquisition Date	8,391
Exchange ratio	0.167
PartnerRe common shares issued for Paris Re warrants as of the Acquisition Date	1,401
Total PartnerRe common shares issued for Paris Re common shares and warrants as of the Acquisition Date	21,520
PartnerRe's closing share price on the Acquisition Date	$ 76.96
Purchase price before adjustments for share-based compensation	$ 1,656.2
Fair value of replacement share-based awards outstanding	9.7
Unrecognized compensation cost on unvested replacement share-based awards	(3.8)
Total purchase price as of the Acquisition Date	$ 1,662.1

Fair Value of Net Assets Acquired	
Investments, cash and cash equivalents, at fair value	$ 3,207.2
Funds held – directly managed	2,242.0
Reinsurance balances receivable	583.4
Intangible assets	287.5
Other assets	336.2
Total assets	$ 6,656.3
Unpaid losses and loss expenses	$ 3,391.3
Unearned premiums	585.5
Other reinsurance balances payable	171.4
Other liabilities	554.4
Total liabilities	$ 4,702.6
Total identifiable net assets acquired as of the Acquisition Date, at fair value	$ 1,953.7
Less: noncontrolling interests as of the Acquisition Date, at fair value	(317.6)
PartnerRe's share of net assets acquired as of the Acquisition Date, at fair value	$ 1,636.1
Goodwill	$ 26.0

The fair value of the separately identifiable intangible assets acquired and the period over which each intangible asset will be amortized, if applicable, is as follows (in thousands of U.S. dollars):

	Fair value	Amortization period
Definite-lived intangible assets:		
Unpaid losses and loss expenses	$ 191,196	11 years
Unearned premiums	56,300	2 years
Renewal rights	32,700	3 years
Indefinite-lived intangible asset:		
U.S. insurance licenses	7,350	N/A
	$ 287,546	

N/A: *not applicable*

The aggregate purchase price paid by the Company to acquire 100% of the outstanding Paris Re common shares and warrants was $1,979.7 million for total identifiable net assets acquired of $1,953.7 million. All of the goodwill was assigned to the Company's Paris Re sub-segment. None of the goodwill recognized is expected to be deductible for tax purposes.

The fair value of the 25.7 million common shares issued as a part of consideration paid for Paris Re and the fair value of the noncontrolling interests as of the Acquisition Date was determined based on the closing market price of the Company's common shares on the Acquisition Date.

For the period from October 2, 2009 to December 7, 2009, Paris Re had noncontrolling interests. Net income attributable to Paris Re's noncontrolling interests during this period was $4.3 million, and has been recorded within other income (loss) in the Consolidated Statement of Operations.

The following selected information summarizes the results of Paris Re since October 2, 2009, that have been included within the Company's Consolidated Statements of Operations (in thousands of U.S. dollars):

	October 2, 2009 to December 31, 2009
Net premiums written	$ 177,953
Total revenues	337,326
Net income	45,225

Supplemental Pro forma Information
Paris Re's results have been included in the Company's Consolidated Financial Statements from October 2, 2009 to December 31, 2009. The following pro forma financial information for 2009 and 2008 is presented for informational purposes only and is not necessarily indicative of the results that would have occurred had the acquisition been consummated at the beginning of each period presented, nor is it necessarily indicative of future results. Significant assumptions used to determine pro forma results include amortization of intangible assets related to the acquisition and assumes the Company's acquisition of Paris Re occurred on January 1 of each of the respective years. The table presents unaudited pro forma consolidated information for the years ended December 31, 2009 and 2008 (in millions of U.S. dollars, except per share data):

	2009 (unaudited)	2008 (unaudited)
Total revenues	**$ 6,508**	$ 5,418
Net income	**1,683**	40
Basic earnings per share	**20.03**	0.07
Diluted earnings per share	**19.75**	0.07

4. Goodwill and Intangible Assets

The following table shows the Company's goodwill and intangible assets at December 31, 2009, 2008 and 2007 (in thousands of U.S. dollars):

	Goodwill	Definite-lived intangible assets	Indefinite-lived intangible assets	Total
Balance as of December 31, 2007 and 2008	$ 429,519	$ —	$ —	$ 429,519
Acquired during the year	26,014	280,196	7,350	313,560
Intangible assets amortization	—	(40,277)	—	(40,277)
Balance as of December 31, 2009	$ 455,533	$ 239,919	$ 7,350	$ 702,802

Of the total intangible asset amortization of $40,277, $46,410 is recorded within acquisition costs and $(6,133) is recorded within amortization of intangible assets in the Consolidated Statements of Operations for the year ended December 31, 2009, respectively. The amount recorded within acquisition costs in the Consolidated Statements of Operations approximates the amount of Paris Re's deferred acquisition costs that would have been recorded as acquisition costs had they not been fair valued under purchase accounting.

The estimated remaining amortization expense related to the Company's definite-lived intangible assets is as follows (in thousands of U.S. dollars):

Period	Amount
2010	$ 68,554
2011	44,848
2012	31,799
2013	19,479
2014 and thereafter	75,239
Total	$ 239,919

5. Fair Value

(a) Fair Value Hierarchy

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 determines 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. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs – Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

  The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities listed on a major exchange and exchange traded derivatives, such as futures and options, that are actively traded.

- Level 2 inputs – Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and directly or indirectly observable inputs, other than quoted prices, used in industry accepted models.

  The Company's financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Treasury bonds; U.S. Government Sponsored Entities; Organization for Economic Co-operation and Development Sovereign Treasury bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortgage-backed securities; asset-backed securities (ABS); foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, interest rate swaps and credit default swaps.

- Level 3 inputs – Unobservable inputs.

  The Company's financial instruments that it measures at fair value using Level 3 inputs generally include: unlisted equities including preference shares; unit trusts; private ABS; inactively traded fixed maturities; real estate mutual fund investments; credit linked notes; loans receivable; total return swaps and weather derivatives.

The Company's financial instruments measured at fair value include investments classified as trading securities, certain other invested assets and the segregated investment portfolio underlying the funds held – directly managed account (see Note 7). At December 31, 2009 and 2008, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

December 31, 2009	**Quoted prices in active markets for identical assets (Level 1)**	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total**
Fixed maturities, trading securities	**$ —**	**$ 13,945,500**	**$ 197,593**	**$ 14,143,093**
Short-term investments, trading securities	**—**	**137,346**	**—**	**137,346**
Equities, trading securities	**757,436**	**—**	**38,103**	**795,539**
Other invested assets	**—**	**39,795**	**16,454**	**56,249**
Funds held – directly managed	**—**	**1,790,676**	**39,619**	**1,830,295**
Total	**$ 757,436**	**$ 15,913,317**	**$ 291,769**	**$ 16,962,522**

December 31, 2008	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Fixed maturities, trading securities	$ —	$ 10,103,857	$ 78,138	$ 10,181,995
Short-term investments, trading securities	—	116,954	137	117,091
Equities, trading securities	436,627	42,638	33,547	512,812
Other invested assets	—	(870)	(16,136)	(17,006)
Total	$ 436,627	$ 10,262,579	$ 95,686	$ 10,794,892

At December 31, 2009 and 2008, the aggregate carrying amounts of items included in other invested assets that the Company did not measure at fair value were $169.3 million and $91.5 million, respectively, which primarily related to the Company's investments that are accounted for using the cost method of accounting, equity method of accounting or investment company accounting. At December 31, 2009, the aggregate carrying amount of items included in the funds held – directly managed account that the Company did not measure at fair value was $294.5 million, which primarily related to cash and cash equivalents, other assets and liabilities and accrued investment income held by Colisée Re related to the underlying business, which are carried at cost (see Note 7).

Substantially all of the accrued investment income in the Consolidated Balance Sheets as of December 31, 2009 and 2008 related to the Company's fixed maturities, short-term investments and equities for which the fair value option was elected. In addition, accrued investment income of $25.2 million at December 31, 2009, related to the investments underlying the funds held – directly managed account, is included within the value of the funds held – directly managed account.

The following tables reconcile the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the years ended December 31, 2009 and 2008, respectively (in thousands of U.S. dollars):

December 31, 2009	**Fixed maturities**	**Short-term investments**	**Equities**	**Other invested assets**	**Funds held – directly managed**	**Total**
Balance at beginning of year	**$ 78,138**	**$ 137**	**$ 33,547**	**$ (16,136)**	**$ —**	**$ 95,686**
Level 3 assets acquired from Paris Re	**20,680**	**—**	**—**	**—**	**44,885**	**65,565**
Realized and unrealized investment gains (losses) included in net income	**23,937**	**(99)**	**3,661**	**30,701**	**(3,342)**	**54,858**
Net purchases, sales and settlements	**97,683**	**—**	**895**	**(1,609)**	**—**	**96,969**
Transfers (out of)/into Level 3	**(22,845)**	**(38)**	**—**	**3,498**	**(1,924)**	**(21,309)**
Balance at end of year	**$ 197,593**	**$ —**	**$ 38,103**	**$ 16,454**	**$ 39,619**	**$ 291,769**
Change in unrealized investment gains (losses) relating to assets held at end of year	**$ 4,350**	**$ —**	**$ 3,661**	**$ 26,703**	**$ (3,113)**	**$ 31,601**

December 31, 2008	Fixed maturities	Short-term investments	Equities	Other invested assets	Total
Balance at beginning of year	$ 15,166	$ —	$ 39,606	$ (14,838)	$ 39,934
Realized and unrealized investment (losses) gains included in net income	(7,684)	23	(6,059)	(12,368)	(26,088)
Net purchases, sales and settlements	74,114	114	—	11,070	85,298
Transfers out of Level 3	(3,458)	—	—	—	(3,458)
Balance at end of year	$ 78,138	$ 137	$ 33,547	$ (16,136)	$ 95,686
Change in unrealized investment (losses) gains relating to assets held at end of year	$ (7,684)	$ 23	$ (6,059)	$ (27,742)	$ (41,462)

Changes in the fair value of the Company's financial instruments measured at fair value during the years ended December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	For the year ended December 31, 2009	For the year ended December 31, 2008
Fixed maturities, trading securities	**$ 320,934**	$ (150,860)
Short-term investments, trading securities	**2,010**	551
Equities, trading securities	**185,925**	(144,634)
Funds held - directly managed	**1,885**	—
Total	**$ 510,754**	$ (294,943)

All of the above changes in fair value are included in the Consolidated Statements of Operations under the caption Net realized and unrealized investment gains (losses).

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument recorded in the Consolidated Balance Sheets. There have been no material changes in the Company's valuation techniques during the periods presented.

Fixed maturities and short-term investments
Substantially all of the Company's fixed maturities and short-term investments are categorized as Level 2 within the fair value hierarchy. The Company receives prices from independent pricing sources to measure the fair values of its fixed maturity investments. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each source has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company's fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will categorize that security as Level 3. The Company's private ABS are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. The Company also reviews an internally generated fixed maturity price validation report which converts prices received for fixed maturity investments from the independent pricing sources and from broker-dealers quotes and plots option adjusted spreads (OAS) and duration on a sector and rating basis. The OAS is calculated using established algorithms developed by an independent risk analytics platform vendor. The OAS on the fixed maturity price validation report are compared for securities in a similar sector and having a similar rating, and outliers are identified and investigated for price reasonableness. In addition, the Company completes quantitative analyses to compare the performance of each fixed maturity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Equities

The majority of the Company's equities are categorized as Level 1 within the fair value hierarchy. For equities categorized as Level 1, the Company receives prices based on closing exchange prices from independent pricing sources to measure fair value. While the Company did not hold any assets categorized as Level 2 at December 31, 2009, equities categorized as Level 2 at December 31, 2008 were generally mutual funds invested in securities other than the common stock of publicly traded companies (such as emerging market debt funds or bank loan funds). These funds provide daily net asset values which the Company uses in determining fair value for these investments. For funds where the net asset value is not provided on a daily basis, the asset is classified as Level 3.

To validate prices, the Company completes quantitative analyses to compare the performance of each equity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Other invested assets

The Company's foreign exchange forward contracts, foreign currency option contracts, equity put and call options, interest rate swaps and credit default swaps are categorized as Level 2 within the fair value hierarchy. Included in the Company's Level 3 categorization are unlisted equities including preference shares, unit trusts, credit linked notes, loans receivable, total return swaps and weather derivatives. The Company will generally either (i) receive a price based on a manager's or trustee's valuation for the asset; or (ii) develop an internal discounted cash flow model to measure fair value. Where the Company receives prices from the manager or trustee, these prices are based on the manager's or trustee's estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. As part of the Company's modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company's counterparties are highly rated institutions and the failure of any counterparty would not have a significant impact on the Company's financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets. In addition, the fair value measurements of all Level 3 investments are presented to, and peer reviewed by, an internal valuation committee that the Company has established.

Funds held – directly managed

The segregated investment portfolio underlying the funds held - directly managed account is comprised of fixed maturities, short-term investments and other invested assets and are fair valued on a basis consistent with the methods described above. Substantially all fixed maturities and short-term investments within the funds held - directly managed account are categorized as Level 2 within the fair value hierarchy.

The other invested assets within the segregated investment portfolio underlying the funds held – directly managed account, which are categorized as Level 3 investments, are primarily real estate mutual fund investments carried at fair value. For the real estate mutual fund investments, the Company receives a price based on the real estate fund manager's valuation for the asset and further adjusts the price, if necessary, based on appropriate current information on the real estate market.

To validate prices within the segregated investment portfolio underlying the funds held – directly managed account, the Company utilizes the methods described above.

(b) Fair Value of Financial Instrument Liabilities

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Consolidated Balance Sheets for which the Company does not measure that instrument at fair value. Disclosures about fair value of financial instruments exclude insurance contracts (other than financial guarantees), investment contracts and certain other financial instruments.

Policy benefits for life and annuity contracts have a fair value equal to the cash value available to the policyholder should the policyholder surrender the policy. The fair value of the current portion of long-term debt and CENts have been calculated as the present value of estimated future cash flows using a discount rate reflective of the current market cost of borrowing under similar terms and conditions. The fair value of the Senior Notes has been calculated using quoted market prices based on the aggregate principal amount outstanding of $250.0 million from PartnerRe Finance A LLC.

The carrying values and fair values of the financial instrument liabilities recorded in the Consolidated Balance Sheets as of December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	2009		2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Policy benefits for life and annuity contracts [(1)]	**$ 1,615,193**	**$ 1,615,193**	$ 1,432,015	$ 1,432,015
Current portion of long-term debt	**200,000**	**199,494**	200,000	200,000
Long-term debt	**—**	**—**	200,000	196,103
Debt related to senior notes [(2)]	**250,000**	**264,438**	250,000	237,095
Debt related to capital efficient notes [(3)]	**63,384**	**56,355**	250,000	94,536

(1) *Policy benefits for life and annuity contracts include short-duration and long-duration contracts.*

(2) *PartnerRe Finance A LLC, the issuer of the Senior Notes, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $250.0 million in its Consolidated Balance Sheets at December 31, 2009 and 2008, respectively.*

(3) *PartnerRe Finance II Inc., the issuer of the CENts, does not meet consolidation requirements under U.S. GAAP. Accordingly, the Company shows the related intercompany debt of $71.0 million and $257.6 million in its Consolidated Balance Sheets at December 31, 2009 and 2008, respectively. The fair value of the CENts was based on the aggregate principal amount outstanding from PartnerRe Finance II Inc. of $63.4 million and $250.0 million at December 31, 2009 and 2008, respectively (See Note 16).*

6. Investments

(a) Fixed Maturities, Short-Term Investments and Equities

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

2009	**Cost[(1)]**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
U.S. government and agencies	**$ 1,272,148**	**$ 9,201**	**$ (12,059)**	**$ 1,269,290**
Other foreign governments	**3,012,004**	**61,173**	**(13,873)**	**3,059,304**
Corporate	**6,438,348**	**223,190**	**(30,129)**	**6,631,409**
Mortgage/asset-backed securities	**3,134,340**	**87,897**	**(39,147)**	**3,183,090**
Total fixed maturities	**13,856,840**	**381,461**	**(95,208)**	**14,143,093**
Short-term investments	**134,830**	**2,565**	**(49)**	**137,346**
Equities	**731,387**	**81,371**	**(17,219)**	**795,539**
Total	**$ 14,723,057**	**$ 465,397**	**$ (112,476)**	**$ 15,075,978**

2008	Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government and agencies	$ 880,562	$ 50,515	$ (239)	$ 930,838
Other foreign governments	2,651,298	180,154	(7,339)	2,824,113
Corporate	3,568,060	61,790	(216,549)	3,413,301
Mortgage/asset-backed securities	3,119,206	72,146	(177,609)	3,013,743
Total fixed maturities	10,219,126	364,605	(401,736)	10,181,995
Short-term investments	116,445	707	(61)	117,091
Equities	637,198	10,119	(134,505)	512,812
Total	$ 10,972,769	$ 375,431	$ (536,302)	$ 10,811,898

(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.*

(b) Maturity Distribution of Fixed Maturities and Short-Term Investments

The distribution of fixed maturities and short-term investments at December 31, 2009, by contractual maturity date, is shown below (in thousands 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	$ 857,245	$ 868,758
More than one year through five years	6,223,136	6,346,212
More than five years through ten years	3,249,083	3,343,138
More than ten years	527,866	539,241
Subtotal	10,857,330	11,097,349
Mortgage/asset-backed securities	3,134,340	3,183,090
Total	$ 13,991,670	$ 14,280,439

(c) **Change in Net Unrealized Gains on Investments**

The change in net unrealized gains on investments, net of applicable taxes, reflected in other comprehensive income for the years ended December 31, 2009, 2008 and 2007 was $8.1 million (net of tax of $nil), $15.2 million (net of tax benefit of $32.8 million) and $37.8 million (net of tax of $17.3 million), respectively.

(d) **Net Realized and Unrealized Investment Gains (Losses)**

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

	2009	2008	2007
Net realized investment gains (losses) on fixed maturities and short-term investments, excluding other-than-temporary impairments	**$ 105,249**	$ (16,076)	$ (16,842)
Net realized investment (losses) gains on equities, excluding other-than-temporary impairments	**(45,258)**	(230,481)	82,037
Other-than-temporary impairments	**—**	—	(124,997)
Net realized gains and change in net unrealized investment losses on trading securities	**—**	—	(12,641)
Net realized (losses) gains on other invested assets	**(35,426)**	358	10,408
Change in net unrealized gains on other invested assets	**58,196**	3,212	—
Change in net unrealized investment gains (losses) on fixed maturities and on short-term investments subject to the fair value option	**322,944**	(150,309)	—
Change in net unrealized investment gains (losses) on equities subject to the fair value option	**185,925**	(144,634)	—
Net other realized and unrealized investment gains (losses)	**1,777**	6,570	(10,457)
Net realized and unrealized investment losses on funds held – directly managed	**(1,700)**	—	—
Total net realized and unrealized investment gains (losses)	**$ 591,707**	$ (531,360)	$ (72,492)

Effective January 1, 2008, the Company adopted the fair value option for certain investments. The Company's available for sale securities were reclassified as trading securities and all changes in pre-tax unrealized investment gains and losses are subsequently recorded in net realized and unrealized investment gains (losses) in the Consolidated Statement of Operations. Previously, 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. Net realized and unrealized investment gains and losses on securities previously classified as trading have been recorded within the related investments classification (fixed maturities or equities) beginning in 2008, and the change in net unrealized investment gains and losses on such securities are included in change in net unrealized investment gains and losses on securities subject to the fair value option.

Included in net realized investment (losses) gains on equities in 2009 is a gain of $18.3 million related to the Company's equity investment in Paris Re prior to the Acquisition Date (see Note 3).

(e) Net Investment Income

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

	2009	2008	2007
Fixed maturities	**$ 559,330**	$ 514,751	$ 421,672
Short-term investments, cash and cash equivalents	**11,799**	18,884	55,618
Equities	**13,861**	29,415	36,383
Funds held and other	**32,793**	37,261	32,339
Funds held – directly managed	**17,766**	—	—
Investment expenses	**(39,478)**	(27,347)	(22,753)
Net investment income	**$ 596,071**	$ 572,964	$ 523,259

Other than the funds held – directly managed account, the Company generally earns investment income on funds held by reinsured companies based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized index (e.g., LIBOR). Interest rates ranged from 1.0% to 6.0% at December 31, 2009 and from 1.0% to 5.0% at December 31, 2008. See Note 7 for additional information on the funds held – directly managed account.

(f) Pledged Assets

At December 31, 2009 and 2008, approximately $55.2 million and $15.7 million, respectively, of cash and cash equivalents and approximately $1,693.0 million and $1,119.3 million, respectively, of securities were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

(g) Net Payable/Receivable for Securities Purchased/Sold

Included within accounts payable, accrued expenses and other in the Consolidated Balance Sheet at December 31, 2009 were gross payable balances for securities purchased and gross receivable balances for securities sold. At December 31, 2008, the receivable for securities sold is included within other assets in the Consolidated Balance Sheet. The amounts of gross payables for securities purchased and gross receivables for securities sold at December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	2009	2008
Receivable for securities sold	**$ 57,600**	$ 43,007
Payable for securities purchased	**(61,144)**	—
Net (payable)/receivable for securities purchased/sold	**$ (3,544)**	$ 43,007

7. Funds Held – Directly Managed

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re (previously known as AXA RE), a subsidiary of AXA SA (AXA), in 2006, Paris Re and its subsidiaries entered into an issuance agreement and a 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 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 Company elected the fair value option as of the Acquisition Date for substantially all of the fixed maturities, short-term investments and certain other invested assets in the segregated investment portfolio underlying the funds held – directly managed account, and accordingly, all changes in the fair value of the segregated investment portfolio underlying the funds held – directly managed account subsequent to the Acquisition Date are recorded in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations.

(a) Fixed Maturities, Short-Term Investments, Other Invested Assets and Other Assets and Liabilities

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	$ 302,400	$ 204	$ (2,583)	$ 300,021
Other foreign governments	548,845	3,167	(3,725)	548,287
Corporate	899,888	2,888	(2,973)	899,803
Mortgage/asset-backed securities	14,276	4,644	(968)	17,952
Total fixed maturities	1,765,409	10,903	(10,249)	1,766,063
Short-term investments	28,547	—	—	28,547
Other invested assets	40,961	1,081	(3,365)	38,677
Total	$ 1,834,917	$ 11,984	$ (13,614)	$ 1,833,287

[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.*

In addition to the investments underlying the funds held – directly managed account in the table above at December 31, 2009, the funds held – directly managed account included 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.

(b) Maturity Distribution of Fixed Maturities and Short-Term Investments

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 thousands 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	$ 360,442	$ 361,202
More than one year through five years	900,547	902,796
More than five years through ten years	426,049	422,518
More than ten years	92,642	90,142
Subtotal	1,779,680	1,776,658
Mortgage/asset-backed securities	14,276	17,952
Total	$ 1,793,956	$ 1,794,610

(c) Net Realized and Unrealized Investment Losses

The components of the net realized losses and change in net unrealized investment gains on the funds held – directly managed account from October 2, 2009 to December 31, 2009 were as follows (in thousands of U.S. dollars):

	2009
Net realized investment losses on fixed maturities and short term investments	$ (2,200)
Change in net unrealized investment gains on fixed maturities	1,920
Change in net unrealized investment losses on equities	(35)
Net other realized and unrealized investment losses	(1,385)
Net realized and unrealized investment losses on funds held – directly managed	$ (1,700)

(d) Net Investment Income

The components of net investment income underlying the funds held – directly managed account from October 2, 2009 to December 31, 2009 were as follows (in thousands of U.S. dollars):

	2009
Fixed maturities	$ 10,956
Short-term investments, cash and cash equivalents	287
Other	6,934
Investment expenses	(411)
Net investment income	$ 17,766

8. Unpaid Losses and Loss Expenses and Policy Benefits for Life and Annuity Contracts

(a) Unpaid Losses and Loss Expenses

Unpaid losses and loss expenses are categorized 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. The following table shows unpaid losses and loss expenses reported by cedants (case reserves) and those estimated by the Company (ACRs and IBNR reserves) at December 31, 2009 and 2008 (in thousands of U.S. dollars):

	2009	2008
Case reserves	**$ 4,817,765**	$ 3,107,780
ACRs	**274,360**	311,408
IBNR reserves	**5,719,358**	4,091,478
Total unpaid losses and loss expenses	**$ 10,811,483**	$ 7,510,666

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses, excluding policy benefits for life and annuity contracts, for the years ended December 31, 2009, 2008 and 2007 (in thousands of U.S. dollars):

	2009	2008	2007
Gross liability at beginning of year	**$ 7,510,666**	$ 7,231,436	$ 6,870,785
Reinsurance recoverable at beginning of year	**125,215**	132,479	138,585
Net liability at beginning of year	**7,385,451**	7,098,957	6,732,200
Net liability acquired related to Paris Re	**3,176,255**	—	—
Net incurred losses related to:			
Current year	**2,340,768**	2,564,174	2,041,752
Prior years	**(485,809)**	(417,936)	(414,043)
	1,854,959	2,146,238	1,627,709
Change in Paris Re Reserve Agreement	**(32,027)**	—	—
Net paid losses related to:			
Current year	**327,080**	240,031	146,403
Prior years	**1,716,798**	1,340,788	1,473,964
	2,043,878	1,580,819	1,620,367
Effects of foreign exchange rate changes	**134,371**	(278,925)	359,415
Net liability at end of year	**10,475,131**	7,385,451	7,098,957
Reinsurance recoverable at end of year	**336,352**	125,215	132,479
Gross liability at end of year	**$ 10,811,483**	$ 7,510,666	$ 7,231,436

The table below is a reconciliation of losses and loss expenses including life policy benefits for the years ended December 31, 2009, 2008 and 2007 (in thousands of U.S. dollars):

	2009	2008	2007
Net incurred losses related to:			
Non-life	**$ 1,854,959**	$ 2,146,238	$ 1,627,709
Life	**440,337**	462,982	454,752
Losses and loss expenses and life policy benefits	**$ 2,295,296**	$ 2,609,220	$ 2,082,461

The following table summarizes the net prior year favorable development of loss reserves for each of the Company's Non-life sub-segments for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars):

	2009	2008	2007
Prior year net favorable loss development:			
Non-life sub-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 loss development	**$ (486)**	$ (418)	$ (414)

N/A: *not applicable*

Within the Company's U.S. sub-segment, the Company reported net favorable loss development for prior accident years in 2009, 2008 and 2007. The net favorable loss development in 2009 included net favorable loss development for prior accident years in most lines of business, predominantly in casualty, while the multiline and motor lines of business experienced combined net adverse loss development for prior accident years of $11 million. The net favorable loss development in 2008 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 loss development for prior accident years of $10 million. The net favorable loss development in 2007 included net favorable development for prior accident years in all lines of business, with the exception of multiline, which included net adverse loss development of $5 million. Loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions. Attritional losses are losses that may not be significant on an individual basis, but are monitored on an aggregated basis by the Company to identify trends that may be meaningful from a reserving standpoint.

For the Global (Non-U.S.) P&C sub-segment, the Company reported net favorable loss development for prior accident years in 2009, 2008 and 2007. The net favorable loss development in 2009 included net favorable development in all lines of business, but was most pronounced in the motor and casualty lines of business. Losses reported by cedants in 2008 and 2007 regarding prior accident years were also lower than expected in all lines of business, which led the Company to decrease its expected ultimate loss ratios and loss estimates. Loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions.

For the Global (Non-U.S.) Specialty sub-segment, the Company reported net favorable loss development for prior accident years in 2009, 2008 and 2007. The net favorable loss development 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 net adverse loss development for prior accident years of $2 million. The net favorable loss development in 2008 included net favorable development 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. Losses reported by cedants during 2009, 2008 and 2007 for prior accident years were lower than the Company expected in most lines of business, which led the Company to decrease its expected ultimate loss ratios and loss estimates for prior year losses in each of these years. Loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions.

For the Catastrophe sub-segment, the Company reported net favorable loss development for prior accident years in 2009, 2008 and 2007. The net favorable loss development in each year was primarily due to favorable loss emergence, as losses reported by cedants for prior accident years were lower than the Company expected.

(b) Paris Re Reserve Agreement

Following Paris Re's acquisition of substantially all of the reinsurance operations of Colisée Re in 2006, Paris Re France entered into a reserve agreement (Reserve Agreement), which provides that AXA and Colisée Re shall guarantee reserves in respect of Paris Re France and subsidiaries acquired in the acquisition. The Reserve Agreement relates to losses incurred prior to December 31, 2005. Accordingly, the Company's Consolidated Statement of Operations does not include any favorable or adverse development related to these guaranteed reserves. 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 Liabilities Managers, an affiliate of Colisée Re.

Favorable or adverse development related to the guaranteed reserves is recorded as a change in unpaid losses and loss expenses in the Consolidated Balance Sheet and as a change in the Paris Re Reserve Agreement payable or receivable balance to/from Colisée Re, which is included within Other reinsurance balances payable in the Consolidated Balance Sheet. Accordingly, the reconciliation of the beginning and ending liability for unpaid losses and loss expenses for the year ended December 31, 2009 includes the change in the Paris Re Reserve Agreement. The Company's net liability for unpaid losses and loss expenses includes $1,500 million of guaranteed reserves and Other reinsurance balances payable includes $116 million payable to Colisée Re related to the Reserve Agreement.

(c) Sub-Prime and Financial Crisis Exposures

Ultimate losses for lines impacted by the deteriorating financial condition of the world economies in 2008 and the first half of 2009 cannot be estimated by standard actuarial techniques alone. The majority of the Company's underwriting exposure related to this issue arises from business written in 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 during the underwriting years 2006 through 2009. The potential ultimate liability for these exposures was evaluated through an analysis of the Company's exposure to these risks, which include but are not limited to, sub-prime mortgage related exposures. For specialty casualty, the analysis was based on information received from cedants at the time the exposed business was written and supplemented by discussions with cedants, evaluation of known securities class action filings, current industry data regarding the likelihood of securities class actions and other potential suits against companies exposed to the effects of financial stress, estimates of exposed industry premium, estimates of the Company's market share of exposed industry premium and estimates of industry-wide insured losses.

For credit/surety, the analysis was based on information received from cedants both at the time the exposed business was written supplemented by discussions with cedants, historical experience in times of similar financial stress, reported claim information and internal modeling. The Company monitored actual claim experience during 2009 against original expectations. Reported claims for prior accident years have come in slightly higher than originally expected, resulting in a moderate increase of prior year loss reserves. Reported claims for the current accident year were significantly higher than expected and the Company's loss reserves reflect this higher than expected claim activity.

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.

(d) Asbestos and Environmental Claims

The Company's net reserves for unpaid losses and loss expenses at December 31, 2009 and 2008 included $232 million and $82 million, respectively, that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2009 and 2008 was $239 million and $92 million, respectively.

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 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.

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.

(e) Policy Benefits for Life and Annuity Contracts

The Life segment reported net favorable development for prior accident years of $15 million for the year ended December 31, 2009 and net adverse development for prior accident years of $24 million and $2 million for the years ended December 31, 2008 and 2007, respectively.

The net favorable development in 2009 and the net adverse development in 2008 was primarily related to certain guaranteed minimum death benefit treaties, where the payout is linked to the performance of underlying capital market assets and where changes in credit spreads have impacted certain indexed-linked products that are interest-rate sensitive. Such development was $16 million favorable and $33 million unfavorable for the years ended December 31, 2009 and 2008, respectively.

The Company used interest rate assumptions to estimate its liabilities for policy benefits for life and annuity contracts which ranged from 1.0% to 6.0% and 1.0% to 5.0% at December 31, 2009 and 2008, respectively.

9. Reinsurance

(a) Reinsurance Recoverable on Paid and Unpaid Losses

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery from retrocessionaires of a portion of losses and loss expenses. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements, and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk on an ongoing basis. The Company actively manages its reinsurance exposures by generally selecting retrocessionaires having a credit rating of A- or higher. In certain cases where an otherwise suitable retrocessionaire has a credit rating lower than A-, the Company generally requires the posting of collateral, including escrow funds and letters of credit, as a condition to its entering into a retrocession agreement. The selection of retrocessionaires follows a precise qualitative and quantitative process. Provisions are made for amounts considered potentially uncollectible. The allowance for uncollectible reinsurance recoverable was $6.8 million and $5.8 million at December 31, 2009 and 2008, respectively.

Paris Re reinsured property catastrophe and per risk excess-of-loss business for its 2008 and 2007 underwriting years through a 24% quota share treaty to Triomphe Re Ltd.

(Triomphe Re), a special purpose reinsurance company domiciled in Bermuda. Reinsurance balances recoverable from Triomphe Re at December 31, 2009 are $28.4 million. Triomphe Re's obligations under this agreement are collateralized by cash and other liquid assets held in a trust, including Triomphe Re's capital, as well as premiums. At December 31, 2009, Triomphe Re's capitalization is approximately $33 million.

(b) Ceded Reinsurance

Net premiums written, net premiums earned and losses and loss expenses and life policy benefits are reported net of reinsurance in the Company's Consolidated Statements of Operations. Assumed, ceded and net amounts for the years ended December 31, 2009, 2008 and 2007 were as follows (in thousands of U.S. dollars):

2009	**Premiums Written**	**Premiums Earned**	**Losses and Loss Expenses and Life Policy Benefits**
Assumed	**$ 4,000,888**	**$ 4,202,379**	**$ 2,313,951**
Ceded	**52,184**	**82,554**	**18,655**
Net	**$ 3,948,704**	**$ 4,119,825**	**$ 2,295,296**
2008			
Assumed	$ 4,028,248	$ 3,967,704	$ 2,613,434
Ceded	38,813	39,680	4,214
Net	$ 3,989,435	$ 3,928,024	$ 2,609,220
2007			
Assumed	$ 3,810,164	$ 3,830,396	$ 2,088,065
Ceded	53,055	52,925	5,604
Net	$ 3,757,109	$ 3,777,471	$ 2,082,461

10. Taxation

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income or capital gains tax under current Bermuda law. In the event that there is a change in current law such that taxes on income or capital gains are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 2016 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966.

The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The significant jurisdictions in which the Company's subsidiaries and branches are subject to tax are Canada, France, Ireland, Switzerland and the United States.

The Company is currently under examination in Switzerland for the tax years 2003-2007. Income tax returns are open for examination for the tax years 2005-2009 in Canada and Ireland, 2006-2009 in the United States, 2007-2009 in France and 2008-2009 in Switzerland. As a global organization, the Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. Management believes that adequate provision has been made in the Consolidated Financial Statements for any potential assessments that may result from tax examinations for all open tax years.

Income tax expense for the years ended December 31, 2009, 2008 and 2007 was as follows (in thousands of U.S. dollars):

	2009	2008	2007
Current income tax expense (benefit)			
U.S.	$ 43,020	$ (31,071)	$ 42,090
Non U.S.	47,980	107,360	(10,980)
Total current income tax expense	$ 91,000	$ 76,289	$ 31,110
Deferred income tax expense (benefit)			
U.S.	$ 83,583	$ (44,673)	$ (23,270)
Non U.S.	86,837	(56,111)	79,660
Total deferred income tax expense (benefit)	$ 170,420	$ (100,784)	$ 56,390
Unrecognized tax expense (benefit)			
U.S.	$ (461)	$ —	$ —
Non U.S.	1,131	34,200	(5,752)
Total unrecognized tax expense (benefit)	$ 670	$ 34,200	$ (5,752)
Total income tax expense (benefit)			
U.S.	$ 126,142	$ (75,744)	$ 18,820
Non U.S.	135,948	85,449	62,928
Total income tax expense	$ 262,090	$ 9,705	$ 81,748

The following table is a reconciliation of the actual income tax rate for the years ended December 31, 2009, 2008 and 2007 to the amount computed by applying the effective tax rate of 0% under Bermuda law to income before taxes (in thousands of U.S. dollars):

	2009	2008	2007
Net income	$ 1,536,854	$ 46,567	$ 717,812
Income tax expense	262,090	9,705	81,748
Income before taxes	$ 1,798,944	$ 56,272	$ 799,560
Reconciliation of effective tax rate (% of income before taxes)			
Expected tax rate	0.0%	0.0%	0.0%
Foreign taxes at local expected tax rates	14.2	(117.6)	12.0
Impact of foreign exchange gains	(0.4)	(25.9)	(1.0)
Unrecognized tax expense (benefit)	—	26.6	(0.9)
Tax-exempt income and expenses not deductible	(1.2)	167.1	0.2
Impact of enacted changes in tax rates	(0.1)	(15.0)	—
Other	2.1	(18.0)	(0.1)
Actual tax rate	14.6%	17.2%	10.2%

Deferred tax assets and liabilities reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax assets and liabilities as of December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	2009	2008
Deferred tax assets		
Discounting of loss reserves and adjustment to life policy reserves	**$ 89,967**	$ 93,283
Unrealized depreciation and timing differences on investments	**—**	20,799
Tax loss carryforwards	**17,270**	27,507
Unearned premiums	**19,550**	20,502
Other deferred tax assets	**3,156**	29,673
Deferred tax assets	**129,943**	191,764
Deferred tax liabilities		
Deferred acquisition costs	**46,744**	48,187
Goodwill and other intangibles	**81,455**	21,271
Equalization reserves	**99,785**	35,921
Unrealized appreciation and timing differences on investments	**70,114**	—
Other deferred tax liabilities	**33,431**	—
Deferred tax liabilities	**331,529**	105,379
Net deferred tax (liabilities) assets	**$ (201,586)**	$ 86,385

The net tax assets and liabilities and their components at December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	2009	2008
Net tax assets	**$ 79,044**	$ 215,703
Net tax liabilities	**(444,789)**	(219,679)
Net tax liabilities	**$ (365,745)**	$ (3,976)

	2009	2008
Net current tax liabilities	**$ (121,680)**	$ (50,639)
Net deferred tax (liabilities) assets	**(201,586)**	86,385
Net unrecognized tax benefit	**(42,479)**	(39,722)
Net tax liabilities	**$ (365,745)**	$ (3,976)

Realization of the deferred tax asset is dependent on generating sufficient taxable income in future periods. Although realization is not assured, Management believes that it is more likely than not that the deferred tax asset will be realized.

As of December 31, 2009, the Company had net deferred tax assets of $17.3 million relating to capital loss carryforwards, primarily in the United States. Net deferred tax assets of $27.5 million as of December 31, 2008 related primarily to operating loss carryforwards in Ireland. U.S. tax laws allow tax losses to be carried forward for 5 years while Irish tax laws allow tax losses to be carried forward for an unlimited period.

The total amount of unrecognized tax benefits for the years ended December 31, 2009, 2008 and 2007 was as follows (in thousands of U.S. dollars):

	January 1, 2009	**Changes in tax positions taken during a prior period**	**Tax positions taken during the current period**	**Change as a result of a lapse of the statute of limitations**	**Impact of the change in foreign currency exchange rates**	**Unrecognized tax benefits of Paris Re**	**December 31, 2009**
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	**$ 39,208**	**$ 2,053**	**$ 21**	**$ (1,428)**	**$ 623**	**$ 1,458**	**$ 41,935**
Interest and penalties recognized on the above	**559**	**347**	**—**	**(362)**	**—**	**—**	**544**
Total unrecognized tax benefits, including interest and penalties	**$ 39,767**	**$ 2,400**	**$ 21**	**$ (1,790)**	**$ 623**	**$ 1,458**	**$ 42,479**

	January 1, 2008	Changes in tax positions taken during a prior period	Tax positions taken during the current period	Change as a result of a lapse of the statute of limitations	Impact of the change in foreign currency exchange rates	December 31, 2008
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	$ 24,613	$ 8,264	$ 3,034	$ 3,325	$ (28)	$ 39,208
Interest and penalties recognized on the above	190	370	—	—	(1)	559
Total unrecognized tax benefits, including interest and penalties	$ 24,803	$ 8,634	$ 3,034	$ 3,325	$ (29)	$ 39,767

	January 1, 2007 (date of adoption)	Changes in tax positions taken during a prior period	Tax positions taken during the current period	Change as a result of a lapse of the statute of limitations	Impact of the change in foreign currency exchange rates	December 31, 2007
Unrecognized tax benefits that, if recognized, would impact the effective tax rate	$ 28,915	$ (12,723)	$ 1,444	$ 3,980	$ 2,997	$ 24,613
Interest and penalties recognized on the above	387	(197)	—	—	—	190
Total	$ 29,302	$ (12,920)	$ 1,444	$ 3,980	$ 2,997	$ 24,803
Unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Company's Consolidated Balance Sheet and its tax basis	2,221	(2,221)	—	—	—	—
Total unrecognized tax benefits, including interests and penalties	$ 31,523	$ (15,141)	$ 1,444	$ 3,980	$ 2,997	$ 24,803

For the years ended December 31, 2009 and 2008, there were no unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Company's Consolidated Balance Sheets and its tax basis. For the year ended December 31, 2007, there were no interest and penalties on such temporary difference. The Company recognizes interest and penalties as income tax expense in its Consolidated Statements of Operations.

The total amount of unrecognized tax benefits for which it is reasonably possible to change within twelve months was $2.8 million at December 31, 2009, which primarily relates to the expected expiration of the statute of limitations related to various intra-group transactions in Europe.

11. Agreements with Related Parties

The Company was party to agreements with Atradius N.V. since December 2003 (a company in which a board member is a supervisory director) and Delta Lloyd since May 2008 (a company in which a board member is a director).

Agreements with Atradius N.V.

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with Atradius N.V. The activity included in the Consolidated Statements of Operations related to Atradius N.V. for the years ended December 31, 2009, 2008 and 2007 was as follows (in thousands of U.S. dollars):

	2009	2008	2007
Net premiums written	**$ 49,487**	$ 67,295	$ 56,520
Net premiums earned	**63,724**	65,252	55,675
Losses and loss expenses and life policy benefits	**58,394**	42,096	27,127
Acquisition costs	**20,824**	25,533	27,503

Included in the Consolidated Balance Sheets at December 31, 2009 and 2008 were the following balances related to Atradius N.V. (in thousands of U.S. dollars):

	2009	2008
Reinsurance balances receivable	**$ 23,320**	$ 20,054
Unpaid losses and loss expenses	**130,505**	65,799
Unearned premiums	**27,534**	32,611
Other net assets	**7,715**	14,040

Other Agreements

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with Delta Lloyd. The activity included in the Consolidated Statements of Operations related to Delta Lloyd for the year ended December 31, 2009 includes net premiums earned of $1.4 million and losses and loss expenses and life policy benefits of $0.5 million (2008, $1.8 million and $1.2 million, respectively). Included in the Consolidated Balance Sheets at December 31, 2009 and 2008 were unpaid losses and loss expenses of $8.5 million and $8.1 million, respectively.

In the normal course of its investment operations, the Company bought or held securities of companies in which board members of the Company are also directors or non-executive directors. All transactions entered into as part of the investment portfolio were completed on market terms.

12. Retirement Benefit Arrangements

For employee retirement benefits, the Company maintains certain defined contributions plans and other active and frozen defined benefit plans. The most significant active defined benefit plan is for the Company's Zurich office employees (the Zurich Plan).

Defined Contribution Plans

Contributions are made by the Company, and in some locations, these contributions are supplemented by the local plan participants. Contributions are based on a percentage of the participant's base salary depending upon competitive local market practice and vesting provisions meet legal compliance standards and market trends. The accumulated benefits for the majority of these plans vest immediately or over a four-year period. As required by law, certain retirement plans also provide for death and disability benefits and lump sum indemnities to employees upon retirement.

The Company incurred expenses for these defined contribution arrangements of $18.7 million, $13.1 million, and $10.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Active Defined Benefit Plan

The Company maintains the Zurich Plan, which is classified as a hybrid plan and accounted for as a defined benefit plan under U.S. GAAP. At December 31, 2009 and 2008, the funded status of the Zurich Plan was as follows (in thousands of U.S. dollars):

	2009	2008
Funded status		
Unfunded pension obligation at beginning of year	**$ 16,028**	$ 2,371
Change in pension obligation		
Service cost	**4,980**	3,825
Interest cost	**2,639**	2,477
Plan participants' contributions	**2,435**	6,637
Actuarial (gain) loss	**(9,915)**	8,957
Benefits paid	**(7,160)**	(4,820)
Foreign currency adjustments	**1,702**	6,014
Change in pension obligation	**(5,319)**	23,090
Change in fair value of plan assets		
Actual return on plan assets	**(400)**	(2,563)
Employer contributions	**5,344**	5,200
Plan participants' contributions	**2,435**	6,637
Benefits paid	**(7,160)**	(4,820)
Foreign currency adjustments	**1,373**	4,979
Change in fair value of plan assets	**1,592**	9,433
Funded status		
Unfunded pension obligation at end of year	**$ 9,117**	$ 16,028
Additional information:		
Projected benefit obligation	**$ 90,175**	$ 95,495
Accumulated pension obligation	**87,320**	91,494
Fair value of plan assets	**81,058**	79,467

At December 31, 2009 and 2008, the funded status at the end of the year was included in accounts payable, accrued expenses and other in the Consolidated Balance Sheets. The total amounts recognized in accumulated other comprehensive income (loss) at December 31, 2009 and 2008 were $8.8 million (net of $2.3 million of taxes) and $14.7 million (net of $4.0 million of taxes), respectively.

Of the $6.9 million transition adjustment that was recorded in 2006 resulting from the adoption of U.S. GAAP guidance related to defined benefit plans, $4.9 million remains in accumulated other comprehensive income at December 31, 2009.

The net periodic benefit costs for the years ended December 31, 2009, 2008 and 2007 were $6.0 million, $4.1 million and $4.7 million, respectively.

The investment strategy of the Zurich Plan's Pension Committee is to achieve a consistent long-term return, which will provide sufficient funding for future pension obligations while limiting risk. The expected long-term rate of return on plan assets is based on the expected asset allocation and assumptions concerning long-term interest rates, inflation rates and risk premiums for equities above the risk-free rates of return. These assumptions take into consideration historical long-term rates of return for the relevant asset categories. The investment strategy is reviewed regularly.

The fair values of the Zurich Plan's assets at December 31, 2009 were equity funds (Level 1) of $4.0 million and insured funds (Level 2) of $77.1 million. The equity funds are primarily publicly quoted open-end funds that invest in a full replication of European benchmark indices. The insured funds comprise the accumulated pension plan contributions and investment returns thereon, which are held in an insurance arrangement that provides at least a guaranteed minimum investment return. The insured funds are held by a collective foundation of AXA Life Ltd. and are guaranteed under the insurance arrangement.

The assumptions used to determine the pension obligation and net periodic benefit cost for the years ended December 31, 2009, 2008 and 2007 were as follows:

	2009 Pension obligation	**2009 Net periodic benefit cost**	2008 Pension obligation	2008 Net periodic benefit cost	2007 Pension obligation	2007 Net periodic benefit cost
Discount rate	**3.25%**	**2.75%**	2.75%	3.5%	3.5%	3.0%
Expected return on plan assets	**—**	**3.0**	—	3.75	—	3.25
Rate of compensation increase	**3.5**	**3.5**	3.5	3.5	3.5	3.5

At December 31, 2009, estimated employer contributions to be paid in 2010 were $5.5 million and future benefit payments were estimated to be paid as follows (in thousands of U.S. dollars):

Period	Amount
2010	$ 3,973
2011	4,294
2012	5,167
2013	4,959
2014	4,672
2015 to 2019	26,130

The Company does not believe that any plan assets will be returned to the Company during 2010.

13. Share-Based Awards

Employee Equity Plan

In May 2005, the shareholders approved the PartnerRe Ltd. 2005 Employee Equity Plan (EEP) and replaced the existing employee plan, the Employee Incentive Plan (EIP). The EEP permits the grant of share options, RS, RSUs, SSARs or other share-based awards to employees of the Company. The EEP is administered by the Compensation Committee of the Board (the Committee).

In May 2008 and in September 2009 (in connection with the acquisition of Paris Re), the shareholders approved an allocation of an additional 0.6 million shares and 0.4 million shares, respectively, to the EEP. Currently, the plan permits the grant of up to 3.3 million shares, of which a total of 1.7 million shares can be issued as either RS or RSUs and 1.6 million shares can be issued as share options or SSARs. If an award under the EEP is cancelled or forfeited without the delivery of the full number of shares underlying such award, only the net number of shares actually delivered to the participant will be counted against the EEP's authorized shares. Under the EEP, the exercise price of the award will not be less than the fair value of the award at the time of grant. The fair value is defined in the EEP as the closing price reported on the grant date. Awards issued under the EEP generally vest over 3 years of continuous service, either ratably or with a cliff-vest provision, are expensed ratably over the vesting period and have a ten year contractual term. Participants in the EEP are eligible to receive dividends, which the Company records as an expense, on RSUs that are unvested. Shares available for grant under the EIP at the time of replacement were transferred and became available for grant under the EEP.

Certain awards to certain senior executives will, if the Committee intends such award to qualify as "qualified performance based compensation" under Section 162(m) of the Internal Revenue Code (IRC), become earned and payable only if pre-established targets relating to one or more of the following performance measures are achieved: (i) earnings per share, (ii) financial year return on common equity, (iii) underwriting year return on equity, (iv) return on net assets, (v) organizational objectives, and (vi) premium growth. The individual maximum number of shares underlying any such share-denominated award granted in any year will be 0.8 million shares, and the individual maximum amount earned with respect to any such non-share denominated award granted in any year will be $5.0 million.

In September 2009, in connection with the acquisition of Paris Re, the shareholders approved an amendment to the EEP to increase the number of shares available for issuance and to increase the number of shares that may be awarded as RS or RSUs. An additional 0.4 million shares was allocated to the EEP, of which 0.3 million may be awarded as RS or RSUs. As part of the acquisition of Paris Re, the Company issued replacement share options, RSUs, and warrants to holders of Paris Re share options, RSUs and warrants. These replacement awards were issued under the terms and conditions of the Paris Re 2006 Equity Purchase Plan, Paris Re 2006 Equity Incentive Plan, Paris Re 2006 Executive Equity Incentive Plan and Paris Re 2007 Equity Incentive Plan and were not considered to be grants under the Company's EEP.

Non-Employee Directors' Stock Plan

The 2003 Non-Employee Directors Stock Plan (Directors' Stock Plan), which is shareholder-approved, permits the grant of up to 0.8 million share options, RS, RSUs, alternative awards and other share-based awards. Under the Directors' Stock Plan, the exercise price of the share options will be equivalent to the fair value of the share options at the time of grant. The fair value is defined in the Directors' Stock Plan as the closing price reported on the grant date. Option awards issued under the Directors' Stock Plan generally vest at the time of grant and are expensed immediately and have a ten year contractual term. RSU awards issued under the Directors' Stock Plan generally vest at the time of grant with a delivery date restriction of one year and are expensed immediately. At December 31, 2009, 0.3 million shares remained available for issuance under this plan.

Employee Share Purchase Plan

The Employee Share Purchase Plan (ESPP), which is shareholder-approved, has a twelve month offering period with two purchase periods of six months each. All employees are eligible to participate in the ESPP and can contribute between 1% and 10% of their base salary toward the purchase of the Company's shares up to the limit set by the IRC. Employees who enroll in the ESPP may purchase the Company's shares at a 15% discount of the fair value. Participants in the ESPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.6 million common shares may be issued under the ESPP.

Swiss Share Purchase Plan

The Swiss Share Purchase Plan (SSPP) has two offering periods per year with two purchase periods of six months each. All full-time Swiss employees are eligible to participate in the SSPP and can contribute between 1% and 8% of their base salary toward the purchase of the Company's shares up to a maximum of 5,000 Swiss francs per annum. Employees who enroll in the SSPP may purchase the Company's shares at a 40% discount of the fair value.

There is a restriction on transfer or sale of these shares for a period of two years following purchase. Participants in the SSPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.2 million common shares may be issued under the SSPP.

Share-Based Compensation

Under each of the Company's equity plans, the Company issues new shares upon the exercise of share options or the conversion of RSUs and SSARs into shares.

For the years ended December 31, 2009, 2008 and 2007, the Company's share-based compensation expense was $21.7 million, $28.1 million and $24.9 million, respectively, with a tax benefit of $2.2 million, $2.0 million and $1.0 million, respectively.

Share Options

The following table summarizes the activity related to options granted and exercised for the years ended December 31, 2009, 2008 and 2007. There were no material tax impacts related to the options exercised by employees of the Company's U.S. subsidiaries.

	2009	2008	2007
Options granted	**598,698**	119,052	76,434
Weighted average grant date fair value of options granted	**$ 7.95**	$ 11.07	$ 13.76
Options exercised	**250,400**	153,146	707,444
Total intrinsic value of options exercised (in millions of U.S. dollars)	**$ 5.0**	$ 3.4	$ 18.9
Proceeds from option exercises (in millions of U.S. dollars)	**$ 12.7**	$ 8.1	$ 35.1

The activity related to the Company's share options for the year ended December 31, 2009 was as follows:

	Options	**Weighted Average Exercise Price**
Outstanding at January 1, 2009	2,389,380	$ 56.00
Granted	47,968	65.56
Replacement awards issued related to the acquisition of Paris Re	550,730	67.69
Exercised	(250,400)	50.76
Forfeited or expired	(3,460)	42.27
Outstanding at December 31, 2009	2,734,218	59.02
Options exercisable at December 31, 2009	2,702,407	58.86
Options vested and expected to vest at December 31, 2009	2,732,709	59.01

The replacement share options issued related to the acquisition of Paris Re with a weighted average grant date fair value of $7.86, are fully vested. The weighted average remaining contractual term and the aggregate intrinsic value of share options outstanding, exercisable, vested and expected to vest at December 31, 2009 was 4.5 years and $43.4 million, respectively.

The Company values share options issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2009, 2008 and 2007:

Weighted average assumptions used	**2009**	2008	2007
Expected life	**3 years**	6 years	6 years
Expected volatility	**15.8%**	15.9%	17.1%
Risk-free interest rate	**2.8%**	3.2%	4.5%
Dividend yield	**2.7%**	2.5%	2.5%

The expected life of the replacement share options issued as part of the acquisition of Paris Re was assumed to be 3 years. The expected life of all other share options issued during the year was assumed to be 6 years. Expected volatility is based on the historical volatility of the Company's common shares over a period equivalent to the expected life of the Company's share options. The risk-free interest rate is based on the market yield of U.S. treasury securities with maturities equivalent to the expected life of the Company's share options. The dividend yield is based on the average dividend yield of the Company's shares over the expected life of the Company's share options.

Restricted Share Units

During 2009, 2008 and 2007, the Company issued 607,173 RSUs, 241,458 RSUs and 316,427 RSUs with a weighted average grant date fair value of $75.09, $77.19 and $71.63, respectively. The Company values RSUs issued under all plans at the fair value of its common shares at the time of grant, as defined by the plan document.

The activity related to the Company's RSUs for the year ended December 31, 2009 was as follows:

	RSUs
Outstanding at January 1, 2009	751,735
Granted	85,906
Replacement awards issued related to acquisition of Paris Re	521,267
Released	(159,084)
Forfeited	(7,784)
Outstanding at December 31, 2009	1,192,040

The replacement awards were issued at a fair value of $76.96. The RSUs vested in 2009 had a fair value of $9.6 million.

Of the 1,192,040 RSUs outstanding at December 31, 2009, 89,652 and 14,736 are subject to a five year and one year delivery date restriction from the grant date, respectively, and were not released for conversion into shares.

Total unrecognized share-based compensation expense related to unvested RSUs was approximately $12.3 million at December 31, 2009, which is expected to be recognized over a weighted-average period of 1.4 years.

Share-Settled Share Appreciation Rights (SSARs)

During 2009, 2008 and 2007, the Company issued 105,344 SSARs, 339,920 SSARs, and 360,228 SSARs with a weighted average grant date fair value of $8.42, $11.50 and $13.88, respectively.

The activity related to the Company's SSARs for the years ended December 31, 2009, 2008 and 2007 was as follows:

	SSARs
Outstanding at January 1, 2009	824,038
Granted	105,344
Exercised	(2,500)
Outstanding at December 31, 2009	926,882
Exercisable at December 31, 2009	481,301

Total unrecognized share-based compensation expense related to unvested SSARs was approximately $2.3 million at December 31, 2009, which is expected to be recognized over a weighted-average period of 1.4 years.

The Company values SSARs issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2009, 2008 and 2007:

Weighted average assumptions used	**2009**	2008	2007
Expected life	**6 years**	6 years	6 years
Expected volatility	**15.4%**	16.0%	18.0%
Risk-free interest rate	**2.7%**	3.3%	4.6%
Dividend yield	**2.6%**	2.6%	2.5%

In determining the weighted average assumptions used, the Company used the same methodology as described in share options above.

Warrants
In 2009, the Company issued 27,655 replacement warrants as part of the acquisition of Paris Re. At December 31, 2009, 27,531 warrants are outstanding and fully vested with a weighted average remaining contractual life of 7 years and a weighted average exercise price of $36.58.

14. Dividend Restrictions and Statutory Requirements

The Company's ability to pay common and preferred shareholders' dividends and its corporate expenses is dependent mainly on cash dividends from Partner Reinsurance, PartnerRe Europe, PartnerRe U.S., Paris Re France and Paris Re Switzerland (collectively, the reinsurance subsidiaries). The payment of such dividends by the reinsurance subsidiaries to the Company is limited under Bermuda, Irish, Swiss and French laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. 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.

The reinsurance subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis), maintain minimum levels of solvency and liquidity and comply with risk-based capital requirements and licensing rules. As of December 31, 2009, the reinsurance subsidiaries' solvency, liquidity and risk-based capital amounts were in excess of the minimum levels required. The typical adjustments to insurance statutory basis amounts to convert to U.S. GAAP include elimination of certain statutory reserves, deferral of certain acquisition costs, recognition of goodwill, intangible assets and deferred income taxes, valuation of bonds at fair value and presentation of ceded reinsurance balances gross of assumed balances.

The statutory net income (loss) of the Company's principal reinsurance subsidiaries for the years ended December 31, 2009, 2008 and 2007 was as follows (in millions of U.S. dollars):

	2009 (unaudited)	2008	2007
Partner Reinsurance	**$ 1,050**	$ 485	$ 765
PartnerRe Europe	**307**	(137)	(1)
PartnerRe U.S.	**89**	(30)	36
Paris Re France	**30**	N/A	N/A
Paris Re Switzerland	**59**	N/A	N/A

N/A: *not applicable*

The following table summarizes the statutory shareholders' equity of the Company's principal reinsurance subsidiaries as of December 31, 2009 and 2008 (in millions of U.S. dollars):

	2009 (unaudited)	2008
Partner Reinsurance	**$ 3,106**	$ 2,627
PartnerRe Europe	**1,549**	1,197
PartnerRe U.S.	**793**	608
Paris Re France	**585**	N/A
Paris Re Switzerland	**1,091**	N/A

N/A: *not applicable*

At December 31, 2009 and 2008, the Company has Swiss and French operations that are branches of PartnerRe Europe and are regulated by the Irish Financial Regulatory Authority, as prescribed by the EU Reinsurance Directive. Paris Re France is regulated by the Autorité de Contrôle des Assurances et des Mutuelles (ACAM). Paris Re Switzerland is regulated by the Swiss Financial Market Supervisory Authority (FINMA).

15. Debt

In October 2005, the Company entered into a loan agreement with Citibank, N.A., under which the Company borrowed $400.0 million. The loan, which had an original maturity of April 2009, bore interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company was not permitted to prepay the loan prior to its maturity, and the loan was not callable or puttable by the lender other than upon an event of default. Citibank, N.A. pledged its rights under the loan agreement, including the proceeds of any repayment or syndication of the loan, to the Company to secure its obligations to the Company under a forward sale agreement (see Note 18), subject to Citibank, N.A.'s right to substitute cash collateral.

On July 31, 2008, the Company entered into an amendment (Loan Amendment) to the loan agreement with Citibank N.A. Under the terms of the Loan Amendment, the maturity of half of the original $400.0 million loan was extended to July 12, 2010. The remaining half of the original loan retained its original maturity of April 27, 2009. Under the Loan Amendment, the amended half of the loan bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50% through April 27, 2009 and at a rate of 3-month LIBOR plus 0.85% thereafter. The interest rate on the unamended half of the loan remained unchanged at 3-month LIBOR plus 0.50%.

On January 8, 2009, the Company entered into a second amendment to the loan agreement with Citibank N.A. Under the terms of the second loan amendment, the Company had a right to prepay the half of the original $400.0 million loan that had a maturity of April 27, 2009. Any such prepayment under the terms of the second loan amendment would be accompanied by payment of accrued and unpaid interest on the prepayment amount. The remaining half of the loan has a maturity of July 12, 2010 and the Company does not have a right to prepay this amount. The loan was otherwise unchanged. On January 14, 2009, the Company elected to repay the half of the original $400.0 million loan that was due April 27, 2009. As of December 31, 2009, the remaining half of the loan with a maturity of July 12, 2010 has been reclassified from long-term debt to current portion of long-term debt.

The Company incurred interest expense of $3.9 million, $15.2 million and $23.5 million and paid interest of $6.3 million, $16.1 million and $23.7 million for the years ended December 31, 2009, 2008 and 2007, respectively, in relation to this loan.

In connection with the acquisition of the reinsurance operations of Winterthur Re in 1998, the Company's subsidiary, PartnerRe U.S. Corporation (PartnerRe U.S. Holdings) obtained a $220.0 million, 5.81% fixed rate bank loan. The loan was repaid in 2008 using the proceeds from the issuance of the Senior Notes (see Note 16). PartnerRe U.S. Holdings incurred interest expense of $8.7 million and paid interest of $9.6 million for the year ended December 31, 2008 and incurred interest expense and paid interest of $13.0 million for the year ended December 31, 2007 in relation to this loan.

16. Debt Related to Senior Notes and Capital Efficient Notes

Senior Notes

In May 2008, PartnerRe Finance A LLC (PartnerRe Finance A), an indirect wholly-owned subsidiary of the Company, issued $250.0 million aggregate principal amount of 6.875% Senior Notes (Senior Notes). The Senior Notes will mature on June 1, 2018 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest on the Senior Notes is payable semi-annually and commenced on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

The Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance A. The Company has fully and unconditionally guaranteed all obligations of PartnerRe Finance A under the Senior Notes. The Company's obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the Company. The proceeds from the Senior Notes were used to redeem the $220.0 million, 5.81% fixed rate bank loan owed by PartnerRe U.S. Holdings and the remaining net proceeds were used for general corporate purposes (see Note 15).

Contemporaneously, PartnerRe U.S. Holdings issued a 6.875% promissory note, with a principal amount of $250.0 million to PartnerRe Finance A. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance A the principal amount on June 1, 2018, unless previously paid. Interest on the promissory note is payable semi-annually and commenced on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

For the years ended December 31, 2009 and 2008, the Company incurred interest expense of $17.2 million and $10.2 million, respectively, and paid interest of $17.2 million and $8.8 million, respectively.

Capital Efficient Notes (CENts)

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued $250.0 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated CENts. The CENts will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. Interest on the CENts is payable semi-annually and commenced on June 1, 2007 through to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

PartnerRe Finance II may elect to defer one or more interest payments for up to ten years, although interest will continue to accrue and compound at the rate of interest applicable to the CENts. The CENts are ranked as junior subordinated unsecured obligations of PartnerRe Finance II. The Company has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II under the CENts. The Company's obligations under this guarantee are unsecured and rank junior in priority of payments to the Company's current portion of long-term debt and Senior Notes.

Contemporaneously, PartnerRe U.S. Holdings issued a 6.440% Fixed-to-Floating Rate promissory note, with a principal amount of $257.6 million to PartnerRe Finance II. Under the terms of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance II the principal amount on December 1, 2066, unless previously paid. Interest on the promissory note is payable semi-annually and commenced on June 1, 2007 through to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

On March 2, 2009, the Company announced the commencement of a cash tender offer for any and all of the CENts. Under the terms of the tender offer, PartnerRe Finance II paid holders $500 per $1,000 principal amount of CENts tendered. In addition, holders of the CENts were paid any accrued and unpaid interest on the purchased CENts from the last interest payment date.

On March 13, 2009, PartnerRe Finance II purchased approximately 75% of the issue, or $186.6 million, for $93.3 million. Contemporaneously, under the terms of a cross receipt agreement, PartnerRe U.S. Holdings paid PartnerRe Finance II consideration of $93.3 million for the extinguishment of $186.6 million of the principal amount of PartnerRe U.S. Holdings' 6.440% Fixed-to-Floating Rate promissory note due December 1, 2066. All other terms and conditions of the remaining CENts and promissory note remain unchanged. A pre-tax gain of $88.4 million, net of deferred issuance costs and fees, was realized on the foregoing transactions. The aggregate principal amount of the CENts and promissory note outstanding at December 31, 2009 was $63.4 million and $71.0 million, respectively.

For the years ended December 31, 2009, 2008 and 2007, the Company incurred interest expense of $7.0 million, $16.6 million and $16.5 million, respectively, and paid interest of $8.0 million, $16.6 million and $17.7 million, respectively.

The Company does not consolidate PartnerRe Finance A, which issued the Senior Notes, or PartnerRe Finance II, which issued the CENts, as they do not meet the consolidation requirements under U.S. GAAP. The Company has reflected the intercompany debt related to the Senior Notes and the CENts in its Consolidated Balance Sheets.

17. Shareholders' Equity

Authorized Shares

At December 31, 2009 and 2008, the total authorized shares of the Company were 200 million shares, par value $1.00 per share, as follows (in millions of shares):

	2009	2008
Designated common shares	**130.0**	130.0
Designated 6.75% Series C cumulative redeemable preferred shares	**11.6**	11.6
Designated 6.5% Series D cumulative redeemable preferred shares	**9.2**	9.2
Designated and redeemed preference shares	**14.0**	14.0
Undesignated	**35.2**	35.2
	200.0	200.0

Common Shares

During 2009, and pursuant to the acquisition of Paris Re, the Company issued 25.7 million common shares, of which 1.3 million common shares were reissued from treasury.

During 2008, under a maturing forward sale agreement (see Note 18), the Company delivered 3.4 million common shares to the forward counterparty over a 40 day valuation period for total proceeds of $211.6 million. The value received per share was the average daily market price per share over the valuation period, subject to a minimum price per share of $59.37.

During 2009, no shares were repurchased and at December 31, 2009, the Company had 5 million common shares remaining under its then existing share repurchase authorization approved by the Company's Board of Directors (see Note 25).

During 2008, the Company repurchased 1.5 million of its common shares pursuant to its repurchase program at a total cost of $110.0 million, representing an average cost of $71.79 per share. During 2007, the Company repurchased 3.6 million of its common shares at a total cost of $275.0 million, representing an average cost of $76.06 per share.

At December 31, 2009, 5,000 common shares are held in treasury and available for reissuance.

Series C Cumulative Preferred Shares

In May 2003, the Company issued 11.6 million of 6.75% Series C cumulative redeemable preferred shares (Series C preferred shares) for a total consideration of $280.9 million after underwriting discounts and commissions totaling $9.1 million. The Company may redeem the Series C preferred shares at $25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series C preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. In the event of liquidation of the Company, the holders of outstanding preferred shares would have preference over the common shareholders and would receive a distribution of $25.00 per share, or an aggregate value of $290 million, plus accrued and unpaid dividends.

Series D Cumulative Preferred Shares

In November 2004, the Company issued 9.2 million of 6.5% Series D cumulative redeemable preferred shares (Series D preferred shares) for a total consideration of $222.3 million after underwriting discounts and commissions totaling $7.7 million. The Company may redeem the Series D preferred shares at $25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series D preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. In the event of liquidation of the Company, the holders of outstanding preferred shares would have preference over the common shareholders and would receive a distribution of $25.00 per share, or an aggregate value of $230 million, plus accrued and unpaid dividends.

Net Income per Share

The reconciliation of basic and diluted net income per share for the years ended December 31, 2009, 2008 and 2007 is as follows (in thousands of U.S. dollars or shares, except per share amounts):

	2009[(1)]	2008	2007
Numerator:			
Net income	**$ 1,536,854**	$ 46,567	$ 717,812
Less: preferred dividends	**(34,525)**	(34,525)	(34,525)
Net income available to common shareholders	**$ 1,502,329**	$ 12,042	$ 683,287
Denominator:			
Weighted average number of common shares outstanding – basic	**62,786.2**	54,347.1	56,104.4
Share options and other[(2)]	**1,104.4**	1,292.5	1,453.5
Weighted average number of common and common share equivalents outstanding – diluted	**63,890.6**	55,639.6	57,557.9
Basic net income per share	**$ 23.93**	$ 0.22	$ 12.18
Diluted net income per share	**$ 23.51**	$ 0.22	$ 11.87

(1) *Net income and net income available to common shareholders include $4.3 million, and basic net income per share and diluted net income per share include $0.07 per share related to the noncontrolling interests' share of Paris Re's net income for the period from October 2, 2009 to December 31, 2009.*

(2) *At December 31, 2009, 2008 and 2007, share options to purchase 387.0 thousand, 870.1 thousand and 4.7 thousand common shares, respectively, were excluded from the calculation of diluted weighted average number of common and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares.*

18. Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it agreed to sell approximately 6.7 million of its common shares to an affiliate of Citigroup Global Markets Inc., which affiliate is referred to as the forward counterparty. Under the forward sale agreement, the Company would deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008.

Under the terms of the unamended half of the forward sale agreement, in 2008 the Company delivered 3.4 million common shares to the forward counterparty for total proceeds of $211.6 million (see Note 17).

On July 31, 2008, the Company amended its existing forward sale agreement. Under the terms of the amendment, half the contract matured according to its original term beginning on September 26, 2008, while the remaining half was extended to April 2010.

The extension with the forward counterparty allows the Company to deliver 3,366,295 of the 6,732,590 common shares subject to the original contract to the forward counterparty at any time during the remaining term of the agreement, which will mature beginning on April 28, 2010. The future sale price of the Company's common shares under the amended half of the forward sale agreement will vary depending upon the market price of its common shares over a 40 trading day period surrounding the maturity of the forward sale agreement in April 2010, subject to a minimum price per share of $59.13 and a maximum price per share of $84.23 at December 31, 2009. If the Company elects to settle all or a portion of the forward sale agreement prior to its maturity, the Company will deliver common shares to the forward counterparty and will initially receive the present value of the minimum price per share, and the remaining payment, if any, due the Company will be made at maturity of the agreement based on the excess of the market price of the Company's common shares over the minimum price per share at maturity of the contract. Settlement of the forward sale agreement may be accelerated by the forward counterparty upon the occurrence of certain events, and the maximum and minimum purchase prices will be reduced or increased quarterly depending on the amount of the Company's dividends.

Under the terms of the extended forward sale agreement, contract fees of approximately $8.1 million were recorded against additional paid-in capital in 2008 and will be paid over the contract period. Prior to the issuance of shares under the forward sale agreement, this transaction has no other impact on the Company's common shareholders' equity, and the Company calculates the dilutive impact related to the forward sale agreement, if any, using the treasury stock method.

For the fourth quarter of 2007, the diluted net income per share included the dilutive effect of 115,350 shares related to this agreement, as the Company's average share price exceeded the maximum price per share during the fourth quarter of 2007. The 2009 and 2008 diluted net income per share did not include any dilutive effect related to this agreement.

19. Commitments and Contingencies

(a) Concentration of Credit Risk

The Company's investment portfolio is managed following prudent standards of diversification and a prudent investment philosophy. The Company is not exposed to any significant credit concentration risk on its investments, except for debt securities issued or guaranteed by the U.S. and other AAA-rated sovereign governments. The Company keeps cash and cash equivalents in several banks and may keep up to $500 million, excluding custodial accounts, at any point in time in any one bank.

The Company's investment strategy allows for the use of derivative instruments, subject to strict limitations. Derivative instruments may be used to replicate investment positions, manage currency, market exposure and duration risk, or to enhance investment performance that would be allowed under the Company's investment policy if implemented in other ways. The Company is exposed to credit risk in the event of non-performance by the counterparties to the Company's derivative contracts. However, the Company diversifies the counterparties to its derivative contracts to reduce credit risk, and because the counterparties to these contracts are high-credit-quality international banks, the Company does not anticipate non-performance. These contracts are generally of short duration and settle on a net basis. The difference between the contract amounts and the related market value represents the Company's maximum credit exposure.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and for different life and alternative risk products. Loss experience in these lines of business is cyclical and is affected by the state of the general economic environment. The Company provides its clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the reinsurance provided and, accordingly, the Company is exposed to the credit risk of those credits. The Company mitigates the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps.

The Company has exposure to credit risk as it relates to its business written through brokers, if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency.

The Company has exposure to credit risk related to reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. The credit risk exposure related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process, monitoring of aged receivable balances and the contractual right to offset premiums receivable or funds held balances against unpaid losses and loss expenses. As of December 31, 2009 and 2008, the Company has recorded a provision for uncollectible premiums receivable of $10.3 million and $6.5 million, respectively.

The Company is also subject to the credit risk of its cedants in the event of insolvency or the cedant's failure to honor the value of funds held balances for any other reason. The funds held – directly managed account is with one cedant and is supported by an underlying portfolio of investments, which are managed by the Company (see Note 7). The Company's credit risk related to funds held is mitigated, to some extent, by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the premiums receivable or funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due.

(b) Lease Arrangements

The Company leases office space under operating leases expiring in various years through 2019. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments, exclusive of escalation clauses, on non-cancelable leases as of December 31, 2009 (in thousands of U.S. dollars):

Period	Amount
2010	$ 35,657
2011	34,338
2012	31,514
2013	16,031
2014	12,230
2015 through 2019	25,389
Total future minimum rental payments	$ 155,159

Rent expense for the years ended December 31, 2009, 2008 and 2007 was $30.9 million, $28.8 million, and $25.9 million, respectively.

(c) Employment Agreements

The Company has entered into employment agreements with its executive officers. These agreements provide for annual compensation in the form of salary, benefits, annual incentive payments, share-based compensation, the reimbursement of certain expenses, retention incentive payments, as well as certain severance provisions.

In addition, the Company has entered into agreements with Paris Re's Chief Executive Officer that provide for certain termination payments and retirement benefits.

(d) Other Agreements

The Company has entered into service agreements and lease contracts that provide for business and information technology support and computer equipment. Future payments under these contracts amount to $44.2 million through 2015.

The Company has entered into strategic investments with unfunded capital commitments totaling $128.0 million through 2014. The Company expects to fund capital commitments of $59.5 million, $43.4 million, $15.1 million, $5.0 million and $5.0 million during 2010, 2011, 2012, 2013 and 2014, respectively.

(e) 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.

20. Derivatives

The Company's derivative instruments are recorded in the Consolidated Balance Sheets at fair value, with changes in fair value mainly recognized in either net foreign exchange gains and losses or net realized and unrealized investment gains and losses in the Consolidated Statements of Operations or accumulated other comprehensive income in the Consolidated Balance Sheets, depending on the nature of the derivative instrument. The Company's objectives for holding or issuing these derivatives are as follows:

Foreign Exchange Forward Contracts

The Company utilizes foreign exchange forward contracts as part of its overall currency risk management and investment strategies. From time to time, the Company also utilizes foreign exchange forward contracts to hedge a portion of its net investment exposure resulting from the translation of its foreign subsidiaries and branches whose functional currency is other than the U.S. dollar.

Foreign Currency Option Contracts and Futures Contracts

The Company also utilizes foreign currency option contracts to mitigate foreign currency risk. The Company uses exchange traded treasury note futures contracts and commodity futures to manage portfolio duration or to hedge certain investments, respectively.

Credit Default Swaps

The Company purchases protection through credit default swaps to mitigate the risk associated with its underwriting operations, most notably in the credit/surety line, and to manage market exposures.

The Company assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at December 31, 2009. The counterparties on the Company's assumed credit default swaps are all highly rated financial institutions.

Insurance-Linked Securities

The Company has entered into various weather derivatives, weather futures and a longevity total return swap for which the underlying risks include parametric weather risks for the weather derivatives and weather futures, and longevity risk for the longevity total return swap.

Total Return and Interest Rate Swaps and Interest Rate Derivatives

The Company has entered into total return swaps referencing various project and principal finance obligations. The Company has also entered into interest rate swaps to mitigate interest rate risk on certain total return swaps and interest rate derivatives to mitigate exposure to interest rate volatility.

The fair values and related notional values of derivatives included in the Company's Consolidated Balance Sheets at December 31, 2009 and 2008 were as follows (in thousands of U.S. dollars):

	2009		2008	
Derivatives designated as hedges	**Fair Value**	**Notional Value**	Fair Value	Notional Value
Foreign exchange forward contracts (net investment hedge)	**$ 4,840**	**$ —**	$ (37,470)	$ 443,210
Interest rate derivatives	**6,354**	**400,000**	—	—
Total derivatives designated as hedges	**$ 11,194**		$ (37,470)	
Derivatives not designated as hedges				
Foreign exchange forward contracts	**$ 1,137**	**$ 1,333,862**	$ 32,522	$ 1,196,830
Foreign currency option contracts	**1,680**	**108,205**	(8,027)	123,932
Futures contracts	**27,866**	**1,825,297**	7,991	1,122,524
Credit default swaps (protection purchased)	**(2,056)**	**192,996**	20,305	295,665
Credit default swaps (assumed risks)	**566**	**22,500**	(16,191)	46,130
Insurance-linked securities	**(149)**	**48,962**	(5,393)	60,000
Total return swaps	**(1,195)**	**229,165**	(24,898)	239,733
Interest rate swaps	**(8,166)**	**—**	(12,355)	—
Other	**130**	**—**	—	—
Total derivatives not designated as hedges	**$ 19,813**		$ (6,046)	
Total derivatives	**$ 31,007**		$ (43,516)	

The fair value of all derivatives at December 31, 2009 and 2008 is recorded in other invested assets in the Company's Consolidated Balance Sheets. The effective portion of net investment hedging derivatives recognized in accumulated other comprehensive income at December 31, 2009 and 2008 was a $66.3 million loss and a $37.5 million loss, respectively. The effective portion of interest rate derivatives in accumulated other comprehensive income at December 31, 2009 was a gain of $6.4 million.

The gains and losses included in the Consolidated Statements of Operations for derivatives not designated as hedges for the years ended December 31, 2009 and 2008 was as follows (in thousands of U.S. dollars):

	2009 Amount of gain (loss) on derivatives recognized in income	2008 Amount of (loss) gain on derivatives recognized in income
Foreign exchange forward contracts	**$ 39,573**	$ (19,706)
Foreign currency option contracts	**5,734**	(15,167)
Total included in net foreign exchange gains and losses	**$ 45,307**	$ (34,873)
Futures contracts	**(10,147)**	7,150
Credit default swaps (protection purchased)	**(15,535)**	19,311
Credit default swaps (assumed risks)	**7,062**	(15,581)
Insurance-linked securities	**3,524**	5,367
Total return swaps	**22,083**	(1,049)
Interest rate swaps	**4,190**	(8,795)
Other	**107**	449
Total included in net realized and unrealized investment gains and losses	**$ 11,284**	$ 6,852
Total derivatives not designated as hedges	**$ 56,591**	$ (28,021)

21. Credit Agreements

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured and secured credit facilities. As of December 31, 2009, the total amount of such credit facilities available to the Company was $1,118.4 million. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued on an unsecured and secured basis in the amount of $502.6 million and $250.0 million, respectively, at December 31, 2009, in respect of reported loss and unearned premium reserves.

Included in the total credit facilities available to the Company at December 31, 2009 is a $660 million five-year syndicated, unsecured credit facility. This unsecured credit facility has the following terms:

i. a maturity date of September 30, 2010,
ii. a $300 million accordion feature, which enables the Company to potentially increase its available credit from $660 million to $960 million, and
iii a minimum consolidated tangible net worth requirement as defined below. The ability of the Company to increase its available credit to $960 million is subject to the agreement of the credit facility participants and, given the recent financial crisis and related credit environment, this may be limited.

This facility is predominantly used for the issuance of letters of credit, although the Company and its subsidiaries have access to a revolving line of credit of up to $330 million as part of the Company's syndicated unsecured credit facility. At December 31, 2009 and 2008, there were no borrowings under this revolving line of credit.

Additionally, the syndicated unsecured credit facility allows for an adjustment to the level of pricing should the Company experience a change in its senior unsecured debt ratings. The pricing grid provides the Company greater flexibility and simultaneously provides participants under the facility some price protection. As long as the Company maintains a minimum senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's, the pricing on the facility will not change significantly.

Some of the credit facilities contain customary default, cross payment and acceleration provisions and require that the Company maintain certain covenants. The Company's breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under these facilities. At December 31, 2009 and 2008, the Company was not in breach of any of the covenants and no conditions of default existed under its facilities.

In addition to the unsecured credit facilities available to the Company, Paris Re maintains two committed secured letter of credit facilities with a total amount available of $350.0 million. The facilities are used for the issuance of letters of credit, which must be secured fully or partially with cash and/or government bonds and/or investment grade bonds. These credit facilities have maturity dates of January 20, 2011, with respect to a $150.0 million facility, and November 18, 2011, with respect to a $200.0 million facility. The agreements include default covenants, which could require Paris Re to fully secure the outstanding letters of credit to the extent that the facility is not already fully secured, and disallow the issuance of any new letters of credit. At December 31, 2009, no conditions of default existed under these facilities. At December 31, 2009, the outstanding letters of credit issued under these facilities was $250.0 million.

22. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate and 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.

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 principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

Because the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, 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. The following items are not considered in evaluating the results of the Non-life and Life segments: net realized and unrealized investment gains and losses, net realized gain on purchase of CENts, interest expense, amortization of intangible assets, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings and losses of equity investments. Segment results are shown before consideration of intercompany transactions.

Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio. Management measures results for the Life segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned, other income or loss and allocated net investment income for Life, and expenses from life policy benefits, acquisition costs and other operating expenses.

The following tables provide a summary of the segment revenues and results for the years ended December 31, 2009, 2008 and 2007 (in millions of U.S. dollars, except ratios):

Segment Information
For the Year Ended December 31, 2009

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Paris Re	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 1,069	$ 646	$ 1,102	$ 388	$ 193	$ 3,398	$ 595	$ 8	$ 4,001
Net premiums written	$ 1,070	$ 644	$ 1,071	$ 388	$ 178	$ 3,351	$ 591	$ 7	$ 3,949
Decrease (increase) in unearned premiums	33	24	(34)	17	134	174	(4)	1	171
Net premiums earned	$ 1,103	$ 668	$ 1,037	$ 405	$ 312	$ 3,525	$ 587	$ 8	$ 4,120
Losses and loss expenses and life policy benefits	(660)	(341)	(648)	(1)	(208)	(1,858)	(440)	2	(2,296)
Acquisition costs	(284)	(165)	(245)	(32)	(46)	(772)	(113)	—	(885)
Technical result	$ 159	$ 162	$ 144	$ 372	$ 58	$ 895	$ 34	$ 10	$ 939
Other income						13	2	7	22
Other operating expenses						(253)	(47)	(131)	(431)
Underwriting result						$ 655	$ (11)	n/a	$ 530
Net investment income							62	534	596
Allocated underwriting result [1]							$ 51	n/a	n/a
Net realized and unrealized investment gains								591	591
Net realized gain on purchase of capital efficient notes								89	89
Interest expense								(28)	(28)
Amortization of intangible assets								6	6
Net foreign exchange losses								(1)	(1)
Income tax expense								(262)	(262)
Interest in earnings of equity investments								16	16
Net income								n/a	$ 1,537
Loss ratio [2]	59.8%	51.0%	62.5%	0.3%	66.7%	52.7%			
Acquisition ratio [3]	25.8	24.7	23.6	8.0	14.7	21.9			
Technical ratio [4]	85.6%	75.7%	86.1%	8.3%	81.4%	74.6%			
Other operating expense ratio [5]						7.2			
Combined ratio [6]						81.8%			

N/A: *not applicable*

[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.*

[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.*

[5] *Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.*

[6] *Combined ratio is defined as the sum of the technical ratio and the other operating expense ratio.*

Segment Information
For the Year Ended December 31, 2008

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other	Total
Gross premiums written	$ 1,072	$ 769	$ 1,172	$ 413	$ 3,426	$ 584	$ 18	$ 4,028
Net premiums written	$ 1,064	$ 765	$ 1,150	$ 413	$ 3,392	$ 579	$ 18	$ 3,989
Decrease (increase) in unearned premiums	24	32	(104)	(10)	(58)	(3)	—	(61)
Net premiums earned	$ 1,088	$ 797	$ 1,046	$ 403	$ 3,334	$ 576	$ 18	$ 3,928
Losses and loss expenses and life policy benefits	(812)	(454)	(721)	(144)	(2,131)	(463)	(15)	(2,609)
Acquisition costs	(261)	(198)	(281)	(37)	(777)	(120)	(2)	(899)
Technical result	$ 15	$ 145	$ 44	$ 222	$ 426	$ (7)	$ 1	$ 420
Other income					4	—	6	10
Other operating expenses					(231)	(43)	(91)	(365)
Underwriting result					$ 199	$ (50)	n/a	$ 65
Net investment income						67	506	573
Allocated underwriting result [(1)]						$ 17	n/a	n/a
Net realized and unrealized investment losses							(531)	(531)
Interest expense							(51)	(51)
Net foreign exchange gains							6	6
Income tax expense							(10)	(10)
Interest in losses of equity investments							(5)	(5)
Net income							n/a	$ 47
Loss ratio[(2)]	74.6%	56.9%	69.0%	35.8%	63.9%			
Acquisition ratio[(3)]	24.0	24.9	26.8	9.2	23.3			
Technical ratio[(4)]	98.6%	81.8%	95.8%	45.0%	87.2%			
Other operating expense ratio[(5)]					6.9			
Combined ratio[(6)]					94.1%			

Segment Information
For the Year Ended December 31, 2007

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life Segment	Life Segment	Corporate and Other [A]	Total
Gross premiums written	$ 1,020	$ 740	$ 1,049	$ 401	$ 3,210	$ 597	$ 3	$ 3,810
Net premiums written	$ 1,020	$ 738	$ 1,026	$ 401	$ 3,185	$ 569	$ 3	$ 3,757
(Increase) decrease in unearned premiums	(21)	20	(20)	39	18	2	—	20
Net premiums earned	$ 999	$ 758	$ 1,006	$ 440	$ 3,203	$ 571	$ 3	$ 3,777
Losses and loss expenses and life policy benefits	(608)	(523)	(450)	(46)	(1,627)	(455)	—	(2,082)
Acquisition costs	(241)	(191)	(260)	(42)	(734)	(116)	—	(850)
Technical result	$ 150	$ 44	$ 296	$ 352	$ 842	$ —	$ 3	$ 845
Other income (loss)					7	—	(24)	(17)
Other operating expenses					(214)	(33)	(80)	(327)
Underwriting result					$ 635	$ (33)	n/a	$ 501
Net investment income						54	469	523
Allocated underwriting result [1]						$ 21	n/a	n/a
Net realized investment losses							(72)	(72)
Interest expense							(54)	(54)
Net foreign exchange losses							(15)	(15)
Income tax expense							(82)	(82)
Interest in losses of equity investments							(83)	(83)
Net income							n/a	$ 718
Loss ratio [2]	60.8%	69.0%	44.7%	10.5%	50.8%			
Acquisition ratio [3]	24.1	25.2	25.9	9.6	22.9			
Technical ratio [4]	84.9%	94.2%	70.6%	20.1%	73.7%			
Other operating expense ratio [5]					6.7			
Combined ratio [6]					80.4%			

[A] *The Company reports the results of ChannelRe Holdings on a one-quarter lag. The 2007 period includes the Company's share of ChannelRe Holdings' net loss and a charge which represents the write-down of its total investment in ChannelRe Holdings due to anticipated unrealized mark-to-market losses on Channel Reinsurance Ltd.'s credit derivative portfolio, which it expected to incur during the three months ended December 31, 2007, for a total of $92.8 million (see Note 21).*

The following table provides the distribution of net premiums written by line of business for the years ended December 31, 2009, 2008 and 2007:

	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%

The following table provides the geographic distribution of gross premiums written based on the location of the underlying risk for the years ended December 31, 2009, 2008 and 2007:

	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 Company produces its business both through brokers and through direct relationships with insurance company clients. None of the Company's cedants accounted for more than 6% of total gross premiums written during the year ended December 31, 2009 and more than 7% during the years ended December 31, 2008 and 2007.

The Company had two brokers that individually accounted for 10% or more of its gross premiums written during the years ended December 31, 2009, 2008 and 2007. The brokers accounted for 25%, 23%, and 17% and 19%, 19%, and 19% of gross premiums written for the years ended December 31, 2009, 2008 and 2007, respectively.

The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Non-life			
U.S.	**78**%	71%	64%
Global (Non-U.S.) P&C	**29**	30	29
Global (Non-U.S.) Specialty	**26**	25	19
Catastrophe	**71**	74	47
Paris Re	**44**	N/A	N/A
Life	**18**	18	17

N/A: *not applicable*

23. Unaudited Quarterly Financial Information

	2009				2008			
(in millions of U.S. dollars, except per share amounts)	**Fourth Quarter (1)**	**Third Quarter**	**Second Quarter**	**First Quarter**	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net premiums written	**$ 904.4**	**$ 891.5**	**$ 844.7**	**$ 1,308.1**	$ 752.4	$ 869.2	$ 956.3	$ 1,411.6
Net premiums earned	**1,336.6**	**1,090.7**	**826.1**	**866.5**	984.3	1,078.5	955.5	909.8
Net investment income	**182.0**	**145.4**	**135.6**	**133.1**	144.3	146.1	145.5	137.0
Net realized and unrealized investment gains (losses)	**25.0**	**330.2**	**306.5**	**(70.1)**	64.0	(324.2)	(296.2)	25.1
Net realized gain on purchase of capital efficient notes	**—**	**—**	**—**	**88.4**	—	—	—	—
Other income (loss)	**6.0**	**8.4**	**3.4**	**4.6**	7.9	(3.8)	4.6	1.6
Total revenues	**1,549.6**	**1,574.7**	**1,271.6**	**1,022.5**	1,200.5	896.6	809.4	1,073.5
Losses and loss expenses and life policy benefits	**743.3**	**574.2**	**458.9**	**518.9**	718.9	752.0	548.7	589.7
Acquisition costs	**271.1**	**232.5**	**181.7**	**200.0**	233.7	232.8	228.2	204.2
Other operating expenses	**146.5**	**102.2**	**98.5**	**83.6**	89.1	86.9	96.7	92.3
Interest expense	**6.6**	**6.2**	**6.3**	**9.1**	12.5	11.9	14.9	11.9
Amortization of intangible assets	**(6.1)**	**—**	**—**	**—**	—	—	—	—
Net foreign exchange (gains) losses	**(4.1)**	**1.0**	**1.2**	**3.4**	(14.1)	4.6	(1.5)	4.8
Total expenses	**1,157.3**	**916.1**	**746.6**	**815.0**	1,040.1	1,088.2	887.0	902.9
Income (loss) before taxes and interest in earnings (losses) of equity investments	**392.3**	**658.6**	**525.0**	**207.5**	160.4	(191.6)	(77.6)	170.6
Income tax expense (benefit)	**51.9**	**93.4**	**57.0**	**59.8**	59.9	(39.5)	(53.4)	42.7
Interest in earnings (losses) of equity investments	**14.0**	**1.5**	**6.2**	**(6.2)**	(5.2)	0.4	(1.8)	1.1
Net income (loss)	**354.4**	**566.7**	**474.2**	**141.5**	95.3	(151.7)	(26.0)	129.0
Preferred dividends	**8.6**	**8.6**	**8.6**	**8.6**	8.6	8.6	8.6	8.6
Net income (loss) available to common shareholders	**$ 345.8**	**$ 558.1**	**$ 465.6**	**$ 132.9**	$ 86.7	$ (160.3)	$ (34.6)	$ 120.4
Basic net income (loss) per common share	**$ 4.34**	**$ 9.60**	**$ 8.23**	**$ 2.35**	$ 1.56	$ (3.01)	$ (0.64)	$ 2.22
Diluted net income (loss) per common share	**4.25**	**9.44**	**8.10**	**2.32**	1.53	(3.01)	(0.64)	2.16
Dividends declared per common share	**0.47**	**0.47**	**0.47**	**0.47**	0.46	0.46	0.46	0.46

(1) *The Company's results for the three months and year ended December 31, 2009 include the results of Paris Re from October 2, 2009 to December 31, 2009.*

24. Summarized Financial Information of ChannelRe Holdings

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.

The following tables provide summarized financial information for ChannelRe Holdings. As the Company calculates its share of ChannelRe Holdings' results on a one-quarter lag, the results presented below include summarized financial information for the twelve month periods from October 1 to September 30.

In addition to ChannelRe Holdings' results for the twelve month period ended September 30, 2007 below, 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.

As ChannelRe Holdings has a financial year-end of December 31, this information is not presented in the annual financial statements of ChannelRe Holdings.

Balance Sheet Data (in millions of U.S. dollars):

	September 30, 2009	September 30, 2008
Total investments and cash	**$ 752**	$ 699
Derivative assets	**—**	86
Reinsurance premiums receivable	**98**	—
Other assets	**116**	41
Total assets	**$ 966**	$ 826
Deferred premium revenue	**$ 223**	$ 123
Loss and loss adjustment expense reserves	**24**	41
Derivative liabilities	**762**	743
Other liabilities	**69**	9
Total liabilities	**1,078**	916
Noncontrolling interests	**(29)**	(25)
Shareholders' deficit	**(83)**	(65)
Total liabilities, noncontrolling interests and shareholders' deficit	**$ 966**	$ 826

Income Statement Data (in millions of U.S. dollars):

	For the period from October 1, 2008 to September 30, 2009	For the period from October 1, 2007 to September 30, 2008	For the period from October 1, 2006 to September 30, 2007
Premiums earned	**$ 41**	$ 48	$ 45
Net investment income	**25**	30	29
Total revenues	**66**	78	74
Losses incurred	**24**	27	12
Acquisition costs	**11**	12	12
Operating expenses	**11**	3	4
Total expenses	**46**	42	28
Net realized and unrealized losses	**(105)**	(541)	(75)
Noncontrolling interests	**24**	141	8
Net loss	**$ (61)**	$ (364)	$ (21)

25. Subsequent Events

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. On February 25, 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.

On February 27, 2010, a major earthquake measuring 8.8 on the Richter scale caused substantial damage in southern Chile. The Company has exposure to this event in Chile primarily through its property and casualty, specialty and catastrophe lines. In addition, on February 28, 2010, Atlantic storm Xynthia swept across parts of France, Portugal and Spain causing torrential rain and widespread flooding. The Company is exposed to this event primarily through its property and catastrophe lines. The Company is currently assessing its potential claims relating to these events, but information as of March 1, 2010 is not sufficient to arrive at reasonable estimates.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the accompanying consolidated balance sheets of PartnerRe Ltd. and subsidiaries (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PartnerRe Ltd. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

Deloitte & Touche

Deloitte & Touche
Hamilton, Bermuda
March 1, 2010

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of Management, including the Chief Executive Officer and Chief Financial Officer, as of December 31, 2009, of the effectiveness of the design and operation of its disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2009, the disclosure controls and procedures are effective such that information required to be disclosed by the Company in reports that it files or submits pursuant to the Securities Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission and is accumulated and communicated to Management, including its principal executive and principal financial officers, as appropriate, to allow timely decisions regarding required disclosures.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of Management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management has assessed the effectiveness of internal control over financial reporting as of December 31, 2009. In making this assessment, Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework.

We have excluded from our assessment of internal control an assessment of the financial reporting at Paris Re, which was acquired on October 2, 2009 and whose financial statements constitute approximately 25% of total assets and approximately 5% of revenues and net income of the Company's consolidated financial statement amounts as of and for the year ended December 31, 2009.

Based on our assessment and those criteria, which excluded an assessment of internal controls over financial reporting at Paris Re, Management believes that the Company maintained effective internal control over financial reporting as of December 31, 2009.

Deloitte & Touche, the Company's independent registered public accounting firm, has issued a report on the effectiveness of the Company's internal control over financial reporting and its report appears below.

Changes in Internal Control Over Financial Reporting
On October 2, 2009, the Company completed its acquisition of Paris Re. The Company is currently in the process of integrating the internal controls and procedures of Paris Re and its subsidiaries into its internal control over financial reporting.

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the internal control over financial reporting of PartnerRe Ltd. and subsidiaries (the Company) as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control over Financial Reporting, management excluded from its assessment of internal control the internal control over financial reporting at PARIS RE Holdings Limited (Paris Re), which was acquired on October 2, 2009 and whose financial statements constitute approximately 25% of total assets and approximately 5% of revenues and net income of the Company's consolidated financial statement amounts as of and for the year ended December 31, 2009. Accordingly, our audit did not include the internal control over financial reporting at Paris Re. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated March 1, 2010 expressed an unqualified opinion on those financial statements.

Deloitte & Touche

Deloitte & Touche
Hamilton, Bermuda
March 1, 2010

The Audit Committee has discussed with the independent registered public accounting firm, Deloitte & Touche ("Deloitte"), the matters required to be discussed by Statement on Auditing Standards No. 61, as amended (Communication with Audit Committees) and Regulation S-X Rule 2-07.

The Audit Committee and Deloitte have discussed Deloitte's independence and whether Deloitte can provide non-audit related services and maintain independence from management and PartnerRe. The Audit Committee has received from Deloitte the written disclosures and the letter required by PCAOB Rule 3526 (Communication with Audit Committees, Concerning Independence) including written materials addressing Deloitte's internal quality control procedures.

During fiscal year 2009, the Audit Committee had eight meetings, including telephonic meetings, to discuss (among other things) PartnerRe's quarterly results. The meetings were conducted to encourage communication among the members of the Audit Committee, management, the internal auditors and Deloitte. The Audit Committee also discussed with Deloitte the overall scope and plans for Deloitte's audits and the results of such audits. The Audit Committee met with representatives from Deloitte, both with and without management present.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2009 with management and with Deloitte. Based on the above-mentioned reviews and discussions, the Audit Committee has recommended to the Board that the audited financial statements be included in PartnerRe's Annual Report on Form 10-K for the year ended December 31, 2009.

Kevin M. Twomey
Chairman, Audit Committee

Jan H. Holsboer
Vice Chairman, Audit Committee

Vito H. Baumgartner
Member, Audit Committee

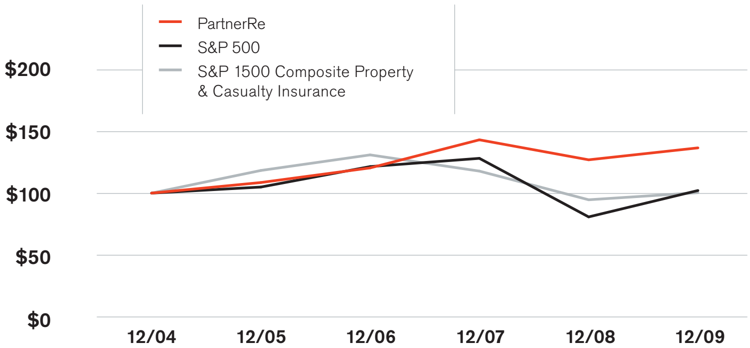
Judith Hanratty
Member, Audit Committee

David Zwiener
Member, Audit Committee

Comparison of 5-Year Cumulative Total Return

The graph below compares the cumulative shareholder return, including reinvestment of dividends, on the Company's common shares to such return for Standard & Poor's ("S&P") 500 Composite Stock Price Index and S&P's 1500 Composite Property & Casualty Insurance Index for the period commencing on December 31, 2004 and ending on December 31, 2009, assuming $100 was invested on December 31, 2004.

Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each year during the period from December 31, 2004 through December 31, 2009. As depicted in the graph below, during this period the cumulative total shareholder return on the Company's common shares was 37%, the cumulative total return for the S&P 500 Composite Stock Price Index was 2% and the cumulative total return for the S&P 1500 Composite Property & Casualty Insurance Index was 0%.



$100 invested on 12/31/04 in stock and index, including reinvestment of dividends. Fiscal year ending December 31.

The Company has attempted to identify an index which most closely matches our business. There are no indices that properly reflect the returns of the reinsurance industry. The S&P 1500 Composite Property & Casualty Insurance Index is used as it is the broadest index of companies in the property and casualty industry. We caution the reader that this index of 25 companies does not include any companies primarily engaged in the reinsurance business, and therefore it is provided to offer context for evaluating performance, rather than direct comparison.

Senior Operating Management

1 **John Adimari**
Chief Operations Officer, North America

2 **Bill Babcock**
Finance Director, Group

3 **Jérôme Carré**
Risk Management Officer, Group

4 **Emmanuel Clarke**
Deputy CEO, Global and
Head of Specialty Lines, Global

5 **Laurie Desmet**
Chief Operations Officer, Global

6 **Ted Dziurman**
Head of Catastrophe, Global

7 **Alain Flandrin**
Head of Property & Casualty, Global

8 **Eric Gesick**
Chief Actuarial Officer, Group

9 **Dennis Giannos**
Broker and Client Management, U.S.

10 **Nick Giuntini**
Chief Risk and Financial Officer,
Capital Markets

11 **Charles Goldie**
Head of Risk Management
and Reserving, Global

12 **David Graham**
Head of Fixed Income,
Capital Markets

13 **Dan Hickey**
Head of Standard Lines, U.S.

14 **Jon LaBerge**
Chief Operating Officer,
Capital Markets

15 **Marvin Pestcoe**
Head of Capital Assets,
Capital Markets

16 **Franck Pinette**
Head of Life, Global

17 **Michel Plécy**
Deputy CEO, Global

18 **Dick Sanford**
Head of Specialty Lines, U.S.

19 **Dom Tobey**
Head of Facultative, Global

20 **Stephan Winands**
Chief Financial Officer, Global

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Business Unit and Support Management

Group

21 **Joe Barbosa**
Group Treasurer

22 **Abigail Clifford**
Chief Human Resources Officer

23 **Richard Glaser**
Head of Tax

24 **Lindsay Hyland**
Group Human Resources Director

25 **Kevin Lehman**
Chief Audit Executive

26 **Philip Martin**
Compensation and Benefits Director

27 **Mike Mitchard**
Chief Information Technology Officer

28 **David Outtrim**
Chief Accounting Officer

29 **Christine Patton**
Secretary and Corporate Counsel to the Board

30 **Celia Powell**
Chief Communications Officer

31 **Robin Sidders**
Investor Relations Director

32 **Amanda Sodergren**
Chief Legal Officer

North America

33 **Maria Amelio**
Head of Programs, U.S.

34 **Hervé Castella**
Head of Canada

35 **Christina Cronin**
Head of Property, U.S.

36 **Carol Desbiens**
Chief Operations Officer and Deputy Head, Canada

37 **David Durbin**
Head of Research and Development

38 **Jeffrey Englander**
Chief Reserving Actuary

39 **Russell Fillers**
Head of Space

40 **Vincent Forgione**
Human Resources Director

41 **Tom Forsyth**
General Counsel

42 **Lynn Halper**
Head of Specialty Casualty, U.S.

43 **Carol Ann O'Dea**
Head of Claims

44 **John Peppard**
Head of Managed Programs

45 **Mike Zielin**
Head of Agriculture

not photographed:
Richard Meyerholz
Head of Surety


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Business Unit and Support Management (continued)

Global

46 **Scott Altstadt**
Chief Underwriting Officer and Deputy Head of Property & Casualty

47 **Felix Arbenz**
Head of Specialty Casualty

48 **Simon Arnot**
General Counsel

49 **Patrick Bachofen**
Head of Facultative Global Property Accounts

50 **Markus Bassler**
Head of Energy Onshore

51 **Emil Bergundthal**
Head of Property & Casualty Asia, Pacific, India

52 **Francis Blumberg**
Head of Property & Casualty Northern, Central and Eastern Europe

53 **Florian Boecker**
Head of Life Market, Central and Eastern Europe

54 **Christophe Boizard**
CEO Office

55 **Jürg Buff**
Head of Engineering

56 **Michel Büker**
Global Clients and London Markets

57 **Claude Chèvre**
Head of Life Market, Asia, Latin America and Spain

58 **Patrick Chevrel**
Head of Specialty Property

59 **Laura Davis**
Head of Catastrophe, Bermuda

60 **Philippe Domart**
Head of Catastrophe, Paris

61 **Jacques de Franclieu**
Head of Property & Casualty U.K., Ireland and Southern Europe

62 **Pascale Gallego**
Head of Life Market, Northern and Southern Europe and Canada

63 **Dean Graham**
Deputy Head of Life

64 **Holger Hillebrand**
Head of Facultative Engineering

65 **Christopher Ho**
Head of Client Relationships Asia/Pacific
Head of Singapore Office

66 **Ian Houston**
Chief Underwriting Officer and Deputy Head of Specialty

67 **Michel Hurtevent**
Chief Underwriting Officer, Facultative

68 **Gary Ketels**
Head of Claims

69 **Patrick LaCourte**
Head of PartnerRe Insurance, Dublin

70 **Jean-Marie Le Goff**
Head of Human Resources

71 **Jeremy Lilburn**
Head of Agriculture

72 **Jorge Linero**
Head of Facultative Property Americas

73 **April McLaughlin**
Head of Miami Office

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74 **Philip Nye**
Head of Hong Kong Office

75 **John O'Neill**
Head of Life Market, Ireland and U.K.

76 **Kevin O'Regan**
Head of Life Market, Longevity

77 **Salvatore Orlando**
Head of Property & Casualty
Latin America, Turkey, Greece, Israel, Middle East and Africa

78 **Adrian Poxon**
Head of Marine/Energy Offshore

79 **Christophe Rénia**
Head of Credit and Surety

80 **Erik Rüttener**
Head of Catastrophe Research

81 **Brian Secrett**
Chief Underwriting Officer, Catastrophe

82 **Rick Thomas**
Head of Catastrophe, Zurich

83 **Eija Tuulensuu**
Head of Client and Corporate Communications

84 **Philippe Vivares**
Head of Facultative Energy

85 **Benjamin Weber**
Head of Aviation/Space

86 **Karl Whitehead**
Head of Special Risks

87 **Stephen Woodward**
Head of Facultative Property, Europe & Asia

Capital Markets

88 **Michael Bennis**
Senior Portfolio Manager, Mortgage-backed Securities

89 **Joseph Hissong**
Head of Strategic Investments

90 **Dave Moran**
Head of Principal Finance

91 **David Phillips**
Head of Equities

92 **Brian Tobben**
Head of Insurance-linked Securities

93 **Marc Wetherhill**
Legal and Compliance Executive

94 **David Yim**
Senior Portfolio Manager, Credit

PartnerRe Organization

Thomas Absil ▪ Elizabeth Adams ▪ Craig Addison ▪ John Adimari ▪ Marc Aerne ▪ Valérie Agnesod ▪ Shabnam Ahmed ▪ Jennifer Ait-Kacimi ▪ Anthony Albano ▪ Chantal Albert ▪ Claudia Albrecht ▪ Jean-Pierre Aldon ▪ Bernard Alig ▪ Meridith Alin ▪ Charles A. 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Sophie Barre ▪ Michele Barresi ▪ Philippe Bartolo ▪ Dawn Barwood-Parent ▪ Markus Bassler ▪ Rolf Bätscher ▪ Alain Baudouin ▪ Carmen Baumgartner-Riedi ▪ Nalan Bayindir ▪ Anthia Bean ▪ Patrick Beaudoin ▪ Emmanuel Becache ▪ Carlos Becerra ▪ Jean-Pierre Bedoussac ▪ Barbara Beer ▪ Marjan Beheshty ▪ Abdelkrim Bekhechi ▪ Rinat Bektleuov ▪ Amin Belabou ▪ Arlette Belard ▪ Didier Bellec ▪ Patrick Bellet ▪ Feten Ben Said ▪ Mohamed Ben Salah ▪ Albert Benchimol ▪ Louis Benevento ▪ Michael Bennis ▪ Arnaud Benoit ▪ Charline Bercot ▪ Jonathan Berenbom ▪ Denise Berger-Abouaf ▪ Emil Bergundthal ▪ Maryoli Bernal ▪ Claude Bernard ▪ Tracey Berry ▪ Laurent Berthier ▪ Conrad Bertschi ▪ Ingrid Bertschy ▪ Stephan Beth ▪ Michael Bevacqua ▪ Alexandra Beverley ▪ Julia Bhend ▪ Sebastien Bibard ▪ Andrew Bierig ▪ Andrea Binda ▪ Martine Binois ▪ Richard Bischoff ▪ Francois Blaizot ▪ José Blanco ▪ Roman Blank ▪ Nathalie Bloyet ▪ Francis Blumberg ▪ Michael Bluzer ▪ Gillian Bobb ▪ Florian Boecker ▪ Gérard Boeye ▪ Robert 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Chairman
John A. Rollwagen
Chairman and CEO (Retired)
Cray Research Inc.
USA

Vito H. Baumgartner
Group President (Retired)
Caterpillar Inc.
United Kingdom

Judith C. Hanratty, OBE
Company Secretary and
Counsel to the Board (Retired)
BP plc
United Kingdom

Jan H. Holsboer
Executive Board Member (Retired)
ING Group
The Netherlands

Roberto G. Mendoza
Deming Mendoza Co., LLC
USA

Jean-Paul Montupet
Executive Vice President and
Advisory Director
Emerson Electric Co.
USA

Rémy Sautter
Chairman
RTL Radio
France

Lucio Stanca
President and CEO
Expo 2015 Spa
Italy

Patrick A. Thiele
President and Chief Executive Officer
PartnerRe Ltd.
Bermuda

Robert M. Baylis
(Retired from the Board, May 2009)

Kevin M. Twomey
President and
Chief Operating Officer (Retired)
The St. Joe Company
USA

Dr. Jürgen Zech
Chairman (Retired)
Gerling-Konzern
Versicherungs Beteiligung – AG
Germany

David K. Zwiener
President and Chief Operating Officer
and Director (Retired)
Hartford Financial Services Group Inc.
USA

Secretary and Corporate Counsel to the Board

Christine Patton
PartnerRe Ltd.

Investor Relations Director

Robin Sidders
PartnerRe Ltd.

Shareholders' Meeting

The 2009 Annual General Meeting
will be held on May 12, 2010,
in Pembroke, Bermuda.

Independent Registered Public Accounting Firm

Deloitte & Touche
Corner House
Church & Parliament Streets
Hamilton, Bermuda

Outside Counsel

U.S.

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017
USA

Bermuda

Appleby
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Market Information

The following PartnerRe shares (with their related symbols) are traded on the New York Stock Exchange and NYSE Euronext:

Common Shares	"PRE"

The following PartnerRe shares (with their related symbols) are traded on the New York Stock Exchange:

6.75% Series C Cumulative Redeemable Preferred Shares	"PRE-PrC"
6.5% Series D Cumulative Redeemable Preferred Shares	"PRE-PrD"

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

Share Transfer & Dividend Payment Agent

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078

Additional Information

PartnerRe's Annual Report on Form 10-K and PartnerRe's 1934 Act filings, as filed with the Securities and Exchange Commission, are available at the corporate headquarters in Bermuda or on the Company website at www.partnerre.com.

Headquarters

Bermuda

Principal Offices

Dublin

Greenwich

Paris

Zurich

Branch Offices

Hong Kong

Miami

Montreal

Singapore

Toronto

Washington D.C.

Representative Offices

Beijing

Mexico City

Santiago

São Paulo

Seoul

Tokyo

New organizational structure effective July 1, 2010

For contact information visit:
www.partnerre.com/contacts

www.partnerre.com