PARTNERRE LTD
Form 10-K
February 27, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2008

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

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

(441) 292-0888

(Registrant s telephone number, including area code)

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

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

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

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

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

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of most recently completed second fiscal quarter (June 30, 2008) was $3,724,983,154 based on the closing sales price of the Registrant s common shares of $69.13 on that date.

The number of the Registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of February 23, 2009 was 56,496,364.

Documents Incorporated by Reference:

Document	**Part(s) Into Which Incorporated**
Portions of the Registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, relating to the Registrant s Annual General Meeting of Shareholders scheduled to be held May 22, 2009 are incorporated by reference into Part II and Part III of this report. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this report.	

Table of Contents

TABLE OF CONTENTS

		Page
PART I		
Item 1.	Business	1
Item 1A.	Risk Factors	20
Item 1B.	Unresolved Staff Comments	31
Item 2.	Properties	31
Item 3.	Legal Proceedings	31
Item 4.	Submission of Matters to a Vote of Security Holders	32
PART II		
Item 5.	Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	33
Item 6.	Selected Financial Data	34
Item 7.	Management s Discussion and Analysis of Financial Condition and Results of Operation	35
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	105
Item 8.	Financial Statements and Supplementary Data	112
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	168
Item 9A.	Controls and Procedures	168
Item 9B.	Other Information	170
PART III		
Item 10.	Directors, Executive Officers and Corporate Governance	170
Item 11.	Executive Compensation	170
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	170
Item 13.	Certain Relationships and Related Transactions, and Director Independence	170
Item 14.	Principal Accountant Fees and Services	170
PART IV		
Item 15.	Exhibits and Financial Statement Schedules	171

Table of Contents

PART I

ITEM 1. BUSINESS

General

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

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

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

In November 2005, the European Parliament adopted Directive 2005/68/EC, the European Union Reinsurance Directive (Reinsurance Directive). The Reinsurance Directive seeks to harmonize the supervision of reinsurance business within the European Union by creating a single regulated market. To ensure operational efficiency, the Company determined that it was in its best commercial interests to restructure its European operations to create a single operating platform in Europe and that the appropriate entity to operate as such single operating platform was its Irish reinsurance subsidiary, PartnerRe Europe. The reorganization occurred on January 1, 2008, at which time PartnerRe SA ceased its underwriting operations. As part of the reorganization, PartnerRe SA, its Canadian non-life branch and the Swiss branch of Partner Reinsurance transferred substantially all of their business, assets and liabilities to PartnerRe Europe. Following the reorganization, PartnerRe Europe is the principal reinsurance carrier for all of the Company s business underwritten in France, Ireland and Switzerland and for the non-life business underwritten in Canada. Contemporaneously, the business, assets and liabilities of the Canadian life branch of PartnerRe SA were transferred to a new Canadian life branch of Partner Reinsurance.

While the restructuring of the European operations is expected to result in a more tax efficient corporate structure and a lower effective tax rate going forward, the Company incurred a non-recurring tax charge in the first quarter of 2008 of $46 million as a result of the asset transfers between the Company s various subsidiaries and branches described above.

Business Strategy

The Company assumes and manages global insurance and capital markets risks. Its strategy is founded on a capital-based risk appetite and the selected risks that Management believes will allow the Company to meet its goals for appropriate profitability and risk management within that appetite. Management believes that this construct allows the Company to balance cedants need for absolute certainty of claims payment with its shareholders need for an appropriate return on their capital. Operating Return on Equity (ROE) and growth in

Table of Contents

diluted book value per share are two of the principal metrics used by Management to measure the Company s results. Consequently, the Company has set a goal of an average 13% operating ROE and a compound annual growth rate of 10% in diluted book value per share over a reinsurance cycle. Operating ROE is obtained by dividing operating earnings by common shareholders equity at the beginning of the year. Operating earnings is defined as net income available to common shareholders less after-tax net realized and unrealized investment gains or losses on investments, net after-tax interest in earnings or losses of equity investments, where the Company does not control the investee companies activities, and preferred share dividends. Diluted book value per share is calculated using common shareholders equity, defined as total shareholders equity less the aggregate liquidation value of the preferred shares, divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities).

The Company has adopted the following five-point strategy:

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

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

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

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

Achieve superior returns on invested assets in the context of a disciplined risk framework: Strong underwriting must be complemented with prudent financial management, careful reserving and superior asset management in order to achieve the Company s targeted returns. The Company is committed to maintaining a

Table of Contents

strong and transparent balance sheet and achieving superior investment returns by gradually expanding its investment portfolio into new risk classes, many of which have more connection with capital markets than with traditional reinsurance markets. The Company assumes investment risk according to the same principles used for reinsurance underwriting, including diversification.

Reinsurance Operations

General

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

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

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

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

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 four sub-segments, U.S., Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty and Catastrophe. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management.

The 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 Life segment includes life, health and annuity lines of business. 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.

Table of Contents

The following is a description of specific lines of business written by the Company:

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

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

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

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

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

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

Catastrophe The Company provides property catastrophe reinsurance protection, written primarily on a non-proportional basis, against the accumulation of losses caused by windstorm, earthquake, flood or by any other natural hazard that is covered under a comprehensive property policy. Through the use of underwriting tools based on proprietary computer models developed by its research team, the Company combines natural science with highly professional underwriting skills in order to offer capacity at a price commensurate with the risk.

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

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

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

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

Table of Contents

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

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

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

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

For the year ended December 31, 2008, the Company had two brokers that individually accounted for 10% or more of its gross premiums written. The Aon Group (including the Benfield Group) accounted for approximately $939 million, or 23% of total gross premiums written, while Marsh & McLennan Companies (including Guy Carpenter) accounted for approximately $760 million, or 19% of total gross premiums written. The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the year ended December 31, 2008:

	2008
Non-life	
U.S.	71%
Global (Non-U.S.) P&C	30
Global (Non-U.S.) Specialty	25
Catastrophe	74
Life	18

The Company s business is geographically diversified with premiums being written in approximately 150 countries. See Note 19 to Consolidated Financial Statements in Item 8 of Part II of this report for additional disclosure of the geographic distribution of gross premiums written and financial information about segments and sub-segments.

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

Risk Management

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

All business decisions entail a risk/return trade-off. In the context of assumed business risks, this requires an accurate evaluation of risks to be assumed, and a determination of the appropriate economic returns required as fair compensation for such risks. For other than voluntarily assumed business risks, the decision relates to

Table of Contents

comparing the probability and potential severity of a risk event against the costs of risk mitigation strategies. In many cases, the potential impact of a risk event is so severe as to warrant significant, and potentially expensive, risk mitigation strategies. In other cases, the probability and potential severity of a risk does not warrant extensive risk mitigation.

The Company sets its appetite for assumed business risks such that it seeks to provide value to its clients and adequate risk-adjusted returns to its shareholders, but does not overexpose the Company to any one or series of related risks. Assumed business risks are mitigated to the extent the risk mitigation strategies provide a positive return on the Company s investment.

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

Underwriting

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

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

Underwriting Risk and Exposure Controls

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

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

Table of Contents

Retrocessions

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

The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under retrocessional agreements, and therefore retrocessions are subject to credit risk in all cases and to aggregate loss limits in certain cases. The Company holds collateral, including escrow funds, securities and letters of credit under certain retrocessional agreements. Provisions are made for amounts considered potentially uncollectible and reinsurance losses recoverable from retrocessionaires are reported after allowances for uncollectible amounts. At December 31, 2008, the Company had $154 million of reinsurance recoverables under such arrangements.

Claims

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

Reserves

General

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

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

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

Changes in Reserves

The following table shows the development of net reserves for unpaid losses and loss expenses for the Company s Non-life business. The table begins by showing the initial reported year-end gross and net reserves, including incurred but not reported (IBNR) reserves, recorded at the balance sheet date for each of the ten years presented. The next section of the table shows the re-estimated amount of the initial reported net reserves for up to ten subsequent years, based on experience at the end of each subsequent year. The re-estimated net liabilities reflect additional information, received from cedants or obtained through reviews of industry trends, regarding claims incurred prior to the end of the preceding financial year. A redundancy (or deficiency) arises when the re-estimation of reserves is less (or greater) than its estimation at the preceding year-end. The cumulative redundancies (or deficiencies) reflect cumulative differences between the initial reported net reserves and the currently re-estimated net reserves. Annual changes in the estimates are reflected in the income statement for each year as the liabilities are re-estimated. Reserves denominated in foreign currencies are revalued at each year-end s foreign exchange rates.

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

Table of Contents

Development of Loss and Loss Expense Reserves

(in thousands of U.S. dollars)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
ss lity for aid losses loss enses	$2,649,380	$2,616,556	$2,386,032	$3,005,628	$3,658,416	$4,755,059	$5,766,629	$6,737,661	$6,870,785	$7,231,436	$7,510,
oceded lity for aid losses loss enses	257,398	205,982	203,180	214,891	217,777	175,685	153,018	185,280	138,585	132,479	125
liability unpaid es and expenses	**$ 2,391,982**	**$ 2,410,574**	**$ 2,182,852**	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**	**$ 7,385.**
liability stimated f:											
year later	2,189,064	2,376,763	2,111,483	3,035,309	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	6,343,714	
years	2,010,885	2,205,861	2,302,284	3,310,898	3,975,926	4,301,161	5,044,922	6,618,112	6,165,297		
ee years	1,912,869	2,316,164	2,489,601	3,456,250	3,781,574	4,373,992	5,092,289	6,168,445			
r years	1,948,521	2,448,562	2,611,045	3,326,527	3,894,500	4,494,182	4,845,644				
years	2,044,481	2,540,927	2,513,123	3,433,887	4,019,813	4,315,702					
years	2,103,952	2,461,178	2,617,775	3,528,665	3,918,380						
en years	2,036,754	2,553,570	2,691,267	3,445,844							
nt years	2,123,245	2,626,386	2,624,838								
e years	2,185,049	2,570,201									
years	2,135,626										
nulative undancy iciency)	**$ 256,356**	**$ (159,627)**	**$ (441,986)**	**$ (655,107)**	**$ (477,741)**	**$ 263,672**	**$ 767,967**	**$ 383,936**	**$ 566,903**	**$ 755,243**	
nulative ount of liability d ough:											
year later	$ 537,682	$ 778,382	$ 615,276	$ 923,165	$ 1,126,882	$ 1,120,756	$ 1,250,534	$ 1,718,996	$ 1,473,964	$ 1,340,788	
years	815,231	1,060,797	960,288	1,391,301	1,713,953	1,573,312	1,821,773	2,482,695	2,116,025		
	988,069	1,260,298	1,163,105	1,740,277	1,993,947	1,948,203	2,207,692	2,948,837			

ee years later							
r years later	1,089,279	1,373,693	1,354,886	1,924,833	2,248,980	2,219,506	2,511,446
e years later	1,158,620	1,508,343	1,465,515	2,086,252	2,433,223	2,439,361	
years later	1,239,898	1,580,951	1,566,719	2,215,412	2,580,225		
en years later	1,291,049	1,652,891	1,643,075	2,314,918			
nt years later	1,343,849	1,702,895	1,695,249				
e years later	1,390,425	1,756,579					
years later	1,427,649						

9

Table of Contents

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Reconciliation of gross reserves:										
Gross liability re-estimated as of December 31, 2008	$ 2,379,306	$ 2,795,227	$ 2,865,707	$ 3,687,249	$ 4,143,799	$ 4,467,710	$ 4,964,316	$ 6,351,640	$ 6,282,788	$ 6,451,030
Re-estimated retroceded liability	243,680	225,026	240,869	241,405	225,419	152,008	118,672	183,195	117,491	107,316
Net liability re-estimated as of December 31, 2008	$ 2,135,626	$ 2,570,201	$ 2,624,838	$ 3,445,844	$ 3,918,380	$ 4,315,702	$ 4,845,644	$ 6,168,445	$ 6,165,297	$ 6,343,714
Cumulative gross redundancy (deficiency)	$ 270,074	$ (178,671)	$ (479,675)	$ (681,621)	$ (485,383)	$ 287,349	$ 802,313	$ 386,021	$ 587,997	$ 780,406

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Cumulative net redundancy (deficiency)	**$ 256,356**	**$ (159,627)**	**$ (441,986)**	**$ (655,107)**	**$ (477,741)**	**$ 263,672**	**$ 767,967**	**$ 383,936**	**$ 566,903**	**$ 755,243**
Less: Cumulative net (redundancy) deficiency due to foreign exchange	(20,087)	(110,853)	(279,101)	(482,136)	(438,286)	(197,266)	126,988	(393,802)	(150,515)	337,307
Cumulative net redundancy (deficiency) excluding the impact of foreign exchange	**$ 276,443**	**$ (48,774)**	**$ (162,885)**	**$ (172,971)**	**$ (39,455)**	**$ 460,938**	**$ 640,979**	**$ 777,738**	**$ 717,418**	**$ 417,936**

Since 1998, movements in foreign exchange rates between accounting periods have typically resulted in significant variations in the loss reserves of the Company as the U.S dollar, the Company s reporting currency, appreciated/depreciated against multiple currencies. The Company, however, generally holds investments in the same currencies as its net reserves, with the intent of matching the foreign exchange movements on its assets and liabilities. See Quantitative and Qualitative Disclosures about Market Risk contained in Item 7A of Part II of this report for a discussion of the foreign currency risk of the Company s assets and liabilities.

Table of Contents

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

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007
Net liability for unpaid losses and loss expenses	**$ 2,391,982**	**$ 2,410,574**	**$ 2,182,852**	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**
Net liability re-estimated as of:										
One year later	2,360,763	2,410,462	2,174,981	2,846,855	3,496,102	4,440,338	5,382,101	6,300,633	6,318,157	6,681,021
Two years later	2,174,414	2,359,852	2,240,526	2,921,908	3,513,647	4,298,493	5,232,707	6,023,025	6,014,782	
Three years later	2,112,196	2,384,937	2,283,941	2,956,308	3,483,720	4,223,937	5,076,765	5,774,643		
Four years later	2,083,108	2,400,881	2,322,084	2,964,307	3,491,033	4,178,131	4,972,632			
Five years later	2,079,706	2,422,798	2,331,252	2,982,347	3,498,703	4,118,436				
Six years later	2,079,261	2,431,416	2,362,941	2,979,426	3,480,094					
Seven years later	2,088,745	2,462,104	2,353,910	2,963,708						
Eight years later	2,121,025	2,460,794	2,345,737							
Nine years later	2,115,811	2,459,348								
Ten years later	2,115,539									
Cumulative net redundancy (deficiency)	**$ 276,443**	**$ (48,774)**	**$ (162,885)**	**$ (172,971)**	**$ (39,455)**	**$ 460,938**	**$ 640,979**	**$ 777,738**	**$ 717,418**	**$ 417,936**

Table of Contents

The following table summarizes the net incurred losses for the year ended December 31, 2008 relating to the current and prior accident years by sub-segment for the Company s Non-life operations (in millions of U.S. dollars):

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment
Net incurred losses related to:					
Current year	$ 904	$ 620	$ 803	$ 222	$ 2,549
Prior years net favorable development	(92)	(166)	(82)	(78)	(418)
Total net incurred losses	$ 812	$ 454	$ 721	$ 144	$ 2,131

The net favorable loss development on prior accident years of $418 million for the year ended December 31, 2008 resulted from a reassessment of the Company s total Non-life reserves of approximately $425 million, predominately due to favorable loss emergence, as losses reported by cedants, including treaties where the risk period expired, were lower than expected. This impact was partially offset by approximately $7 million related to change in exposure due to upward premium adjustments during the year ended December 31, 2008.

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

Other Exposures

The Company s reserve for unpaid losses and loss expenses as of December 31, 2008 includes reserves that are difficult to estimate using traditional reserving methodologies. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report for additional information regarding the Company s exposure to claims arising from the current financial crisis, as well as asbestos and environmental exposures.

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

Investments

The Company has developed specific investment objectives and guidelines for the management of its investment portfolio. These objectives and guidelines stress diversification of risk, capital preservation, liquidity and stability of portfolio income. Despite the prudent focus of these objectives and guidelines, the Company s investments are subject to general market risk, as well as to risks inherent to particular securities.

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

Table of Contents

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

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

See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of this report for a discussion of the Company s interest rate, equity and currency management strategies.

Competition

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

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

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

Employees

The Company had 995 employees at December 31, 2008. The Company may increase its staff over time commensurate with the expansion of operations. The Company believes that its relations with its employees are good.

Regulation

The business of reinsurance is now regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. As a holding company, PartnerRe Ltd. is not subject to Bermuda insurance regulations, but its various operating subsidiaries are subject to regulation as follows.

Bermuda

In July 2008, the Bermuda insurance supervisory framework underwent major revision with the passage of the Insurance Amendment Act 2008. This Amendment Act established new risk-based regulatory capital adequacy and solvency margin requirements for Bermuda insurers. Prior to the passage of this Amendment Act, insurers in Bermuda were subject to regulation under The Insurance Act 1978 of Bermuda and related

Table of Contents

regulations, as amended. Both Acts (together referenced below as The Insurance Acts) are now in operation and regulate the insurance business of our Bermuda operating subsidiary, Partner Reinsurance. The Insurance Acts make no distinction between insurance and reinsurance business and provide that no person may carry on any insurance business in or from within Bermuda unless registered as an insurer by the Bermuda Monetary Authority (the BMA) under the Insurance Acts. The continued registration of an approved insurer is subject to the insurer s ongoing compliance with the terms of its registration and such other conditions as the BMA may impose from time to time. Material aspects of the Bermuda insurance regulatory framework are set forth below:

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

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

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

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

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

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

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

Enhanced Capital Requirement, Minimum Solvency Margin and Restrictions on Dividends and Distributions: The new risk-based regulatory capital adequacy and solvency margin regime provides a risk-based capital model (termed the Bermuda Solvency Capital Requirement (BSCR)) as a tool to assist the BMA both in measuring risk and in determining appropriate levels of capitalization. BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to the capital that is

Table of Contents

dedicated to their business. The framework that has been developed applies a standard measurement format to the risk associated with an insurer s assets, liabilities and premiums, including a formula to take account of catastrophe risk exposure.

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

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

- $100,000,000;

- 50% of net premiums written (being gross premiums written less any reinsurance premiums ceded (not exceeding 25% of gross premiums written); or

- 15% of net loss and loss expense provisions and other general business insurance reserves.

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

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

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

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

Pursuant to a reorganization of the Company, on January 1, 2008, the Swiss branch of Partner Reinsurance transferred substantially all of its reinsurance business, assets and liabilities to the Swiss branch of PartnerRe Europe, which continued to write substantially all of the transferred business. Foreign insurance entities that are

Table of Contents

effecting or carrying on exclusively reinsurance business in Switzerland are exempt from insurance and reinsurance supervision, provided such entities are not acting for that purpose through a Swiss subsidiary. The operations of the Swiss branch of Partner Reinsurance were exempt from insurance and reinsurance supervision in Switzerland, although they were subject to Bermuda regulations. As of January 1, 2008, the Swiss branch of Partner Reinsurance ceased its underwriting operations.

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

Ireland

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

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

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

Table of Contents

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

United States

PartnerRe U.S. Corporation is a Delaware domiciled holding company for its wholly owned reinsurance subsidiaries, PartnerRe U.S. and PartnerRe Insurance Company of New York (PRNY) (PartnerRe U.S. and PRNY together being the PartnerRe U.S. Insurance Companies). The PartnerRe U.S. Insurance Companies are subject to regulation under the insurance statutes and regulations of their domiciliary state, New York, and all states where they are licensed, accredited or approved to underwrite reinsurance. Currently, the PartnerRe U.S. Insurance Companies are licensed, accredited or approved reinsurers in fifty states and the District of Columbia. Regulations vary from state to state, but generally require insurance holding companies and insurers and reinsurers that are subsidiaries of insurance holding companies to register and file with their state domiciliary regulatory authorities certain reports, including information concerning their capital structure, ownership, financial condition and general business operations. State regulatory authorities monitor compliance with, and periodically conduct examinations with respect to, state mandated standards of solvency, licensing requirements, investment limitations, restrictions on the size of risks which may be reinsured, deposits of securities for the benefit of reinsureds, methods of accounting for assets, reserves for unearned premiums and losses, and other purposes. In general, such regulations are for the protection of reinsureds and, ultimately, their policyholders, rather than security holders of the PartnerRe U.S. Insurance Companies.

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

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

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

The Risk-Based Capital (RBC) for Insurers Model Act (the Model RBC Act), as it applies to property and casualty insurers and reinsurers, was initially adopted by the NAIC in December 1993. The Model RBC Act or similar legislation has been adopted by the majority of states in the U.S. The main purpose of the Model RBC

Act is to provide a tool for insurance regulators to evaluate the capital of insurers with respect to the risks

Table of Contents

assumed by them and to determine whether there is a need for possible corrective action. U.S. insurers and reinsurers are required to report the results of their RBC calculations as part of the statutory annual statements that such insurers and reinsurers file with state insurance regulatory authorities. The Model RBC Act provides for four different levels of regulatory actions, each of which may be triggered if an insurer s Total Adjusted Capital (as defined in the Model RBC Act) is less than a corresponding level of risk-based capital. The Company Action Level is triggered if an insurer s Total Adjusted Capital is less than 200% of its Authorized Control Level RBC (as defined in the Model RBC Act). At the Company Action Level, the insurer must submit a risk-based capital plan to the regulatory authority that discusses proposed corrective actions to improve its capital position. The Regulatory Action Level is triggered if an insurer s Total Adjusted Capital is less than 150% of its Authorized Control Level RBC. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. The Authorized Control Level is triggered if an insurer s Total Adjusted Capital is less than 100% of its Authorized Control Level RBC, and at that level, the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. The Mandatory Control Level is triggered if an insurer s Total Adjusted Capital is less than 70% of its Authorized Control Level RBC, and at that level, the regulatory authority is required to take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer. At December 31, 2008, the Total Adjusted Capital of the PartnerRe U.S. Insurance Companies exceeded applicable RBC levels.

Canada

Prior to January 1, 2008, the Company s Canadian operations were carried out through a branch of PartnerRe SA. This branch held a composite insurance license to write both life and non-life reinsurance business.

Pursuant to the reorganization of the Company on January 1, 2008, PartnerRe SA transferred substantially all of the business, assets and liabilities of its Canadian non-life branch to the new Canadian non-life branch of PartnerRe Europe, and the business, assets and liabilities of PartnerRe SA s Canadian life branch were transferred to the new life branch of Partner Reinsurance. The Canadian branch of Partner Re Europe holds an insurance license to write non-life reinsurance business in Canada and the Canadian branch of Partner Reinsurance holds an insurance license to write life business in Canada. Each Canadian branch is authorized to insure, in Canada, risks falling within the classes of insurance as specified in their respective license and is limited to the business of reinsurance. Each Canadian branch is subject to local regulation for its Canadian branch business, specified principally pursuant to Part XIII of the Insurance Companies Act (the Act) applicable to Foreign Property and Casualty Companies and to Foreign Life Companies. The Office of the Superintendent of Financial Institutions, Canada (OSFI) supervises the application of the Act. The Canadian branch of Partner Reinsurance is also licensed in the Province of Ontario to write life reinsurance business. The Canadian branch of PartnerRe Europe is licensed in the Province of Ontario to write non-life reinsurance business. Both Partner Reinsurance and PartnerRe Europe maintain sufficient assets, vested in trust at a Canadian financial institution approved by OSFI, to allow its branch to meet statutory solvency requirements as defined by the regulations. Statutory information required by federal and provincial insurance regulators for both property and casualty and life business includes (1) a yearly business plan, (2) quarterly and year-end returns including general information, financial statements, statutory compliance reports and various investment, technical and other information, (3) an auditor s report, and (4) an opinion of an appointed actuary.

Taxation of the Company and its Subsidiaries

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

Table of Contents

Bermuda

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

Switzerland

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

France

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

Canada

The Canadian non-life branch of PartnerRe Europe and the Canadian life branch of Partner Reinsurance are subject to Canadian taxation on their profits. The profits are taxed at the federal level as well as the Ontario provincial level at a total rate that was 33.50% in 2008. Canada has enacted a phased-in decrease in its Federal income tax rate; combined with the Ontario provincial rate, the total rate will be 33% in 2009, 32% in 2010, 30.50% in 2011 and 29% in 2012. See also the discussion of taxation in Ireland below.

Ireland

The Company s Irish subsidiaries, PartnerRe Holdings Europe Ltd., PartnerRe Europe and PartnerRe Ireland Insurance Ltd, conduct business in and are subject to taxation in Ireland. Profits of an Irish trade or business are subject to Irish corporation tax at the rate of 12.5%, whereas profits of a foreign trade or business are taxable at the rate of 25%. Following the Company s reorganization on January 1, 2008, the Swiss and French branches and Canadian non-life branch of PartnerRe Europe are subject to taxation in Ireland at the Irish corporation tax rate of 12.5%. However, under Irish domestic tax law, the amount of tax paid in Switzerland, France and Canada can be credited or deducted against the Irish corporation tax. As a result, the Company does not expect to incur significant taxation in Ireland with respect to the Swiss, French and Canadian non-life branches.

United States

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

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

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

Where You Can Find More Information

The Company s Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through the investor information pages of its website, located at *www.partnerre.com*. Alternatively, the public may read or copy the Company s filings with the Securities and Exchange Commission (SEC) at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://*www.sec.gov*).

ITEM 1A. RISK FACTORS

Introduction

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

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

Table of Contents

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

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

We manage large loss events through evaluation processes, which are designed to enable proper pricing of these risks over time, but which do little to moderate short term earnings volatility. The only effective tool to manage earnings volatility is through diversification by building a portfolio of uncorrelated risks. We do not buy significant amounts of retrocessional coverage, nor do we use significant capital market hedges or trading strategies in the pursuit of stability in earnings.

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

- Catastrophe risk
- Casualty reserving risk
- Equity investment risk

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

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

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

Risk Factors

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

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

We operate in a highly competitive environment.

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

Our current financial strength ratings are:

Standard & Poor s	AA-/stable
Moody s	Aa3/stable
A.M. Best	A+/stable
Fitch	AA/stable

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

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

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

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

We invest the net premiums we receive until such time as we pay out losses. Investment results comprise a substantial portion of our income. For the year ended December 31, 2008, we had net investment income of $573 million, which represented approximately 14% of total revenues. In addition, we recorded realized ($236 million) and unrealized ($295 million) losses on investments during 2008, reflecting the current financial crisis, and we record all unrealized losses through net income. While our Management has implemented what it believes to be prudent risk management and investment asset allocation practices, we are exposed to significant financial and capital market risks, including changes in interest rates, credit spreads, equity prices, foreign exchange rates, market volatility, the performance of the economy in general and other factors outside our control.

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

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

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

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

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

We produce our business both through brokers and through direct relationships with insurance company clients. For the year ended December 31, 2008, approximately 71% of our gross premiums were produced through brokers. In 2008, we had two brokers that accounted for 42% of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. A significant reduction in the business produced by these brokers would reduce our premium volume and net income.

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

Calendar year	**Pre-tax large catastrophe losses**	
2008	$	305
2007		50
2006		
2005		900
2004		176

The loss incurred in 2007 was as the result of one large catastrophe event, whereas the losses in 2008, 2005 and 2004 were incurred as the result of multiple large catastrophe events. We believe, and recent scientific studies have indicated, that the frequency of Atlantic basin hurricanes has increased and may change further in the future relative to the historical experience over the past 100 years. We monitor and adjust, as we believe appropriate, our risk management models to reflect our judgment of how to interpret current developments and information, such as these studies.

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

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

Emerging claim and coverage issues could adversely affect our business.

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

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

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

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

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

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

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

Table of Contents

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

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

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

Currently, our U.S. reinsurance subsidiary retrocedes a portion of its U.S. reinsurance business to our Bermuda reinsurance subsidiary. Under current tax law, a portion of the net income from these retrocessions is taxable in the U.S. Proposed legislation has been introduced by the House Ways and Means Committee that could increase the U.S. tax on this business and our net income would decrease. It is not possible to predict whether this or similar legislation may be enacted in the future.

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

We are a holding company with no operations or significant assets other than the capital stock of our subsidiaries and other intercompany balances. We have cash outflows in the form of operating expenses, interest payments related to our long-term debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for principal repayments related to our long-term debt, and the repurchase of common shares under our share repurchase program. We rely primarily on cash dividends and payments from our subsidiaries to meet our cash outflows. We expect future dividends and other permitted payments from our subsidiaries to be the principal source of funds to pay expenses and dividends. The payment of dividends by our reinsurance subsidiaries is limited under Bermuda and Irish laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. There are currently no significant restrictions on the payment of dividends by Partner Reinsurance. However, PartnerRe Europe is currently restricted from paying dividends under Irish company law given it has negative retained earnings due to transactions undertaken as part of the European reorganization on January 1, 2008 and PartnerRe U.S. is currently restricted from paying dividends under New York law given it has negative earned surplus.

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

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

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

Table of Contents

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

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

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

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

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

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

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

Table of Contents

We have imposed various limitations on voting and ownership of our shares, which will limit the ability of investors to acquire more than a certain percentage of our voting shares. The anti-takeover provisions in our bye-laws may discourage takeover attempts.

Under our bye-laws, subject to waiver by our board of directors, no transfer of our common shares or preferred shares is permitted if such transfer would result in a shareholder controlling more than 9.9% of the voting power of our outstanding shares. Any person controlling more than the specified number of shares will be permitted to dispose of any shares purchased which violate the restriction. If we become aware of such ownership, our bye-laws provide that the voting rights with respect to shares directly or indirectly beneficially or constructively owned by any person so owning more than 9.9% of the voting power of the outstanding shares, including our common shares and preferred shares, will be limited to 9.9% of the voting power. The voting rights with respect to all shares held by such person in excess of the 9.9% limitation will be allocated to the other holders of shares, pro rata based on the number of shares held by all such other holders of shares, subject only to the further limitation that no shareholder allocated any such voting rights may exceed the 9.9% limitation as a result of such allocation.

Our bye-laws also contain provisions that may entrench directors and make it more difficult for shareholders to replace directors, even if the shareholders consider it beneficial to do so. These provisions include a classified board of directors, meaning that the members of only one of three classes of our directors are elected each year, which could delay or prevent a change of control that a shareholder might consider favorable. These provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging change in management and takeover attempts in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

Litigation

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

As of December 31, 2008, 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 June 2005, the Company received a subpoena from the United States Attorney for the Southern District of New York requesting information relating to the Company s finite reinsurance products. In addition, the Company s wholly owned subsidiary, PartnerRe U.S., received a subpoena from the Florida Office of Insurance

Regulation in April 2005 requesting information in connection with its investigation of insurance industry practices related to finite reinsurance activities. The Company has responded promptly to all requests for information.

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders of the Company during the fourth quarter of the fiscal year ended December 31, 2008.

Table of Contents

PART II

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

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

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

As of February 23, 2009, the approximate number of common shareholders was 52,500.

The following table provides information about purchases by the Company during the quarter ended December 31, 2008, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced program (1)(2)	(d) Maximum number of shares that may yet be purchased under the program (1)
10/01/2008-10/31/2008				5,000,000
11/01/2008-11/30/2008				5,000,000
12/01/2008-12/31/2008				5,000,000
Total				

(1) In September 2008, the Company s Board of Directors approved an increase in the Company s stock repurchase authorization up to a maximum of 5 million common shares. Of this authorization, 5 million common shares remain eligible for repurchase. Unless terminated earlier by resolution of the Company s Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

(2) At December 31, 2008, approximately 1.3 million common shares are held in treasury and available for reissuance.

Other information with respect to the Company s common shares and related stockholder matters is contained in Notes 10, 11, 14, 15 and 20 to Consolidated Financial Statements in Item 8 of Part II of this report; and in the Proxy Statement and is incorporated by reference to this item.

Table of Contents

ITEM 6. SELECTED FINANCIAL DATA
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.

	For the years ended December 31,				
Statement of Operations Data	**2008**	**2007**	**2006**	**2005**	**2004**
Gross premiums written	**$ 4,028**	$ 3,810	$ 3,734	$ 3,665	$ 3,888
Net premiums written	**3,989**	3,757	3,689	3,616	3,853
Net premiums earned	**$ 3,928**	$ 3,777	$ 3,667	$ 3,599	$ 3,734
Net investment income	**573**	523	449	365	298
Net realized and unrealized investment (losses) gains	**(531)**	(72)	47	207	117
Other income (loss)	**10**	(17)	24	35	17
Total revenues	**3,980**	4,211	4,187	4,206	4,166
Losses and loss expenses and life policy benefits	**2,609**	2,082	2,111	3,087	2,476
Total expenses	**3,918**	3,328	3,355	4,244	3,673
Income (loss) before taxes and interest in (losses) earnings of equity investments	**62**	883	832	(38)	493
Income tax expense	**10**	82	95	23	7
Interest in (losses) earnings of equity investments	**(5)**	(83)	12	10	6
Net income (loss)	**$ 47**	$ 718	$ 749	$ (51)	$ 492
Basic net income (loss) per common share	**$ 0.22**	$ 12.18	$ 12.58	$ (1.56)	$ 8.80
Diluted net income (loss) per common share	**$ 0.22**	$ 11.87	$ 12.37	$ (1.56)	$ 8.71
Dividends declared and paid per common share	**$ 1.84**	$ 1.72	$ 1.60	$ 1.52	$ 1.36
Weighted average number of common and common share equivalents outstanding	**55.6**	57.6	57.8	55.0	54.0
Non-life Ratios					
Loss ratio	**63.9%**	50.8%	54.8%	87.3%	65.6%
Acquisition ratio	**23.3**	22.9	23.1	23.0	23.0
Other operating expense ratio	**6.9**	6.7	6.5	6.0	6.0
Combined ratio	**94.1%**	80.4%	84.4%	116.3%	94.6%

	At December 31,				
Balance Sheet Data	**2008**	**2007**	**2006**	**2005**	**2004**
Total investments and cash	**$ 11,724**	$ 11,572	$ 10,679	$ 9,579	$ 8,398
Total assets	**16,279**	16,149	15,034	13,783	12,717
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	**8,943**	8,773	8,301	7,962	7,044
Long-term debt	**200**	620	620	620	220
Debt related to senior notes	**250**				
Debt related to capital efficient notes	**258**	258	258		
Debt related to trust preferred securities				206	206
Total shareholders equity	**4,199**	4,322	3,786	3,093	3,352
	$ 63.95	$ 67.96	$ 56.07	$ 44.57	$ 50.99

Diluted book value per common and common share equivalents outstanding					
Number of common shares outstanding, net of treasury shares	**56.5**	54.3	57.1	56.7	54.9

Table of Contents

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

Throughout the late 1990s, the industry s operating profitability and cash flows declined as a result of declining prices, a deterioration in terms and conditions and increasing loss costs. These negative trends were, however, offset by high investment returns that led to continued growth in capital. Between 2001 and 2004,

Table of Contents

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. These began to reverse in late 2003 and continued into 2004, when the Company began to see a flattening in the rate of improvement in the terms and conditions of the most profitable lines, and a slower rate of improvement in those lines that had not yet reached their peak in terms of profitability. 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, two other significant Atlantic hurricanes, Rita and Wilma, as well as a significant windstorm and a flood in Europe. 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. 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. The second half of 2008 was highly unusual on many levels: severity of losses, such as Hurricane Ike, the third largest natural catastrophe in history, 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 have experienced severe dislocation and unprecedented events during 2008, 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. The ongoing financial and capital markets crises are likely to be a transforming event for the reinsurance industry, given a new sense of risk and exposure and continued volatility. This will not only impact the normal reinsurance pricing and profit cycle, but also the capital markets, given continued volatility, increased regulation and certain investment products and strategies that have been largely discredited.

The January 1, 2009 renewal saw market conditions beginning to stabilize overall, and improve significantly in catastrophe-exposed lines. U.S. casualty lines remained uncertain at the January 1, 2009 renewals, with no indication of improving pricing or terms and conditions, despite growing evidence of increasing loss trends. The Company grew in markets with the most attractive risk and return opportunities, and maintained its position in lines where priced profitability has stabilized, but not yet improved. Management believes it has maintained the diversification in its risk portfolio and maintained a similarly priced technical ratio (defined below) to that of the January 1, 2008 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.

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 stable pricing for continental Europe and Latin America. In contrast, there are more competitive conditions in the U.K. and Ireland, and while these two markets remain attractive, appropriate risk selection and pricing is important. The Company does not write life business in the U.S. market.

Table of Contents

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 net reserve position at December 31, 2008 was $7.4 billion. 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.

At year end 2008, given the deterioration in global credit markets and worldwide economies, the Company re-evaluated the loss potential for business written in its Global (Non-U.S.) credit/surety, and to a lesser extent, the U.S. surety line of business, and its Global (Non-U.S.) and U.S. specialty casualty lines of business, primarily directors and officers exposures, to ensure that the Company has reserved for an anticipated increase in claims for the 2006, 2007 and 2008 underwriting years. The Company s reserves for unpaid losses and loss expenses for its credit/surety and specialty casualty lines of business represent Management s best estimate of the ultimate cost to settle the liabilities based on information available at December 31, 2008.

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. The impact of the turmoil in the credit markets and broader economy was partially mitigated by the Company s high quality asset portfolio. The Company s total return on its investment portfolio was well below the risk-free rate of return during 2008, but nevertheless was a positive return, excluding the impact of foreign exchange. The Company believes that capital markets risks managed in a disciplined and measured way will generate positive excess return to the Company over time.

The Company generates revenue from its substantial and high quality investment portfolio. 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 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, as was the case during 2008 when the Company substantially reduced its allocation to equities. 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.

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

Table of Contents

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 six years, since December 31, 2002, the Company has generated a compound annual growth rate in diluted book value per share in excess of 11%.

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 (loss) available to common shareholders (net income or loss excluding net after-tax realized gains or losses on investments, net after-tax interest in earnings or losses of equity investments and preferred share dividends) divided by beginning common shareholders equity. 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. Since 2001, the Company had six years of underwriting profitability reflected in combined ratios of less than 100% for its Non-life segment. 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%. In 2008, the Company maintained a Non-life combined ratio of 94.1% for the year, after incurring large catastrophic losses for Hurricane Ike. 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 current 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 with that of its net reinsurance liabilities. In 2009, the Company expects to continue to generate positive operating cash flows, absent a series of unusual catastrophic events. Management 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. (See Risk Factors in Item 1A of Part I of this report). In addition to these risks, the Company assumes risks and its results are primarily determined by how well the Company understands, prices and manages assumed risk. While many industries and companies start with a return goal and then attempt to shed risks that may derail that goal, the Company starts with a capital-based risk appetite and then looks for risks that meet its return targets within that framework. Management believes that this construct allows the Company to balance the cedants need for absolute certainty of claims payment with the shareholders need for an adequate return on their capital.

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

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 for assumed risks including strong processes, technical risk assessment and collaboration among different groups of professionals who each contribute a particular area of expertise.

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.

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. 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.

Table of Contents

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

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

Catastrophe Risk

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

The Company imposes an absolute limit to catastrophe risk from any single loss through exposure limit caps in each zone and to each peril. Limits from catastrophe exposed business include limits on both reinsurance treaties and insurance linked securities. This 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.

The Company 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 $960 million 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, 2008, the modeled economic loss to the Company from a 1 in 75 year catastrophic loss was $810 million, in aggregate, for all zones.

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. The tolerance set by the Company for this risk is measured using total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods.

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

Table of Contents

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 manages and mitigates the reserve 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.

The Company 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 $480 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, 2008, the modeled economic loss to the Company from a 1 in 15 year casualty and other long-tail lines prior years reserve development was $350 million.

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 and the notional value of derivatives in the Principal Finance unit. The tolerance set by the Company for this risk is measured using the value of equity and equity-like securities as a percentage of economic capital. 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 in Item 7A of Part II of this report.

The Company 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 $720 million 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, 2008, the modeled economic loss to the Company from a 1 in 75 year equity and equity-like value decline was $280 million.

Table of Contents

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

Risk	Limit at December 31, 2008	Utilized at December 31, 2008	Utilized at December 31, 2007
Catastrophe risk largest zonal limit	$ 1.5 billion	$ 1.4 billion	$ 1.3 billion
Casualty reserving risk total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	4.0 billion	2.8 billion	3.0 billion
Equity investment risk value of equity and equity-like securities	2.8 billion	920 million	1.4 billion

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

Table of Contents

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 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

Table of Contents

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.

Table of Contents

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	Reported B-F
Property / Specialty Property	Global (Non-U.S.) P&C / Global (Non-U.S.) Specialty	Paid/Reported B-K	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	Expected Loss Ratio / Reported B-F	Reported B-F
Multiline	U.S.	Expected Loss Ratio / Reported B-F	Reported B-F
Motor	U.S.	Expected Loss Ratio	Reported B-F
Motor Proportional	Global (Non-U.S.) P&C	Reported B-F	Reported B-F
Motor Non-proportional	Global (Non-U.S.) P&C	Expected Loss Ratio	Reported B-F
Agriculture	U.S. / Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-K	Reported B-F
Aviation/Space	Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F
Catastrophe	Catastrophe	Expected Loss Ratio based on exposure analysis	Reported B-F
Credit/Surety	U.S. / Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported B-F /Reported B-K
Engineering	Global (Non-U.S.) Specialty	Paid / Reported B-F	Reported B-F
Energy Onshore	Global (Non-U.S.) Specialty	Expected Loss Ratio / Reported B-F	Reported CL
Marine/Energy Offshore	Global (Non-U.S.) Specialty	Reported B-F	Reported B-F / Reported CL

Other (1)	U.S./ Global (Non-U.S.) P&C / Global (Non-U.S.) Specialty	Periodic actuarial studies	Periodic actuarial studies

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

Table of Contents

Ultimate losses for lines impacted by the rapidly deteriorating financial condition of the world economies in 2008, particularly in the fourth quarter of 2008, 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, primarily directors and officers exposures, Global (Non-U.S.) credit/surety, and to a lesser extent, U.S. surety during the underwriting years 2006, 2007, and 2008. 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 both 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 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. Selected 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 2008, 2007 and 2006, 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 (adverse) reserve development for the Company s Non-life operations for the years ended December 31, 2008, 2007 and 2006 (in millions of U.S. dollars):

	2008	**2007**	**2006**
Prior year net favorable (adverse) reserve development:			
Non-life segment:			
U.S.	**$ 92**	$ 72	$ 2

Global (Non-U.S.) P&C	**166**	97	66
Global (Non-U.S.) Specialty	**82**	203	208
Catastrophe	**78**	42	(24)
Total net Non-life prior year reserve development	**$ 418**		