PARTNERRE LTD
Form 10-K/A
February 29, 2012
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K/A

(Amendment No. 1)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2011

OR

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

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

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

(441) 292-0888

(Registrant s telephone number, including area code)

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

Title of each class	**Name of each exchange on which registered**
Common Shares, $1.00 par value	**New York Stock Exchange, NYSE Euronext Paris,** **Bermuda Stock Exchange**
6.75% Series C Cumulative Preferred Shares, **$1.00 par value**	**New York Stock Exchange**
6.50% Series D Cumulative Preferred Shares, **$1.00 par value**	**New York Stock Exchange**
7.25% Series E Cumulative Preferred Shares, **$1.00 par value**	**New York Stock Exchange**

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes 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 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, 2011) was $4,654,659,330 based on the closing sales price of the registrant s common shares of $68.85 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 17, 2012 was 65,392,803.

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 16, 2012 are incorporated by reference into Part II and Part III of this report. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this report.	

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-K/A to PartnerRe Ltd. s Annual Report on Form 10-K for the year ended December 31, 2011 (Form 10-K), originally filed with the Securities and Exchange Commission on February 24, 2012, is being filed to revise the tables that present the development of gross, retroceded and net reserves for unpaid losses and loss expenses for the Company s Non-life business, which were presented in Business Reserves in Item 1 of Part I of the Form 10-K. The revised tables correct certain data previously presented in those tables related to:

(i) the gross, retroceded and net reserves for unpaid losses and loss expenses as of December 31, 2010 and 2009 that were re-estimated one year later and two years later, including the impact of foreign exchange; and

(ii) the amount of net paid losses related to the net reserves for unpaid losses and loss expenses as of December 31, 2009 through one year later and two years later, and the reconciliation of net paid losses related to prior years, including and excluding Guaranteed Reserves.

In accordance with the rules of the Securities and Exchange Commission, this Amendment No. 1 sets forth the complete text of Form 10-K as amended to correct these tables.

Except as described above, no changes have been made to the Form 10-K, including the Company s consolidated financial statements. This Amendment No. 1 does not reflect subsequent events occurring after February 24, 2012, the original filing date of the Form 10-K, or modify or update in any way disclosures made in the Form 10-K.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

PartnerRe Ltd. has made statements under the captions Business, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, particularly under the captions 2012 Outlook (or similarly captioned sections) and in other sections of this annual report on Form 10-K/A (Amendment No. 1) that are forward-looking statements. In some cases, you can identify these statements by forward-looking words such as may, might, will, should, expects, plans, anticipates, believes, estimates, predicts, potential, negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include projections of our future financial performance, our anticipated growth strategies and anticipated trends in our business. These statements are only predictions based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements, including those factors described under the caption entitled Risk Factors. You should specifically consider the numerous risks outlined under Risk Factors.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy and completeness of any of these forward-looking statements. We are under no duty to update any of these forward-looking statements after the date of this annual report on Form 10-K/A (Amendment No. 1) to conform our prior statements to actual results or revised expectations.

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PART I

ITEM 1. BUSINESS
General

PartnerRe Ltd. (the Company, PartnerRe or we), incorporated in Bermuda in August 1993, is the ultimate holding company for our international reinsurance group. The Company provides reinsurance on a worldwide basis through its wholly owned subsidiaries, including Partner Reinsurance Company Ltd. (PartnerRe Bermuda), Partner Reinsurance Europe plc (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 mortality, longevity 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.

In 1997, recognizing the limits of a continued monoline strategy, the Company shifted its strategic focus to become a leading multiline reinsurer. 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 December 2009, the Company completed the acquisition of PARIS RE Holdings Limited (Paris Re), a French-listed, Swiss-based holding company and its operating subsidiaries. The Consolidated Statements of Operations and Cash Flows include the results of Paris Re for the period from October 2, 2009, the date of acquisition of the controlling interest (Acquisition Date). This acquisition provided the Company with enhanced strategic and financial flexibility in a less predictable and more limited growth environment.

Business Strategy

The Company assumes and manages global re/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 beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) and compound annual growth rate in diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share) are two of the key metrics used by Management to measure the Company s results. Consequently, the Company has set a goal of an average 13% Operating ROE over a reinsurance cycle and a compound annual growth rate of 10% in Diluted Book Value per Share after the payment of dividends over a reinsurance cycle. See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the key measures, used by the Company to evaluate its financial performance, including definitions and basis of calculation.

The Company has adopted the following five-point strategy:

We are diversified across products and insurance markets: PartnerRe writes most lines of reinsurance business in approximately 150 countries worldwide and is open to assuming reinsurance-like risks to further diversify its portfolio. Management believes diversification is a competitive advantage, which increases return per unit of risk, provides access to risk worldwide and reduces the overall volatility of results. Diversification is also the cornerstone of the Company s risk management approach. The reinsurance business is cyclical, but reinsurance cycles by line of business and by geography are rarely synchronized.

We have an appetite for risk provided it helps us deliver superior risk-adjusted returns: PartnerRe is in the business of assuming risk for appropriate return. The Company s products address accumulation risks, complex coverage issues and large exposures faced by clients. The Company s book of business is focused on severity lines of business such as casualty, catastrophe, specialized property and aviation. The Company is willing to

assume such above average risk, but only if the pricing implies significantly above average risk-adjusted returns. The Company s diversification enables it to assume risks that are individually large for our clients, but are more easily diversified within PartnerRe s portfolio. 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.

We manage our capital to optimize long-term returns while maintaining an appropriate risk profile: PartnerRe s business is cyclical and the Company responds to that reality. The Company seeks to manage its capital to optimize shareholder returns over the reinsurance cycle, but it will not unbalance the portfolio by writing only the business that offers the highest return at any point in time. In order to manage capital appropriately across a portfolio and over a reinsurance cycle, the Company believes two things are critical: an appropriate and common measure of risk-adjusted performance and the ability and willingness to redeploy capital for its most efficient and effective use, either within the business or by returning capital to shareholders. To achieve effective and efficient capital allocation, the Company focuses on Operating ROE, supported by strong actuarial and financial analysis.

We create value through superior risk evaluation and intelligent portfolio and relationship management: The Company s technical underwriting, actuarial and portfolio management skills enable the Company to create value by evaluating, valuing and underwriting risk. The company focuses on overall portfolio profitability. The aim is not to select a few highly profitable transactions in any year, but to build sustainable portfolios that can deliver superior returns over several years.

We enhance overall returns through our invested assets in the context of a risk framework appropriate for a reinsurance organization: Strong underwriting must be complemented with prudent financial management, careful reserving and superior asset management in order to achieve the Company s targeted returns. When selecting asset strategies, the Company s priority is to support the reinsurance operations. The Company is willing to take some additional risk on its assets if it helps us generate extra return, but this risk-taking will never put at risk its reinsurance operation. The Company s principal business is the assumption of insurance risk. We will not use insurance or reinsurance as a means of raising funds to pursue other goals.

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 to 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, Hamilton (Bermuda), Dublin, Greenwich (Connecticut), Hong Kong, Labuan, Mexico City, Miami, Montreal, New York, Paris, Santiago, Sao Paulo, Seoul, Singapore, Tokyo, Toronto, Washington, D.C., Zug and Zurich.

In a proportional (or quota share) treaty reinsurance agreement, the reinsurer assumes a proportional share of the original premiums and 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.

In a non-proportional (or excess of loss) treaty reinsurance agreement the reinsurer 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 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.

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In a facultative (proportional or non-proportional) reinsurance agreement the reinsurer assumes 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. Segments and the sub-segments of the Company s Non-life segment represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. The composition of the Non-life and Life segments is described in more detail below. Corporate and Other is comprised of the capital markets and investment related activities of the Company, including principal finance transactions, insurance-linked securities and strategic investments, and its corporate activities, including other operating expenses.

The following table summarizes the Company s gross premiums written by segment for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars):

	2011	2010	2009
Non-life segment	**$ 3,831**	$ 4,132	$ 3,398
Life segment	**790**	749	595
Corporate and Other segment	**12**	4	8
Total	**$ 4,633**	$ 4,885	$ 4,001

The Company s Non-life and Life business is geographically diversified with premiums being written on a world-wide basis. See Note 22 to Consolidated Financial Statements in Item 8 of Part II of this report for additional disclosure of the geographic distribution of gross premiums written and financial information about segments and sub-segments.

Non-life Segment

The Non-life segment is divided into four sub-segments, North America, Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty and Catastrophe. The North America sub-segment includes agriculture, casualty, motor, multiline, property, surety and other risks generally originating in the United States. The Global (Non-U.S.) P&C sub-segment includes casualty, motor and property 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, energy, engineering, marine, specialty casualty, specialty property and other lines. The Catastrophe sub-segment is comprised of the Company s catastrophe line of business.

The following table summarizes the gross premiums written in each of the Company s Non-life sub-segments for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars and as a percentage of the total gross premiums written in the Company s Non-life segment):

Non-life sub-segment	2011		2010		2009	
North America	**$ 1,104**	**29%**	$ 1,028	25%	$ 1,162	34%
Global (Non-U.S.) P&C	**682**	**18**	909	22	677	20
Global (Non-U.S.) Specialty	**1,446**	**38**	1,479	36	1,159	34
Catastrophe	**599**	**15**	716	17	400	12
Total	**$ 3,831**	**100%**	$ 4,132	100%	$ 3,398	100%

The gross premiums written in each Non-life sub-segment for the years ended December 31, 2011, 2010 and 2009, and the year over year comparisons, are described in Results by Segment in Item 7 of Part II of this report.

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Lines of Business

The following table summarizes the gross premiums written by line of business in the Company s Non-life segment for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars and as a percentage of the total gross premiums written in the Company s Non-life segment):

Line of business	**2011**		**2010**		**2009**	
Property and casualty						
Casualty	**$ 510**	**13%**	$ 519	13%	$ 506	15%
Property	**676**	**18**	862	21	714	21
Motor	**229**	**6**	311	7	249	7
Multiline and other	**71**	**2**	73	2	72	2
Specialty						
Agriculture	**292**	**8**	180	4	305	9
Aviation/Space	**235**	**6**	241	6	198	6
Catastrophe	**599**	**15**	716	17	400	12
Credit/Surety	**326**	**8**	292	7	234	7
Energy	**115**	**3**	113	3	107	3
Engineering	**189**	**5**	192	5	212	6
Marine	**334**	**9**	330	8	200	6
Specialty casualty	**108**	**3**	172	4	129	4
Specialty property	**147**	**4**	131	3	72	2
Total Non-life segment	**$ 3,831**	**100%**	$ 4,132	100%	$ 3,398	100%

The following discussion summarizes the business written in each line of business in the Company s Non-life segment.

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.

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.

Catastrophe The Company provides property catastrophe reinsurance protection, written primarily on a non-proportional basis, against the accumulation of losses caused by windstorm, earthquake, tornado, tropical cyclone, 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.

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.

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Engineering The Company provides reinsurance for engineering projects throughout the world, predominantly on a proportional treaty 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.

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.

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

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. The Company s most significant exposure is typically to losses from windstorm, tornado 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.

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.

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.

Distribution

The Company s Non-life 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, 2011, the Company had two brokers that individually accounted for 10% or more of its total Non-life gross premiums written. The Aon Group (including the Benfield Group) accounted for approximately 28% of total Non-life gross premiums written, while Marsh (including Guy Carpenter) accounted for approximately 25% of total Non-life gross premiums written. The following table summarizes the combined percentage of gross premiums written through these two brokers by Non-life sub-segment for the year ended December 31, 2011:

Non-life sub-segment	**2011**
North America	64%
Global (Non-U.S.) P&C	29
Global (Non-U.S.) Specialty	43
Catastrophe	81

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Competition

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

The Company s competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, and reinsurance departments of certain primary insurance companies. Management believes that the Company s major competitors are the larger European, U.S. and Bermuda-based international reinsurance companies, as well as specialty reinsurers and regional companies in certain local markets. These competitors include, but are not limited to, Munich Re, Swiss Re, Everest Re, Hannover Re, SCOR, Transatlantic and reinsurance operations of certain primary insurance companies, such as Arch Capital, Axis Capital and XL Group.

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.

Life Segment

Lines of Business

The Company s Life segment includes the mortality, longevity and health lines of business written primarily in the United Kingdom (U.K.), Ireland and France. The Company does not write any new life business in the U.S. The following table summarizes the gross premiums written by line of business in the Company s Life segment for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars as a percentage of the total gross premiums written in the Company s Life segment):

Line of business	**2011**		**2010**		**2009**	
Mortality	**$ 566**	**72%**	$ 524	70%	$ 480	80%
Longevity	**203**	**25**	205	27	93	16
Health	**21**	**3**	20	3	22	4
Total Life segment	**$ 790**	**100%**	$ 749	100%	$ 595	100%

The gross premiums written in the Life segment for the years ended December 31, 2011, 2010 and 2009, and the year over year comparisons, are described in Results by Segment in Item 7 of Part II of this report.

The following discussion summarizes the business written in the Company s Life segment by line of business.

Mortality The Company provides reinsurance coverage to primary life insurers and pension funds to protect against individual and group mortality and disability risks. Mortality business is written primarily on a proportional basis through treaty agreements. Mortality business is subdivided into death and disability covers (with various riders) primarily written in Continental Europe, term assurance and critical illness (TCI) primarily written in the U.K. and Ireland, and guaranteed minimum death benefit (GMDB) primarily written in Continental Europe. The Company also writes certain treaties on a non-proportional basis, primarily in France.

Longevity The Company provides reinsurance coverage to employer sponsored pension schemes and primary life insurers who issue annuity contracts offering long-term retirement benefits to consumers, who seek protection against outliving their financial resources. Longevity business is written on a long term, proportional basis primarily in the U.K. The Company s longevity portfolio is subdivided into standard and non-standard

annuities. The non-standard annuities are annuities sold to consumers with aggravated health conditions and are usually medically underwritten on an individual basis. The main risk the Company is exposed to by writing longevity business is an increase in the future life span of the insured compared to the expected life span.

Health The Company provides reinsurance coverage to primary life insurers with respect to individual and group health risks.

Other than gross premiums written, Management uses the following metrics to measure the growth of the Company s mortality and longevity business.

For the mortality book of business, Management uses reinsurance business in force as a growth measure. Reinsurance business in force reflects the addition or acquisition of new mortality business, offset by terminations (e.g., voluntary surrenders of underlying life insurance policies, lapses of underlying policies, deaths of insureds, and the exercises of recapture option by cedants), changes in foreign exchange, and any other changes in the amount of insurance in force. The term in force refers to the aggregate insurance policy face amounts, or net amounts at risk. The net assumed business in force for the mortality line of business, including health, was $198 billion, $191 billion and $203 billion at December 31, 2011, 2010 and 2009, respectively. The increase in business in force to $198 billion at December 31, 2011 from $191 billion at December 31, 2010 was primarily driven by TCI business written in the U.K. The decrease in business in force from $203 billion at December 31, 2009 to $191 billion at December 31, 2010 was primarily due to the weakening of the euro against the U.S. dollar and a decrease in the sum at risk related to term assurance business.

For the longevity book of business, Management uses net present value of expected future benefits as a growth measure. The net present value of expected future annuity payments related to the Company s longevity business (assuming a 4% discount rate) was $3,595 million, $2,932 million and $832 million at December 31, 2011, 2010 and 2009, respectively. The increase in net present value of expected future annuity payments from $832 million at December 31, 2009 to $2,932 million at December 31, 2010 and to $3,595 million at December 31, 2011 was primarily due to new standard annuity business written.

Distribution

The Company s Life business is produced both through brokers and through direct relationships with insurance companies. For the year ended December 31, 2011, one cedant accounted for 13% of the Life segment s total gross premiums written and one broker, the Aon Group (including the Benfield Group), accounted for 16% of the Life segment s total gross premiums written. No other cedant or broker contributed more than 10% of the Life segment s total gross premiums written.

Competition

The Company s competition differs by location but generally includes multi-national reinsurers and local reinsurers or state-owned insurers in the U.K., Ireland and Continental Europe.

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.

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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.

Non-life Reserves

At December 31, 2011 and 2010, the Company recorded gross Non-life reserves for unpaid losses and loss expenses of $11,273 million and $10,667 million, respectively, and net Non-life reserves for unpaid losses and loss expenses of $10,920 million and $10,318 million, respectively.

The following table provides a reconciliation of the net Non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars):

	2011	2010	2009
Net liability at beginning of year	**$ 10,318**	$ 10,475	$ 7,385
Net liability acquired related to Paris Re			3,176
Net incurred losses related to:			
Current year	**4,252**	3,138	2,341
Prior years	**(530)**	(478)	(486)
	3,722	2,660	1,855
Change in Paris Re Reserve Agreement	**(61)**	(67)	(32)
Net paid losses	**(2,991)**	(2,579)	(2,044)
Effects of foreign exchange rate changes	**(68)**	(171)	135
Net liability at end of year	**$ 10,920**	$ 10,318	$ 10,475

The increase in net Non-life reserves for unpaid losses and loss expenses from $10,318 million at December 31, 2010 to $10,920 million at December 31, 2011 primarily reflects an increase in current year net incurred losses, which is partially offset by an increase in net paid losses. Both the increase in the current year net incurred losses and net paid losses during the year ended December 31, 2011 related to the impact of the catastrophic events during 2011.

The following table summarizes the net incurred losses for the year ended December 31, 2011 relating to the current and prior accident years by sub-segment for the Company s Non-life operations (in millions of U.S. dollars):

	North America	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment (1)
Net incurred losses related to:					
Current year	$ 930	$ 683	$ 1,079	$ 1,555	$ 4,247
Net prior years favorable reserve development	(189)	(116)	(129)	(96)	(530)
Total net incurred losses	$ 741	$ 567	$ 950	$ 1,459	$ 3,717

(1) In addition to the current year net incurred losses in the Non-life segment of $4,247 million were current year net incurred losses related to the Corporate and Other segment, resulting in total net incurred losses of $3,722 million.

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The net favorable development on prior accident years of $530 million for the year ended December 31, 2011 primarily resulted from favorable loss emergence, as losses reported by cedants were lower than expected. The most significant drivers of the Non-life net favorable prior year reserve development during the year ended December 31, 2011 were the casualty line of business in the Company s North America sub-segment and the Catastrophe sub-segment. See Management s Discussion and Analysis of Financial Condition and Results of Operations for a more detailed 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 operations.

Reserve Agreement

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

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

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

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

On October 1, 2010, PartnerRe Europe and Paris Re France effected a cross border merger whereby all the assets and liabilities of Paris Re France were transferred to PartnerRe Europe, including the agreements between Paris Re France and Colisée Re.

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Changes in Non-life Reserves

The below table shows the gross, retroceded and net reserves for unpaid losses and loss expenses for the Company s Non-life business, and the portion of the gross, retroceded and net reserves that relates to the reserves subject to the Reserve Agreement (Guaranteed Reserves), as of December 31, 2011 and 2010 (in thousands of U.S. dollars):

	2011	2010
Gross reserves	**$ 11,273,091**	$ 10,666,604
Less: Guaranteed Reserves	**1,038,800**	1,287,576
Gross reserves, excluding Guaranteed Reserves	**10,234,291**	9,379,028
Retroceded reserves	**353,105**	348,747
Less: Guaranteed Reserves	**27,264**	48,099
Retroceded reserves, excluding Guaranteed Reserves	**325,841**	300,648
Net reserves	**$ 10,919,986**	$ 10,317,857
Net reserves, excluding Guaranteed Reserves	**$ 9,908,450**	$ 9,078,380

The below table is a reconciliation of the net paid losses related to prior years and the net paid losses related to prior years, excluding the paid losses for the Guaranteed Reserves, for the years ended December 31, 2011 and 2010 (in thousands of U.S. dollars):

	2011	2010
Net paid losses related to prior years	**$ 2,060,152**	$ 2,267,765
Less: net paid losses on Guaranteed Reserves	**136,885**	173,386
Net paid losses related to prior years, excluding Guaranteed Reserves	**$ 1,923,267**	$ 2,094,379

The Guaranteed Reserves have been excluded from the following tables that analyze the development of the Company s net reserves for unpaid losses and loss expenses for the Company s Non-life business given the Reserve Agreement covers any adverse or favorable development related to the reserves acquired by Paris Re in the AXA Acquisition, and therefore, they have no impact on the development of the Company s gross and net reserves for unpaid losses and loss expenses.

The following table shows the development of net reserves for unpaid losses and loss expenses for the Company s Non-life business, excluding Guaranteed Reserves. 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, excluding Guaranteed 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, excluding Guaranteed Reserves, that were paid (claims paid) as of the end of subsequent years. This section of the table provides an indication of the portion of the re-estimated net liability that is settled and is unlikely to develop in the future. Claims paid are converted to U.S. dollars at the average foreign exchange rates during the year of payment and are not revalued at the current year foreign exchange rates. Because claims paid in prior years are not revalued at the current year s foreign exchange rates, the difference between the cumulative claims paid at the end of any given year and the immediately previous year represents the claims paid during the year.

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Development of Loss and Loss Expense Reserves (Excluding Guaranteed Reserves subject to the Reserve Agreement)

(in thousands of U.S. dollars)

	2001	2002	2003	2004	2005	2006	2007	2008	2009 (1)	2010	2011
Gross liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	$ 3,005,628	$ 3,658,416	$ 4,755,059	$ 5,766,629	$ 6,737,661	$ 6,870,785	$ 7,231,436	$ 7,510,666	$ 9,248,529	$ 9,379,028	$ 10,234,291
Retroceded liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	214,891	217,777	175,685	153,018	185,280	138,585	132,479	125,215	270,938	300,648	325,841
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**	**$ 7,385,451**	**$ 8,977,591**	**$ 9,078,380**	**$ 9,908,450**
Net liability re-estimated, excluding Guaranteed Reserves at:											
One year later	3,035,309	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	6,343,714	7,076,796	8,354,221	8,505,130	
Two years later	3,310,898	3,975,926	4,301,161	5,044,922	6,618,112	6,165,297	6,009,194	6,686,926	7,877,438		
Three years later	3,456,250	3,781,574	4,373,992	5,092,289	6,168,445	5,897,044	5,674,509	6,351,663			
Four years later	3,326,527	3,894,500	4,494,182	4,845,644	6,002,031	5,645,132	5,409,460				
Five years later	3,433,887	4,019,813	4,315,702	4,731,856	5,802,799	5,436,353					
Six years later	3,528,665	3,918,380	4,264,865	4,595,232	5,627,952						
Seven years later	3,445,844	3,894,155	4,171,108	4,467,678							
Eight years later	3,446,683	3,822,959	4,091,315								
Nine years later	3,394,936	3,762,561									
Ten years later	3,347,058										
Cumulative net (deficiency) redundancy	**$ (556,321)**	**$ (321,922)**	**$ 488,059**	**$ 1,145,933**	**$ 924,429**	**$ 1,295,847**	**$ 1,689,497**	**$ 1,033,788**	**$ 1,100,153**	**$ 573,250**	
Cumulative amount of net liability paid through:											
One year later	$ 923,165	$ 1,126,882	$ 1,120,756	$ 1,250,534	$ 1,718,996	$ 1,473,964	$ 1,340,788	$ 1,716,798	$ 2,094,379	$ 1,923,267	
Two years later	1,391,301	1,713,953	1,573,312	1,821,773	2,482,695	2,116,025	1,971,376	2,448,950	2,983,833		

Three years later	1,740,277	1,993,947	1,948,203	2,207,692	2,948,837	2,581,022	2,470,068	2,991,497
Four years later	1,924,833	2,248,980	2,219,506	2,511,446	3,273,808	2,932,356	2,818,018	
Five years later	2,086,252	2,433,223	2,439,361	2,721,266	3,534,003	3,183,573		
Six years later	2,215,412	2,580,225	2,589,798	2,898,779	3,713,402			
Seven years later	2,314,918	2,694,079	2,717,665	3,043,151				
Eight years later	2,397,806	2,779,632	2,820,421					
Nine years later	2,463,518	2,860,940						
Ten years later	2,526,523							

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

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The following table provides a reconciliation of the Company s re-estimated gross year-end reserves with the re-estimated net year-end reserves as of December 31, 2011 provided above (in thousands of U.S. dollars):

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Reconciliation of gross reserves:										
Gross liability re-estimated, excluding Guaranteed Reserves	$ 3,576,494	$ 3,972,526	$ 4,230,780	$ 4,572,597	$ 5,799,072	$ 5,539,485	$ 5,497,851	$ 6,460,164	$ 8,107,304	$ 8,779,445
Re-estimated retroceded liability, excluding Guaranteed Reserves	229,436	209,965	139,465	104,919	171,120	103,132	88,391	108,501	229,866	274,315
Net liability re-estimated, excluding Guaranteed Reserves	$ 3,347,058	$ 3,762,561	$ 4,091,315	$ 4,467,678	$ 5,627,952	$ 5,436,353	$ 5,409,460	$ 6,351,663	$ 7,877,438	$ 8,505,130
Cumulative gross (deficiency) redundancy	**$ (570,866)**	**$ (314,110)**	**$ 524,279**	**$ 1,194,032**	**$ 938,589**	**$ 1,331,300**	**$ 1,733,585**	**$ 1,050,502**	**$ 1,141,225**	**$ 599,583**

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cumulative net (deficiency) redundancy	**$ (556,321)**	**$ (321,922)**	**$ 488,059**	**$ 1,145,933**	**$ 924,429**	**$ 1,295,847**	**$ 1,689,497**	**$ 1,033,788**	**$ 1,100,153**	**$ 573,250**
Less: Cumulative net (deficiency) redundancy due to foreign exchange	(467,797)	(425,275)	(189,424)	136,344	(395,835)	(157,467)	328,564	(51,288)	174,912	42,793
Cumulative net (deficiency) redundancy excluding the impact of foreign exchange	**$ (88,524)**	**$ 103,353**	**$ 677,483**	**$ 1,009,589**	**$ 1,320,264**	**$ 1,453,314**	**$ 1,360,933**	**$ 1,085,076**	**$ 925,241**	**$ 530,457**

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, or enters into derivative foreign exchange contracts, 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 more detailed discussion of the foreign currency risk of the Company s assets and liabilities.

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The Company s 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.

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Net liability for unpaid losses and loss expenses, excluding Guaranteed Reserves	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**	**$ 7,098,957**	**$ 7,385,451**	**$ 8,977,591**	**$ 9,078,380**
Net liability re-estimated, excluding Guaranteed Reserves at:										
One year later	2,846,855	3,496,102	4,440,338	5,382,101	6,300,633	6,318,157	6,681,021	6,899,642	8,499,708	8,547,923
Two years later	2,921,908	3,513,647	4,298,493	5,232,707	6,023,025	6,014,782	6,222,150	6,597,688	8,052,350	
Three years later	2,956,308	3,483,720	4,223,937	5,076,765	5,774,643	5,640,480	5,961,748	6,300,375		
Four years later	2,964,307	3,491,033	4,178,131	4,972,632	5,521,034	5,451,479	5,738,024			
Five years later	2,982,347	3,498,703	4,118,436	4,794,445	5,376,045	5,278,886				
Six years later	2,979,426	3,480,094	4,012,792	4,704,184	5,232,117					
Seven years later	2,963,708	3,418,353	3,958,493	4,604,022						
Eight years later	2,935,299	3,379,382	3,901,891							
Nine years later	2,912,868	3,337,286								
Ten years later	2,879,261									
Cumulative net (deficiency) redundancy	**$ (88,524)**	**$ 103,353**	**$ 677,483**	**$ 1,009,589**	**$ 1,320,264**	**$ 1,453,314**	**$ 1,360,933**	**$ 1,085,076**	**$ 925,241**	**$ 530,457**

Other P&C Exposures

The Company s reserve for unpaid losses and loss expenses as of December 31, 2011 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 and discussion of the uncertainties and complexities related to the Japan earthquake and resulting tsunami (Japan Earthquake) and the New Zealand earthquakes that occurred in February and June 2011 (February and June 2011 New Zealand Earthquakes), the other catastrophic events that occurred in 2011, and the Company s exposure to claims arising from 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.

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Life Reserves

At December 31, 2011 and 2010, the Company recorded gross policy benefits for life and annuity contracts of $1,646 million and $1,750 million, respectively, and net policy benefits for life and annuity contracts of $1,636 million and $1,736 million, respectively.

The following table provides a reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2011, 2010 and 2009 (in millions of U.S. dollars):

	2011	2010	2009
Net liability at beginning of year	**$ 1,736**	$ 1,595	$ 1,408
Net incurred losses related to:			
Current year	**651**	612	455
Prior years	**(1)**	12	(15)
	650	624	440
Net policy benefits restructured by a cedant	**(131)**		
Net paid losses	**(588)**	(420)	(323)
Effects of foreign exchange rate changes	**(31)**	(63)	70
Net liability at end of year	**$ 1,636**	$ 1,736	$ 1,595

The decrease in net policy benefits for life and annuity contracts from $1,736 million at December 31, 2010 to $1,636 million at December 31, 2011 is primarily due to the restructuring of a longevity treaty from a funds held basis to a swap basis during 2011 and net paid losses, which were partially offset by incurred losses.

For the year ended December 31, 2011, the Company experienced net favorable prior year loss development related to its mortality book of $1 million. The modest net favorable prior year loss development of $1 million in 2011 was the net result of favorable prior year loss development of $6 million on certain mortality treaties and $5 million related to the GMDB business, which were almost entirely offset by adverse prior year loss development related to disability riders on certain short-term non-proportional treaties in the mortality line following the receipt of updated information from cedants. There was no prior year loss development in 2011 related to the Company s longevity book.

The following table shows the Company s gross policy benefits for life and annuity contracts by line of business and total ceded and net policy benefits for life and annuity contracts at December 31, 2011 and 2010 (in millions of U.S. dollars):

Reserving lines	2011	2010
Mortality[1]	**$ 1,123**	$ 1,041
Longevity	**523**	709
Total gross policy benefits for life and annuity contracts	**1,646**	1,750
Ceded policy benefits for life and annuity contracts	**(10)**	(14)
Total net policy benefits for life and annuity contracts	**$ 1,636**	$ 1,736

(1) Reserves related to the health line are included within the mortality line.

Investments and Investments underlying the Funds Held Directly Managed Account

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

The Company s investment strategy is largely consistent with previous years. To ensure that the Company will have sufficient assets to pay its clients claims, the Company s investment philosophy distinguishes between those assets, including the investments underlying the funds held directly managed account, that are matched against existing liabilities (liability funds) and those that represent shareholders equity (capital funds). Liability

funds are invested in high quality fixed income securities and cash and cash equivalents. Capital funds are available for investing 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.

Investments

The Company s investment portfolio, excluding the funds held directly managed account which is discussed below, includes investments classified as trading securities and certain other invested assets. The below table summarizes the carrying values of the Company s investments at December 31, 2011 and 2010 (in millions of U.S. dollars and each category as a percentage of the total investments):

	2011		2010	
Fixed maturities				
U.S. government and government sponsored enterprises	**$ 1,116**	**7%**	$ 906	7%
U.S. states, territories and municipalities	**124**	**1**	67	
Non-U.S. sovereign government, supranational and government related	**2,964**	**19**	2,819	20
Corporate	**5,747**	**38**	6,144	43
Asset-backed securities	**634**	**4**	557	4
Residential mortgage-backed securities	**3,283**	**22**	2,306	16
Other mortgage-backed securities	**74**		26	
Total fixed maturities	**$ 13,942**	**91%**	$ 12,825	90%
Short-term investments	**42**		49	
Equities	**945**	**6**	1,072	8
Other invested assets	**358**	**3**	352	2
Total investments	**$ 15,287**	**100%**	$ 14,298	100%

(1) In addition to the total investments shown in the above table of $15.3 billion and $14.3 billion at December 31, 2011 and 2010, respectively, the Company held cash and cash equivalents of $1.3 billion and $2.1 billion, respectively.

The overall average credit rating of the portfolio at December 31, 2011 was AA, and 94% of the fixed maturities and short-term investments were rated investment grade (BBB- or higher) by Standard & Poor s. For further discussion of the composition of the investment portfolio, see Financial Condition, Liquidity and Capital Resources Investments in Item 7 of Part II of this report.

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. Second, 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 and Finance Committee of the Board of Directors (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 foreign currency management strategies.

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Investments underlying the Funds Held Directly Managed Account

Following the AXA Acquisition, Paris Re France and certain subsidiaries entered into an Issuance Agreement with Colisée Re to enable Colisée Re to write business on behalf of Paris Re France between January 1, 2006 and September 30, 2007. In addition, effective January 1, 2006, Paris Re France and Colisée Re entered into 100% quota share retrocession agreements to transfer the benefits and risks of Colisée Re s reinsurance agreements to Paris Re and provide for the payment of premiums to Paris Re France in consideration for reinsuring the covered liabilities (the Quota Share Retrocession Agreement). The Quota Share Retrocession Agreement provides that these premiums will be on a funds withheld basis. Paris Re France will receive any surplus, and be responsible for any deficits remaining with respect to the funds held directly managed account, after all liabilities have been discharged and payments pursuant to the Reserve Agreement have been settled. In addition, realized and unrealized investment gains and losses and net investment income related to the investment portfolio underlying the funds held directly managed account inure to the benefit of Paris Re France. The investments underlying the funds held directly managed account were predominantly maintained by Colisée Re in a segregated investment portfolio and managed by the Company. The Company s strategy related to the management of the funds held directly managed account is as described above related to the Company s investment portfolio.

The table below summarizes the carrying value of the investments underlying the funds held directly managed account at December 31, 2011 and 2010 (in millions of U.S. dollars and each category as a percentage of the investments underlying the funds held directly managed account):

	2011		2010	
Fixed maturities				
U.S. government and government sponsored enterprises	**$ 269**	**26%**	$ 288	18%
U.S. states, territories and municipalities				
Non-U.S. sovereign government, supranational and government related	**275**	**26**	385	25
Corporate	**480**	**45**	799	52
Mortgage/asset-backed securities			12	1
Total fixed maturities	**$ 1,024**	**97**	$ 1,484	96
Short-term investments	**18**	**2**	38	3
Other invested assets	**16**	**1**	21	1
Total investments	**$ 1,058**	**100%**	$ 1,543	100%

(1) In addition to the investments underlying the funds held directly managed account held at fair value of $1,058 million at December 31, 2011, the funds held directly managed account also included cash and cash equivalents of $176 million, accrued investment income of $14 million and other assets and liabilities held by Colisée Re related to the underlying business of $20 million.

The overall average credit rating of the portfolio at December 31, 2011 was AA, and all of the fixed maturities and short-term investments were rated investment grade (BBB- or higher) by Standard & Poor s.

On February 1, 2011, PartnerRe Europe (formerly Paris Re France prior to its cross border merger with PartnerRe Europe), entered into an Endorsement to Quota Share Retrocession Agreement (the Endorsement) with Colisée Re. The Endorsement amended certain terms of the Quota Share Retrocession Agreement and released certain assets forming part of the funds held directly managed account to PartnerRe Europe.

For further discussion of the composition of the investment portfolio underlying the funds held directly managed account, see Financial Condition, Liquidity and Capital Resources Funds Held Directly Managed in Item 7 of Part II of this report. The credit risk of Colisée Re in the event of its insolvency or its failure to honor the value of the funds held balances for any other reason is discussed in Quantitative and Qualitative Disclosures About Market Risk Counterparty Credit Risk in Item 7A of Part II of this report.

Risk Management

In the reinsurance industry, the core of the business model is the assumption and management of risk. A key challenge is to create economic value through the intelligent and optimal assumption and management of reinsurance and capital markets and investment risks, but also to limit or mitigate those risks that can destroy tangible as well as intangible value, those risks for which the organization is not sufficiently compensated and those risks that could threaten the ability of the Company to achieve its objectives. 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 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 certainty of claims payment with the shareholders need for an adequate return on their capital.

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

The Company 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 coordinated by Group Risk Management and audited by Internal Audit. The results of audits are monitored by the Audit Committee of the Board. 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, 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 Internal Audit periodically tests these controls to ensure ongoing compliance.

Strategic Risks

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

The Company manages assumed risk at a strategic level through diversification, risk appetite, and 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.

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, the market value of equity and equity-like securities and an extreme scenario for longevity business. Executive and Business Unit Management set additional specific and aggregate risk limits within the limits approved by the Risk 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 and Finance Committee of the Board, and policies established by Executive and Business Unit Management. At an operational level, Business Units manage assumed risk through risk mitigation strategies including strong processes, technical risk assessment and collaboration among different groups of professionals who each contribute a particular area of expertise.

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

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

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

Other risks such as interest rate risk and credit spread risk have the ability to impact results substantially and may result in volatility in results from period to period. However, Management believes that by themselves, interest rate risk and credit spread risk are unlikely to represent a material 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 discussion of interest rate risk, credit spread risk, foreign currency risk, counterparty credit risk and equity price risk.

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.

Catastrophe risk is managed through the real-time allocation of catastrophe exposure capacity in each exposure zone to different Business Units, regular catastrophe modeling 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

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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 imposes a limit to catastrophe risk from any single loss through exposure limit caps in each zone and to each peril. Limits from catastrophe exposed business include limits on both reinsurance treaties and insurance-linked securities. The Company also manages its catastrophe exposures such that the chance of an economic loss to the Company from all catastrophe losses in aggregate in any one year exceeding $1.4 billion has a modeled probability of occurring less than once every 75 years. To measure this probability, the Company uses proprietary and vendor models that take into account the likely frequency and severity of catastrophic events with a forward looking approach using exposure. This quantitative analysis is supplemented with the professional judgment of experienced underwriters. At December 31, 2011, the modeled economic loss to the Company from a 1 in 75 year catastrophic loss was $1.2 billion, in aggregate, for all zones.

The Company is currently in the process of updating its probable maximum loss (PML) modeling, including incorporating January 1, 2012 renewals, and expects to release updated PML information for certain selected catastrophe exposed zones in due course.

Casualty Reserving Risk

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

The Company s limit for casualty reserving risk represents the total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods. The Company also manages its casualty and other long-tail lines exposure such that the chance of an economic loss to the Company from prior years deterioration in casualty and other long-tail reserves exceeding $0.7 billion 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, 2011, the modeled economic loss to the Company from a 1 in 15 year casualty and other long-tail lines prior years reserve development was $0.4 billion.

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

Equity Investment Risk

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

The Company limits the amount of equity and equity-like securities to a percentage of economic capital. The Company also manages its exposures to equity and equity-like securities such that the chance of an economic loss to the Company of a severe decline in value of equity and equity-like securities exceeding $1.1 billion has a modeled probability of occurring less than once every 75 years. To measure this probability, the Company uses proprietary and vendor models that contemplate the range of historic and possible future returns. This quantitative analysis is supplemented with the professional judgment of experienced investment professionals and actuaries. At December 31, 2011, the modeled economic loss to the Company from a 1 in 75 year equity and equity-like value decline was $0.4 billion.

Assuming equity risk (and equity-like risks such as those from 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.

Longevity Risk

The Company considers longevity exposure to have a material accumulation potential and has established a limit to manage the risk of loss associated with this exposure. The Company defines longevity risk as the potential for increased actual and future expected annuity payments resulting from annuitants living longer than expected, or the expectation that annuitants will live longer in the future. Assuming longevity risk, through reinsurance or capital markets transactions, is part of the Company s strategy of building a diversified portfolio of risks. While longevity risk is highly diversifying in relation to other risks in the Company s portfolio (e.g. mortality products), longevity risk itself is a systemic risk with little opportunity to diversify within the risk class. Longevity risk accumulates across cedants, geographies, and over time because mortality trends can impact diverse populations in the same manner. Longevity risk can manifest slowly over time as experience proves annuitants are living longer than original expectations, or abruptly as in the case of a miracle drug that increases the life expectancy of all annuitants simultaneously.

In order to determine a longevity limit metric for the purposes of risk accumulation, the Company examined extreme scenarios and measured its exposure to loss under those scenarios. Examples of these scenarios included, but were not limited to, immediate elimination of major causes of death and an extreme improvement scenario equivalent to the adverse result of every annuitant s life expectancy increasing to approximately 100 years. The Company did not rely upon modeled losses to determine the limit metric, but did benchmark the scenario results against existing tests, scenarios and models. For risk accumulation purposes, the Company selected the most extreme scenario and added an additional margin for potential deviation.

The Company selected a longevity limit of $2 billion. To measure utilization of the longevity limit (accumulation of longevity exposure), the Company accumulates the net present value of adverse loss resulting from the application of the selected extreme scenario and additional margin applied to every in-force longevity treaty and the notional value of any longevity insurance-linked security.

The limits and actual deployed exposures of the Company for its four major risks at December 31, 2011 are as follows:

	Limit at December 31, 2011	Deployed at December 31, 2011	Deployed at December 31, 2010
Catastrophe risk largest zonal limit	**$ 2.8 billion**	**$ 2.1 billion**	$ 2.5 billion
Casualty reserving risk total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	**6.3 billion**	**2.9 billion**	3.0 billion
Equity investment risk value of equity and equity-like securities	**3.3 billion**	**1.4 billion**	1.5 billion
Longevity risk net present value loss from extreme mortality improvement scenario	**2.0 billion**	**1.2 billion**	1.0 billion

The following table summarizes risk appetite and modeled economic loss at December 31, 2011 for the Company s major risks discussed above:

	Risk Appetite at December 31, 2011(1)	Modeled Economic Loss at December 31, 2011(1)	Modeled Economic Loss at December 31, 2010(1)
Catastrophe risk 1 in 75 year annual aggregate loss	**$ 1.4 billion**	**$ 1.2 billion**	$ 1.3 billion
Casualty reserving risk casualty and other long-tail lines 1 in 15 year prior years reserve development	**0.7 billion**	**0.4 billion**	0.4 billion
Equity investment risk 1 in 75 year decline in value	**1.1 billion**	**0.4 billion**	0.5 billion

(1) The Company has not defined a risk appetite for longevity risk as it believes that establishing a limit is currently the most appropriate risk management metric. In addition, the Company has not relied upon a modeled economic loss for longevity risk.

Other Underwriting Risk and Exposure Controls

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

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

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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) 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, tornado, flood or earthquake, or man-made events. Any such catastrophic event could generate insured losses in one or many of the Company s reinsurance treaties and facultative contracts in one or more lines of business. The Company considers such event scenarios as part of its evaluation and monitoring of its aggregate exposures to catastrophic events.

Retrocessions

The Company uses retrocessional agreements to reduce its exposure on certain reinsurance risks assumed and to mitigate the effect of any single major event or the frequency of medium-sized events. These agreements provide for the recovery of a portion of losses and loss expenses from retrocessionaires. The majority of the Company s retrocessional agreements cover the property exposures, predominantly those that are catastrophe exposed. 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.

In addition to the retrocessional agreements, Paris Re France (now PartnerRe Europe) has a Reserve Agreement in place with Colisée Re (see Reserve Agreement above).

Claims

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

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. 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 risk taking 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 of the Board in the event they become aware of questionable behavior of Management or any other employee. Finally, Management believes that building a sound internal control environment, including a strong Internal Audit function, helps ensure that behaviors are consistent with the Company s cultural values.

Capital Adequacy

A key challenge for Management is to maintain an appropriate level of capital, especially in light of the recent disruptions in the global credit and capital markets. Management s first priority is to hold sufficient capital to meet all of the Company s obligations to cedants, meet regulatory requirements and support its position as one of the stronger reinsurers in the industry. Holding an excessive amount of capital, however, will reduce the Company s Operating ROE. Consequently, Management closely monitors its capital needs and capital level throughout the reinsurance 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 an appropriate 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 and times when business opportunities are not so attractive, returning capital to its common shareholders by way of share repurchases and dividends. During 2011, the Company repurchased approximately 5.4 million of its common shares for a total cost of $396 million. In addition, the Company increased the quarterly dividends on its common shares by 9% during the year, from $0.55 per share to $0.60 per share.

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 and currency of its investments and investments underlying the funds held directly managed account with that of its net reinsurance liabilities. In 2012, the Company expects to continue to generate positive operating cash flows, absent a series of unusual catastrophic events. The Company also maintains credit facilities with banks that can provide efficient access to cash in the event of an unforeseen cash requirement.

Employees

The Company had 1,281 employees at December 31, 2011. The Company may increase its staff over time commensurate with the expansion of operation. The Company believes that its relations with its employees are good.

Regulation

The business of reinsurance is regulated in all countries in which we operate, although the degree and type of regulation varies significantly from one jurisdiction to another. Some jurisdictions impose complex regulatory requirements on insurance businesses while other jurisdictions impose fewer requirements. In certain foreign countries, reinsurers are required to be licensed by governmental authorities. These licenses may be subject to

modification, suspension or revocation dependent on such factors as amount and types of reserves and minimum capital and solvency tests. The violation of regulatory requirements may result in fines, censures and/or criminal sanctions in various jurisdictions. See Risk Factors in Item 1A of Part I of this report.

As a holding company, PartnerRe is not directly subject to (re)insurance regulations, but its various material operating subsidiaries are subject to regulation as follows:

Bermuda

The Insurance Act 1978 of Bermuda and related regulations, as amended (the Insurance Act), regulates the insurance business of PartnerRe Bermuda. The Insurance Act imposes solvency and liquidity standards and auditing and reporting requirements on Bermuda insurance companies and grants the Bermuda Monetary Authority (BMA) powers to supervise, investigate and intervene in the affairs of insurance companies. The Insurance Act makes no distinction between insurance and reinsurance business.

PartnerRe Bermuda is licensed as a Class 4 and Class E insurer in Bermuda and is therefore authorized to carry on general and long-term insurance business in Bermuda. Significant aspects of the Bermuda insurance regulatory framework and requirements imposed on Class 4 and Class E insurers such as PartnerRe Bermuda include the following:

Minimum Capital Requirements. The BMA imposes certain minimum capital regulatory requirements on PartnerRe Bermuda referred to as the Enhanced Capital Requirements (ECR). PartnerRe Bermuda s Enhanced Capital Requirement (ECR) should be calculated by either (a) the model developed by the BMA, or (b) an internal capital model which the BMA has approved for use for this purpose. PartnerRe Bermuda currently uses the BMA model in calculating its solvency requirements. The Bermuda 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. The BSCR employs a standard mathematical model that correlates the risk underwritten by Bermuda insurers to the capital that is dedicated to their business. The BMA requires that insurers operate at or above a threshold capital level (termed the Target Capital Level), which exceeds the BSCR or approved internal model minimum amounts;

Solvency Assessment. PartnerRe Bermuda must perform an assessment of its own risk and solvency requirements, referred to as a Commercial Insurer s Solvency Self Assessment (CISSA). The CISSA allows the BMA to obtain an insurer s view of the capital resources required to achieve its business objectives and to assess a company s governance, risk management and controls surrounding this process. In addition, PartnerRe Bermuda must file with the BMA a Catastrophe Risk Return which assesses an insurer s reliance on vendor models in assessing catastrophe exposure;

Reporting Requirements. PartnerRe Bermuda must prepare annual statutory financial statements and file them with the BMA, together with audited annual financial statements which are prepared in accordance with the accounting principles generally accepted in the United States (U.S. GAAP); and

Restrictions on Dividends and Distributions. PartnerRe Bermuda is 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, PartnerRe Bermuda 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.

In addition to the above regulatory requirements impacting PartnerRe Bermuda, current international initiatives in the regulation of global insurance and reinsurance groups, such as the European Union s Solvency II initiative (Solvency II), are trending towards the imposition of group supervisory regimes, introducing one principal home regulator over all the operating entities in a particular insurance or reinsurance group (referred

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to as Group Supervision). The Insurance Act sets out provisions regarding Group Supervision including, the power of the BMA to exclude specified entities from Group Supervision, the power of the BMA to withdraw as group supervisor, the functions of the BMA as group supervisor and the power of the BMA to make rules regarding Group Supervision. This Group Supervision regime is in addition to the regulation of the Company s various operating subsidiaries in their local jurisdictions. The BMA s Group Supervision rules set out the rules in respect of the assessment of the financial situation and solvency of an insurance group, the system of governance and risk management, and supervisory reporting and disclosures of an insurance group. The group solvency rules set out the rules in respect of the capital and solvency return and enhanced capital requirements for an insurance group. The BMA has chosen PartnerRe Bermuda as the designated insurer for the purposes of Group Supervision, and the BMA will act as group supervisor of the PartnerRe group. As group supervisor, the BMA will gather relevant and essential information on and assess the financial situation of the PartnerRe group, and coordinate the dissemination of such information to other relevant competent authorities for the purposes of assisting in their regulatory functions and the enforcement of regulatory action against the PartnerRe group or any of its members. PartnerRe is not an insurer and, as such, is not regulated in Bermuda. However, pursuant to its functions as group supervisor, the BMA may include any member of the group within its Group Supervision, including PartnerRe.

Ireland

The Central Bank of Ireland (the Central Bank) regulates insurance and reinsurance companies authorized in Ireland, including PartnerRe Europe. PartnerRe Holdings Europe Limited, a holding company for PartnerRe Europe, is not subject to regulation by the Central Bank.

PartnerRe Europe is a reinsurance company incorporated under the laws of Ireland and is duly authorized as a reinsurance undertaking to carry on non-life and life reinsurance business in accordance with the European Communities (Reinsurance) Regulations 2006. Significant aspects of the Irish insurance regulatory framework and requirements imposed on PartnerRe Europe include the following:

Solvency Requirements. As a composite reinsurer, PartnerRe Europe is required to maintain a minimum capital (Solvency I) requirement throughout the year. This solvency margin is determined on a premium or claims basis that covers the total sum of required solvency margins in respect of both non-life and life business activities. In addition, the Central Bank requires PartnerRe Europe to specify their Strategic Solvency Target, in excess of the minimum capital requirement.

Reporting Requirements. PartnerRe Europe must file and submit its annual audited financial statements in accordance with International Financial Reporting Standards (IFRS) and related reports to the Irish Companies Registration Office together with an annual return of certain core corporate information. Changes to core corporate information during the year must also be notified to the Registrar. These requirements are in addition to the regulatory returns required to be filed annually with the Central Bank; and

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

In addition to the above, PartnerRe Europe has also established operating branches in France, Switzerland, Canada, Singapore and Hong Kong and a representative office in Brazil, which are subject to Irish insurance supervision regulations. In addition, the Canadian branch is subject to regulation in Canada by the Office of the Superintendent of Financial Institutions, the Singapore branch is subject to regulation by the Monetary Authority of Singapore and the Hong Kong branch to regulation by the Office of the Commissioner of Insurance of Hong Kong. For a further discussion of the regulations pertaining to the Canadian branch see below.

United States

PartnerRe U.S. Corporation is a Delaware domiciled holding company for its wholly owned (re)insurance 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 insurance and reinsurance. Currently, the PartnerRe U.S. Companies are licensed, accredited or approved reinsurers and/or insurers in fifty states and the District of Columbia, and are subject to the following requirements:

Risk-Based Capital Requirements. The Risk-Based Capital (RBC) for Insurers Model Act (the Model RBC Act), as it applies to property and casualty insurers and reinsurers, was initially adopted by the NAIC in December 1993. The Model RBC Act or similar legislation has been adopted by the majority of states in the U.S. The main purpose of the Model RBC Act is to provide a tool for insurance regulators to evaluate the capital of insurers with respect to the risks assumed by them and to determine whether there is a need for possible corrective action. U.S. insurers and reinsurers are required to report the results of their RBC calculations as part of the statutory annual statements that such insurers and reinsurers file with state insurance regulatory authorities. The Model RBC Act provides for four different levels of regulatory actions, each of which may be triggered if an insurer s Total Adjusted Capital (as defined in the Model RBC Act) is less than a corresponding level of risk-based capital. Decreases in an insurer s Total Adjusted Capital as a percentage of its Annualized Control Level (as defined in the Model RBC Act) triggers increasing regulatory actions. Such regulatory actions include but are not limited to issuance of orders for corrective action by the insurer, rehabilitation or liquidation of the insurer;

Insurance Regulatory Information System (IRIS) Ratios. A committee of state insurance regulators developed the National Association of Insurance Commissioners (NAIC) 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. Companies;

Reporting Requirements. 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, and 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. In the U.S., PartnerRe U.S. Insurance Companies current domiciliary regulator is the New York State Department of Financial Services; and

Restrictions on Dividends and Distributions. Under New York law, the New York State Department of Financial Services 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 Department of Financial Services, 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.

In addition to the above, the following laws and initiatives currently impact or may impact the PartnerRe U.S. Insurance Companies in the future:

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the Dodd-Frank Act). The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and establishes a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry. The Dodd Frank Act made small changes to the regulation of credit for reinsurance and

surplus lines insurance in the U.S. Among other responsibilities the Federal Insurance Office will issue reports on how to modernize or improve insurance regulation and on the role of the global reinsurance market in supporting insurance in the United States. See Risk Factors in Item 1A of Part I of this report.

NAIC Solvency Modernization Initiative. In 2008 the NAIC began its Solvency Modernization Initiative to examine the United States insurance solvency regulation framework with a focus on capital requirements, international accounting, insurance valuation, reinsurance and group regulatory issues. The major policy decisions arising from the Solvency Modernization Initiative are anticipated to be concluded by the end of 2012.

Canada

Each of the Canadian branches of PartnerRe Europe and PartnerRe U.S. holds a license to write reinsurance business in Canada. Each Canadian branch is authorized to insure, in Canada, risks falling within the classes of insurance as specified in their respective licenses and is limited to the business of reinsurance. The Canadian branch of PartnerRe Europe is licensed to write life business in Ontario and is currently applying for a license to write life business in Quebec. The Canadian branch of PartnerRe U.S. is licensed to write property and casualty business in Ontario and Quebec. 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 Canadian Insurance Act) applicable to foreign property and casualty companies and to foreign life companies as well as relevant provincial insurance acts. The Office of the Superintendent of Financial Institutions, Canada (OSFI) supervises the application of the Canadian Insurance Act.

PartnerRe U.S. and PartnerRe Europe maintain sufficient assets, vested in trust at a Canadian financial institution approved by OSFI, to allow their branches to meet minimum statutory solvency requirements as required by the Act and the regulations made under it. Certain statutory information is filed with federal and provincial insurance regulators in respect of both property and casualty and life business written by branches. This information includes, among other things, a yearly business plan and an annual Dynamic Capital Adequacy Test (DCAT) report from the Appointed Actuary of the branch that tests the adequacy of the assets that are vested under various adverse scenarios.

Other Regulatory Considerations

Moreover, there are various regulatory bodies and initiatives that impact PartnerRe in multiple international jurisdictions and the potential for significant impact on PartnerRe could be heightened as a result of recent industry and economic developments. In particular, Solvency II, adopted in the European Union aims to establish a revised set of risk-based capital requirements and risk management standards that will replace the current Solvency I requirements. Once finalized, Solvency II is expected to set out new, strengthened requirements applicable to the entire European Union relating to capital adequacy and risk management for insurers. See Risk Factors in Item 1A of Part I of this report.

Taxation of the Company and its Subsidiaries

The following summary of the taxation of the Company, PartnerRe Bermuda, PartnerRe Europe and the PartnerRe U.S. Corporation and its subsidiaries (collectively 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, China, France, Hong Kong, Ireland, Labuan, Singapore, Switzerland and the United States. The discussion below covers the significant locations for which the Company or its subsidiaries are subject to taxation.

Bermuda

The Company and PartnerRe Bermuda 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,

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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 PartnerRe Bermuda or to any of their operations or the shares, debentures or other obligations of the Company or PartnerRe Bermuda until March 2035. 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 PartnerRe Bermuda 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 PartnerRe Bermuda.

Canada

The Canadian non-life branch of PartnerRe U.S. and, from January 1, 2012, the Canadian life branch of PartnerRe Europe are subject to Canadian taxation on their profits. The profits of the Canadian life branch of PartnerRe Europe, from January 1, 2012, are taxed at the federal level as well as the Ontario-provincial level at a total rate that was 28.25% in 2011.

The Canadian non-life branch of PartnerRe U.S. is subject to taxation on its profits at the federal level as well as the Ontario and Quebec provincial level at a total rate that was an average of 28.32% in 2011. We expect this rate to decrease through 2014; however, the exact rate cannot be determined at this time. See also the discussion of taxation in the United States and Ireland below.

Canada has enacted a phased-in decrease of the Federal income tax rate; combined with the phased-in decrease of the income tax rate in the Province of Ontario, the total rate will be 26.25% in 2012, 25.50% in 2013 and 25.00% in 2014.

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 36.1%. See also the discussion of taxation in Ireland below.

Ireland

The Company s Irish subsidiaries, PartnerRe Holdings Europe Ltd., PartnerRe Europe and PartnerRe Ireland Insurance Ltd, conduct business in and are subject to taxation in Ireland. Profits of an Irish trade or business are subject to Irish corporation tax at the rate of 12.5%, whereas profits arising from other than a trade or business are taxable at the rate of 25%. The U.S. subsidiaries and Swiss, French and Canadian life branches 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, the U.S., 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, U.S., French and Canadian branches.

Switzerland

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

United States

PartnerRe U.S. Corporation and its subsidiaries (collectively the PartnerRe U.S. Companies) transact business in Canada and in the United States and are subject to taxation in the United States. The non-life branch of PartnerRe U.S. is also subject to taxation in Canada.

In addition, PartnerRe Europe writes certain U.S. and Latin American business in Miami, Florida, through its reinsurance intermediaries, PartnerRe Miami Inc. (PartnerRe Miami) and PartnerRe Connecticut Inc.

(PartnerRe Connecticut). As a result, PartnerRe Europe is deemed to be engaged in a United States trade or business and thus is subject to taxation in the United States. The current statutory rate of tax on corporate profits in the U.S. is 35%. See the discussion of U.S. branch taxation below and the discussion of taxation in Ireland above.

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

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

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 PartnerRe Bermuda is 1% of gross premiums.

Where You Can Find More Information

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

ITEM 1A. RISK FACTORS

Introduction

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

First, in order to achieve our targeted compound annual growth in diluted book value per share of 10% over the reinsurance cycle, we believe we must be able to generate approximately 13% operating return on beginning diluted book value per share over the reinsurance cycle. Our ability to do that over a reinsurance cycle is

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dependent on our individual performance, but also on industry factors that impact the level of competition and the level of cost. The level of competition is determined by supply and demand of capacity. Demand is determined by client buying behavior, which varies based on the client s perception of the amount and volatility of risk, its financial capacity to bear it and the cost of risk transfer. Supply is determined by the existing reinsurance companies level of financial strength and the introduction of capacity from new start-ups or capital markets. Significant new capacity or significant reduction in demand will depress industry profitability until the supply/demand balance is redressed. Extended periods of imbalance could depress industry profitability to a point where we would fail to meet our targets.

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

- Natural catastrophes such as hurricane, windstorm, flood, tornado, 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; and
- New mass tort actions or reemergence of old mass torts such as cases related to 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 dampen earnings volatility is through diversification by building a portfolio of uncorrelated risks. We do not currently buy significant amounts of retrocessional coverage, nor do we use significant capital market hedges or trading strategies in the pursuit of stability in earnings.

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

- Catastrophe risk;
- Casualty reserving risk;
- Equity investment risk; and
- Longevity 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 Risk Management in Item 1 of Part I of this report).

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

In addition to these enumerated risks, we face numerous other strategic and operational risks that could in the aggregate lead to shortfalls to our long-term goals or add to short-term volatility in our earnings, as described in Risk Management in Item 1 of Part I of this report. The following review of important risk factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. The words or phrases believe, anticipate, estimate, project, plan, expect, intend, hope, forecast, evaluate, will likely result or will continue or words or phrases of similar import generally involve forward-looking statements. As used in these Risk Factors, the terms we , our or us may, depending upon the context, refer to the Company, to one or more of the Company s consolidated subsidiaries or to all of them taken as a whole.

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Risk Factors

Risks Related to Our Company

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

Catastrophe reinsurance comprised approximately 13% of our net premiums written for the year ended December 31, 2011 and a larger percentage of our capital at risk. Catastrophe losses result from events such as windstorms, hurricanes, tsunamis, earthquakes, floods, hail, tornadoes, severe winter weather, fires, explosions and other natural and man-made disasters, the incidence and severity of which are inherently unpredictable. Because catastrophe reinsurance accumulates large aggregate exposures to man-made and natural disasters, our loss experience in this line of business could be characterized as low frequency and high severity. This is likely to result in substantial volatility in our financial results for any fiscal quarter or year, and may create downward pressure on the market price of our common shares and limit our ability to make dividend payments and payments on our debt securities.

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

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

Calendar year	Pre-tax large catastrophe losses	
2011	$	1,790
2010		485
2009		
2008		305
2007		50

Examples of pre-tax large catastrophe losses reflected in the illustration above include a loss in 2007 which was the result of one large catastrophe event and losses in 2011, 2010 and 2008 which were incurred as the result of multiple medium and large catastrophic events. In 2011 these events included the Japan Earthquake, the February and June 2011 New Zealand Earthquakes, the floods that impacted Thailand following unusually heavy monsoon rains in October 2011 (Thailand Floods), tornadoes that caused severe destruction to large areas of southern, mid-western and northeastern United States in April and May 2011 (U.S. tornadoes) and the floods in Queensland, Australia (Australian Floods). In 2010, these events included the earthquake that hit Chile in February 2010 (Chile Earthquake) and the New Zealand earthquake that occurred in September 2010 (2010 New Zealand Earthquake).

Loss estimates arising from earthquakes are inherently more uncertain than those from other catastrophic events. The Company s actual losses from the 2010 and February and June 2011 New Zealand Earthquakes may materially exceed the estimated losses as a result of, among other things, an increase in industry insured loss estimates, the expected lengthy claims development period, in particular for earthquake related losses, and the receipt of additional information from cedants, brokers and loss adjusters. In addition, the Company s loss estimate related to the Japan Earthquake is inherently more uncertain than those from other catastrophic events given the characteristics of the Company s reinsurance portfolio in the region. Further, changes in loss assumptions for specific cedants may have a material impact on the Company s loss estimate related to this event

given a significant portion of the losses are concentrated with a few large cedants. The Company believes there remains a high degree of uncertainty regarding its loss estimates related to the 2010 and February and June 2011 New Zealand Earthquakes and the Japan Earthquake and the ultimate losses arising from these events may be materially in excess of, or less than, the amounts provided for in the Consolidated Balance Sheet at December 31, 2011. Any adjustments to the Company s preliminary estimate of its ultimate losses related to these events will be reflected in the periods in which they are determined, which may affect the Company s operating results in future periods.

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

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

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

It is also difficult to predict the timing of such events with statistical certainty, or estimate the amount of loss any given occurrence will generate. Under U.S. GAAP, we are not permitted to establish reserves for potential losses associated with man-made or other catastrophic events until an event that may give rise to such losses occurs. If such an event were to occur, our reported income would decrease in the affected period. In particular, unforeseen large losses could reduce our profitability or impair our financial condition. See Political, regulatory, governmental and industry initiatives could adversely affect our business below for a summary of relevant U.S. federal initiatives regarding supply of commercial insurance coverage for certain types of terrorist acts in the U.S.

The inherent uncertainty of models and the use of such models as a tool to evaluate risk may have an adverse impact on our financial results.

In addition to our own proprietary catastrophe models, we use third party vendor analytic and modeling capabilities to provide us with objective risk assessment relating to other risks in our reinsurance portfolio. These models help us control risk accumulation, inform management and other stakeholders of capital requirements and to improve the risk/return profile or minimize the amount of capital required to cover the risks in each reinsurance contract in our overall portfolio of reinsurance contracts. However, given the inherent uncertainty of modeling techniques and the application of such techniques, these models and databases may not accurately address the emergence of a variety of matters which might be deemed to impact certain of our coverages. Accordingly, these models may understate the exposures we are assuming and our financial results may be adversely impacted, perhaps significantly.

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

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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. Certain of our subsidiaries have received and continue to receive notices of potential reinsurance claims from ceding insurance companies, which have in turn received claims asserting asbestos and environmental losses under primary insurance policies, in part reinsured by us. Such claims notices are often precautionary in nature and are generally unspecific, and the primary insurers often do not attempt to quantify the amount, timing or nature of the exposure. Given the lack of specificity in some of these notices, and the legal and tort environment that affects the development of claims reserves, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. In addition, the reserves that we have established may be inadequate. If ultimate losses and loss expenses exceed the reserves currently established, we will be required to increase loss reserves in the period in which we identify the deficiency to cover any such claims.

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

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, 2011, approximately 72% of our gross premiums written were produced through brokers. In 2011, we had two brokers that accounted for 47% 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 could potentially 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.

If we are significantly 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 principal operating subsidiaries. These ratings are based upon criteria established by the rating agencies and have become an important factor in establishing our competitive position

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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	A+
Moody s	A1
A.M. Best	A+
Fitch	AA-

On January 24, 2012, A.M. Best placed the Company s A+ rating under review with negative implications.

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 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., Europe 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. In addition, if we experience a credit rating downgrade, withdrawal or negative watch/outlook in the future, we could incur higher borrowing costs and may have more limited means to access capital. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

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

We invest the net premiums we receive unless and until such time as we pay out losses and/or until they are made available for distribution to shareholders and /or otherwise used for general corporate purposes. Investment results comprise a substantial portion of our income. For the year ended December 31, 2011, we had net investment income of $629 million, which represented approximately 12% of total revenues. In addition, we recorded realized and unrealized gains on investments during 2011, and we record all realized and unrealized gains or losses through net income. While the Board 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, 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 portion of the portfolio in securities that are below investment grade, including high yield fixed income investments and convertible fixed income investments. We also invest a portion of our portfolio in other investments such as fixed income type mutual funds, notes receivable, loans receivable, private placement bond investments, derivative exposure assumed and other specialty asset classes. These securities generally 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 high yield and convertible fixed income investments and private placement equity investments. Fluctuations in the fair value of our equity-like investments may reduce our income in any period or year and cause a reduction in our capital.

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, Canadian dollar, British pound, New Zealand dollar, Japanese Yen and Australian dollar. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. Our reporting currency is the U.S. dollar, and exchange rate fluctuations relative to the U.S. dollar may materially impact our results and financial position. We employ various strategies (including hedging) to manage our exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, our results or equity may be reduced by fluctuations in foreign currency exchange rates.

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

Global capital markets in the United States and Europe continue to experience volatility and certain economies remain in recession. Disruptions in the global capital markets increased the spread between the yields realized on risk-free and higher risk securities. Credit spreads increased in 2011 and illiquidity remains in certain parts of the debt capital markets. The longer this economic dislocation persists, the greater the probability that these risks could have an adverse effect on our financial results. This may be evidenced in several ways including, but not limited to, a potential reduction in our premium income, financial losses in our investment portfolio and decreases in revenue and net income.

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

We have exposure to the European sovereign debt crisis which could have a negative impact on our investment assets.

In 2011, the global economy experienced extreme uncertainty as a result of the European sovereign debt crisis. Initial worries about the sustainability of the sovereign debt of peripheral European countries as a result of significant economic, fiscal and/or political strains experienced in 2010 have now extended to larger European

economies. The sovereign debt crisis has resulted in European financial restructuring efforts. The impact of these efforts is unclear, however, they may cause a further deterioration in the value of the euro and consequently exacerbating instability in global credit markets, and increased credit concerns resulting in the widening of bond yield spreads. In addition, recent rating agency downgrades on European sovereign debt and a growing concern of the potential default of government issuers or of a possible disorganized break-up of the European Union has contributed to this uncertainty. The impact of these developments, while potentially severe, remains extremely difficult to predict. However, should European governments default on their obligations, there will be a negative impact on government and non-government issued bonds, government guaranteed corporate bonds and bonds and equities issued by financial institutions and financials held within the country of default which in turn could adversely impact Euro-denominated assets held in our investment portfolio.

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.

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

As part of the AXA Acquisition, Paris Re entered into the 2006 Acquisition Agreements. See Business Reserves Non-life Reserves Reserve Agreement in Item 1 of Part I of this report.

Pursuant to the Quota Share Retrocession Agreement, the benefits and risks of Colisée Re s reinsurance agreements were ceded to Paris Re France (now PartnerRe Europe), but Colisée Re remains both the legal counterparty for all such reinsurance contracts and the legal holder of the assets relating to such reserves.

Under the Run Off Services and Management Agreement, Paris Re France (now PartnerRe Europe) has agreed that AXA LM will manage claims arising from all reinsurance and retrocession contracts subject to the Reserve Agreement. If AXA LM does not take into account Paris Re France s commercial concerns in the context of Paris Re France s on-going business relations with the relevant ceding companies and retrocessionaires, our ability to renew reinsurance and retrocession contracts with them may be adversely affected.

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

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.

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

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

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

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

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 and may be significant. The impact may affect the results of our operations, including among other things, the calculation of net income, and may affect our financial position, including among other things, the calculation of unpaid losses and loss expenses, policy benefits for life and annuity contracts and total shareholders equity.

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.

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The loss of key executive officers could adversely affect us.

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

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

Risks Related to Our Industry

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. In recent years, we have experienced a generally softening market cycle, with increased competition, surplus underwriting capacity, deteriorating rates and less favorable terms and conditions all having an impact on our ability to write business.

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, Munich Re, Swiss Re, Everest Re, Hannover Re, SCOR, Transatlantic and reinsurance operations of certain primary insurance companies, such as Arch Capital, Axis Capital and XL Group. 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.

Further, insurance-linked securities and derivative and other non-traditional risk transfer mechanisms and vehicles are being developed and offered by other parties, which could impact the demand for traditional insurance or reinsurance. A number of new, proposed or potential industry or legislative developments could further increase competition in our industry. New competition from these developments could cause the demand for insurance or reinsurance to fall or the expense of customer acquisition and retention to increase, either of which could have a material adverse affect on our growth and profitability.

Legal and Regulatory Risks

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 and associations in each

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of their respective jurisdictions and internationally. As a result of the current financial crisis, some of these authorities regularly consider enhanced or new regulatory requirements intended to prevent future crises or otherwise assure the stability of institutions under their supervision. These authorities may also seek to exercise their supervisory authority in new and more robust ways, and new regulators could become authorized to oversee parts of our business. For example, the European Union s Solvency II initiative and the NAIC s Solvency Modernization Initiative include meaningful changes in consolidated supervision and corporate governance requirements as they apply to insurance and reinsurance corporate groups, which could lead to increases in regulatory capital requirements, reduced operational flexibility and increased compliance costs. In addition, the International Association of Insurance Supervisors (IAIS) has recently introduced a concept paper promoting a common framework for the supervision of internationally active insurance groups (IAIGs). Through the common framework, the IAIS aims to: (i) develop methods of operating group-wide supervision of IAIGs, (ii) establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation, and (iii) foster global convergence of regulatory and supervisory measures and approaches. It is not possible to predict all future impacts of these types of changes but 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 material subsidiaries regulatory environments are described in detail under the heading Business Regulation. Regulations relating to each of our material subsidiaries may in effect restrict each of those subsidiaries ability to write new business, to make certain investments and to distribute funds or assets to us.

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

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

Such a U.S. 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 in the U.S. 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. More recent legislative proposals would limit the reinsurance coverage available from the Florida Hurricane Catastrophe Fund and limit exposure to assessments from the state-run Citizens Property Insurance Company.

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.

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We are unable to predict the effect that governmental actions for the purpose of stabilizing the financial markets will have on such markets generally or on the Company in particular.

In response to the financial crisis affecting the banking system and financial markets, the U.S. federal government, the European Central Bank and other governmental and regulatory bodies have taken or are considering taking other actions to address the governance of those industries that are viewed as presenting a systemic risk to economic stability. Such actions include the International Monetary Fund s proposal to levy a financial stability tax on all financial institutions, the proposals for enhanced regulation and supervision contained in the recently published Organization for Economic Co-operation and Development paper on the impact of the financial crisis on the Insurance sector and the financial regulatory reform provisions contained within the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010. We are unable to predict the effect that the enactment of any such proposals will have on the financial markets generally or on the Company s competitive position, business and financial condition in particular, though we are monitoring these and similar proposals as they evolve.

The Dodd-Frank Act may adversely impact our business.

The U.S. Congress and the current administration have made, or called for consideration of, several additional proposals relating to a variety of issues with respect to financial regulation reform, including regulation of the over-the-counter derivatives market, the establishment of a single-state system of licensure for U.S. and foreign reinsurers, further regulation of executive compensation and others. One of those initiatives, the Dodd-Frank Act, was signed into law by President Obama on July 21, 2010. The Dodd-Frank Act represents a comprehensive overhaul of the financial services industry within the United States and establishes a Federal Insurance Office under the U.S. Treasury Department to monitor all aspects of the insurance industry. The director of the Federal Insurance Office will have the ability to recommend that an insurance company or an insurance holding company be subject to heightened prudential standards. Compliance with these new laws and regulations may result in additional costs which may adversely impact our results of operations, financial condition and liquidity. However, at this time, it is not possible to predict with any degree of certainty whether any other proposed legislation, rules or regulatory changes will be adopted or what impact, if any, the Dodd-Frank Act or any other such legislation, rules or changes could have on our business, financial condition or results of operations.

Solvency II could adversely impact our financial results and operations.

Solvency II, a European Union directive concerning the capital adequacy, risk management and regulatory reporting for insurers, which was adopted by the European Parliament and the European Council in April of 2009, may adversely affect our reinsurance businesses. A bifurcated implementation of Solvency II by the European Commission is expected to take effect January 1, 2013 and 2014 in the European Union Member States, and will replace the current solvency requirements. Solvency II adopts a risk-based approach to insurance regulation. Its principal goals are to improve the correlation between capital and risk, effect group supervision of insurance and reinsurance affiliates, implement a uniform capital adequacy structure for insurers across the European Union Member States, establish consistent corporate governance standards for insurance and reinsurance companies, and establish transparency through standard reporting of insurance operations. Implementation of Solvency II will require us to utilize a significant amount of resources to ensure compliance. In addition, the measures implementing Solvency II are currently subject to a consultation process and are not expected to be finalized until 2012; consequently, our implementation plans are based on our current understanding of the Solvency II requirements, which may change. The European Union is in the process of considering the Solvency II equivalence of Bermuda s insurance regulatory and supervisory regime. The European Union equivalence assessment considers whether Bermuda s regulatory regime provides a similar level of policyholder protection as provided under Solvency II. A finding that Bermuda s insurance regulatory regime is not equivalent to the European Union s Solvency II could have an adverse effect on the cost of PartnerRe Bermuda s European business due to the potential to have to post collateral. It would not affect PartnerRe

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Europe s ability to operate in Europe. Such a finding could also have adverse indirect commercial impacts on our operations. We are monitoring the ongoing legislative and regulatory steps following adoption of Solvency II. The principles, standards and requirements of Solvency II may also, directly or indirectly, impact the future supervision of additional operating subsidiaries of ours.

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

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

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

Emerging claim and coverage issues could adversely affect our business.

Unanticipated developments in the law, as well as changes in social and environmental conditions could potentially result in unexpected claims for coverage under our insurance, reinsurance and other contracts. These developments and changes may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. With respect to our casualty businesses, these legal, social and environmental changes may not become apparent until sometime 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.

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.

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

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

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the United States court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a United States

court that is final and for a sum certain based on United States Federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the United States court, and the issue of submission and jurisdiction is a matter of Bermuda law and not United States law.

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

Risks Related to Our Common Shares

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 common and preferred shares 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, dividends to both common and preferred shareholders and, from time to time, cash outflows for 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 our U.S. subsidiaries are licensed to transact business. As of December 31, 2011, there were no significant restrictions on the payment of dividends by the Company s subsidiaries that would limit the Company s ability to pay common and preferred shareholders dividends and its corporate expenses.

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

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

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

Under our bye-laws, subject to waiver by our board of directors, no transfer of our shares is permitted if such transfer would result in a shareholder controlling more than 9.9% determined by value or by voting power of our outstanding shares. Our bye-laws also provide that if our board of directors determines that share ownership by a person may result in (i) shareholder owning directly, indirectly or by retribution, more than 9.9% of the total combined voting power of our shares entitled to vote, or (ii) any non-de minimis adverse tax, legal or

regulatory consequences to us, any of our subsidiaries or any of our shareholders, then we have the option, but not the obligation, to require that shareholder to sell to us for fair market value the minimum number of shares held by such person which is necessary so that after such purchase such shareholder will not own more than 9.9% of the total combined voting power, or is necessary to eliminate the non-de minimis adverse tax, legal or regulatory consequences.

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

Taxation Risks

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

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

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

The Organization for Economic Cooperation and Development (OECD) has published reports and launched a global initiative among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Bermuda was not listed in the most recent report as an uncooperative tax haven

jurisdiction because it had previously committed to eliminate harmful tax practices, to embrace international tax standards for transparency, to exchange information and to eliminate an environment that attracts business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

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

ITEM 3. LEGAL PROCEEDINGS

Litigation

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

As of December 31, 2011, the Company was not a party to any litigation or arbitration that it believes could have a material effect on the financial condition, results of operations or liquidity of the Company.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

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PART II

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

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

Common shares	PRE
6.75% Series C cumulative preferred shares	PRE-PrC
6.50% Series D cumulative preferred shares	PRE-PrD
7.25% Series E cumulative preferred shares	PRE-PrE

The Company s common shares are also traded on the NYSE Euronext Paris exchange and Bermuda Stock Exchange under the symbol PRE.

As of February 17, 2012, the approximate number of common shareholders was 69,088.

The following table provides information about purchases by the Company during the quarter ended December 31, 2011, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	**Total number of shares purchased**	**Average price paid per share**	**Total number of shares purchased as part of a publicly announced program** (1)(2)	**Maximum number of shares that may yet be purchased under the program**(1)
10/01/2011-10/31/2011		$		3,732,807
11/01/2011-11/30/2011	1,439,831	65.45	1,439,831	6,449,824
12/01/2011-12/31/2011	1,173,000	64.18	1,173,000	5,276,824
Total	2,612,831	$ 64.88	2,612,831	

(1) In November 2011, the Company s Board of Directors approved a new share repurchase authorization up to a total of 7 million common shares, which replaced the prior authorization of 7 million common shares approved in December 2010. 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, 2011, approximately 19.4 million common shares were held in treasury and available for reissuance.

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

	2011			**2010**		
Period	**High**	**Low**	**Dividends Declared**	**High**	**Low**	**Dividends Declared**
Three months ended March 31	**$ 83.18**	**$ 72.78**	**$ 0.55**	$ 80.20	$ 72.00	$ 0.50
Three months ended June 30	**82.52**	**67.28**	**0.60**	81.57	70.06	0.50
Three months ended September 30	**69.50**	**51.98**	**0.60**	80.18	70.12	0.50

Three months ended December 31	**67.78**	**50.67**	**0.60**	82.00	77.50	0.55

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Other information with respect to the Company s common shares and related shareholder matters is contained in Notes 7, 12, 13, 14, 16 and 19 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.

Comparison of 5-Year Cumulative Total Return

The graph below compares the cumulative shareholder return, including reinvestment of dividends, on the Company s common shares to such return for Standard & Poor s (S&P) 500 Composite Stock Price Index and S&P s 1500 Composite Property & Casualty Insurance Index for the period commencing on December 31, 2006 and ending on December 31, 2011, assuming $100 was invested on December 31, 2006. Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each year during the period from December 31, 2006 through December 31, 2011. As depicted in the graph below, during this period the cumulative total shareholder return on the Company s common shares was 4%, the cumulative total return for the S&P 500 Composite Stock Price Index was (1)% and the cumulative total return for the S&P 1500 Composite Property & Casualty Insurance Index was 0%.

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

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ITEM 6. SELECTED FINANCIAL DATA
Selected Consolidated Financial Data

This data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements in Item 8 of Part II of this report and with other information contained in this report, including Management s Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of Part II of this report.

The Statement of Operations Data reflects the consolidated results of the Company and its subsidiaries for 2007, 2008, 2009, 2010 and 2011, including the results of Paris Re from October 2, 2009. The Balance Sheet Data reflects the consolidated financial position of the Company and its subsidiaries at December 31, 2007, 2008, 2009, 2010 and 2011, including Paris Re from December 31, 2009.

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

	For the years ended December 31,				
Statement of Operations Data	**2011**	**2010**	**2009**	**2008**	**2007**
Gross premiums written	**$ 4,633**	$ 4,885	$ 4,001	$ 4,028	$ 3,810
Net premiums written	**4,486**	4,705	3,949	3,989	3,757
Net premiums earned	**$ 4,648**	$ 4,776	$ 4,120	$ 3,928	$ 3,777
Net investment income	**629**	673	596	573	523
Net realized and unrealized investment gains (losses)	**67**	402	591	(531)	(72)
Net realized gain on purchase of capital efficient notes			89		
Other income (loss)	**8**	10	22	10	(17)
Total revenues	**5,352**	5,861	5,418	3,980	4,211
Losses and loss expenses and life policy benefits	**4,373**	3,284	2,296	2,609	2,082
Total expenses	**5,797**	4,892	3,635	3,918	3,328
(Loss) income before taxes and interest in (losses) earnings of equity investments	**(445)**	969	1,783	62	883
Income tax expense	**69**	129	262	10	82
Interest in (losses) earnings of equity investments	**(6)**	13	16	(5)	(83)
Net (loss) income	**$ (520)**	$ 853	$ 1,537	$ 47	$ 718
Basic net (loss) income per common share	**$ (8.40)**	$ 10.65	$ 23.93	$ 0.22	$ 12.18
Diluted net (loss) income per common share	**$ (8.40)**	$ 10.46	$ 23.51	$ 0.22	$ 11.87
Dividends declared and paid per common share	**$ 2.35**	$ 2.05	$ 1.88	$ 1.84	$ 1.72
Operating (loss) earnings available to common shareholders [1][3]	**$ (642)**	$ 492	$ 931	$ 433	$ 841
Operating return on beginning diluted book value per common share and common share equivalents outstanding [2][3]	**(10.1)%**	7.4%	22.3%	11.5%	26.1%
Weighted average number of common shares and common share equivalents outstanding	**67.6**	78.2	63.9	55.6	57.6
Non-life ratios					
Loss ratio	**96.7%**	65.9%	52.7%	63.9%	50.8%
Acquisition ratio	**21.3**	21.3	21.9	23.3	22.9
Other operating expense ratio	**7.4**	7.8	7.2	6.9	6.7
Combined ratio	**125.4%**	95.0%	81.8%	94.1%	80.4%

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Balance Sheet Data	2011	2010	At December 31, 2009	2008	2007
Total investments, funds held directly managed and cash and cash equivalents	**$ 17,898**	$ 18,181	$ 18,165	$ 11,724	$ 11,572
Total assets	**22,855**	23,364	23,733	16,279	16,149
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	**12,919**	12,417	12,427	8,943	8,773
Debt related to senior notes	**750**	750	250	250	
Debt related to capital efficient notes	**71**	71	71	258	258
Long-term debt				200	620
Total shareholders equity	**6,468**	7,207	7,646	4,199	4,322
Diluted book value per common share and common share equivalents outstanding	**$ 84.82**	$ 93.77	$ 84.51	$ 63.95	$ 67.96
Number of common shares outstanding, net of treasury shares	**65.3**	70.0	82.6	56.5	54.3

(1) Operating earnings or loss available to common shareholders is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net realized gain on purchase of CENts, net of tax, net foreign exchange gains or losses, net of tax, and interest in earnings or losses of equity investments, net of tax, where the Company does not control the investee companies activities, and is calculated after preferred dividends. The presentation of operating earnings or loss available to common shareholders is a non-GAAP financial measure within the meaning of Regulation G. See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the measures used by the Company to evaluate its financial performance.

(2) Operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using operating earnings or loss, as defined above, per diluted common share and common share equivalents outstanding, divided by diluted book value per common share and common share equivalents outstanding at the beginning of the year. The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G. See Key Financial Measures in Item 7 of Part II of this report for a detailed discussion of the measures used by the Company to evaluate its financial performance.

(3) Effective January 1, 2011, Management redefined its operating earnings or loss available to common shareholders calculation to additionally exclude net foreign exchange gains or losses. In addition, Management redefined its Operating return on beginning diluted book value per share and common share equivalents outstanding calculation to measure operating return on a diluted per share basis (Operating ROE, previously referred to as operating return on beginning common shareholders equity). Operating earnings or loss and Operating ROE for all periods presented have been recast to reflect the Company s redefined non-GAAP measures. See Key Financial Measures in Item 7 of Part II of this report for a discussion of Management s reasons for redefining these measures.

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

The following discussion and analysis reflects the consolidated results of the Company and its subsidiaries for the years ended December 31, 2009, 2010 and 2011, including the results of Paris Re from October 2, 2009, the date of the acquisition of the controlling interest (Acquisition Date).

Executive Overview

The Company is a leading global reinsurer, with a broadly diversified and balanced portfolio of traditional reinsurance risks and capital markets risks. 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% over the reinsurance cycle and an average Operating Return on Equity (ROE) of 13% over a reinsurance cycle. Management assesses both of these economic objectives over the reinsurance cycle, rather than any particular quarterly or annual period, given the Company s profitability is significantly affected by the level of large catastrophic losses that it incurs each period. Both of these metrics are defined below in Key Financial Measures.

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 limits for the risks assumed. All risks, whether they are reinsurance related risks or capital market 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. For further discussion of the Company s risk management framework, see Risk Management in Item 1 of Part I of this report.

The following discussion provides an overview of the Company s business and trends and commentary regarding the outlook for 2012 in each business.

Non-life reinsurance business, trends and 2012 outlook

The Company generates its Non-life 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.

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 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.

A key challenge facing the Company is to successfully manage risk through all phases of the reinsurance cycle. The Company believes that its long-term strategy of 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, will optimize returns over the reinsurance cycle. 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 the reinsurance cycle.

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The Non-life reinsurance market has historically been highly cyclical in nature. The reinsurance 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.

The cyclicality of the Non-life reinsurance market is characterized by cycles of growth and decline, known as hard and soft insurance cycles. Since late 2003, the Company began to see the emergence of a soft market across most of lines of business with general decreases in pricing and profitability. With the exception of lines and markets impacted by specific events, this trend continued throughout the decade. In 2011, this trend broadly continued with diverse conditions prevailing in various markets. Certain markets and lines of business in the Company s Non-life segment experienced increased competition, higher cedant retentions and declines in pricing, while the terms in other markets strengthened or remained stable. The Company also experienced increases in pricing in certain loss affected lines of business and markets, which were primarily related to the increased catastrophic and large loss activity during 2011. The most significant events impacting the Company during 2011 were the Japan Earthquake, the February and June 2011 New Zealand Earthquakes, Thailand Floods, U.S. tornadoes and the Australian Floods, which together with the impact of aggregate contracts covering losses in Australia and New Zealand are collectively referred to as 2011 catastrophic events.

During the January 2012 renewals, the Company experienced a modest increase in expected premium volume despite fragmented market conditions with reductions in pricing and increased cedant retentions in certain lines of business, while pricing improvements were observed in other areas. Management believes it has improved the balance and diversification in its portfolio by continuing to reduce its catastrophe exposures at January 1, 2012.

Life reinsurance business, trends and 2012 outlook

The Company s Life segment derives revenues primarily from renewal premiums from existing reinsurance treaties and new premiums from existing or new reinsurance treaties. The long-term profitability of the Life segment mainly depends on the volume and amount of death claims incurred and the ability to adequately price the risk the Company assumes. The life reinsurance policies are often in force for the remaining lifetime of the underlying individuals insured, with premiums earned typically over a period of 10 to 30 years. The volume of the business may be reduced each year by terminations of the underlying treaties related to lapses, voluntary surrenders, death of insureds and recaptures by ceding companies. While death claims are reasonably predictable over a period of many years, claims become less predictable over shorter periods and can fluctuate significantly from quarter to quarter or from year to year.

Within the Company s Life segment, the reinsurance market is differentiated between mortality (including disability) and longevity products, with mortality being the larger market. For both the mortality and longevity markets, the Company observed attractive opportunities to grow the portfolio during 2011. Management believes the life business provides the Company with additional diversification benefits and balance to its portfolio as it is generally non-correlated to the Company s Non-life business. The Company does not write new life business in the U.S. market.

Given the majority of the Company s Life segment contracts are written on a continuous basis, the January 1 renewals impact a relatively limited portion of the portfolio, which is exclusive to the mortality line. The Company observed unchanged pricing conditions and terms for renewals, leading the Company to cancel or reduce certain treaty participations, which was largely offset by improved terms on certain other existing treaties and new business from both new and existing clients.

Capital markets business, trends and 2012 outlook

The Company generates revenue from its high quality investment portfolio, as well as the investments underlying the funds held directly managed account, through net investment income, including coupon interest on fixed maturities and dividends on equities, and realized and unrealized gains and losses on investments.

For the Company s capital markets risks, which include both public and private market investments, diversification of risk 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 Company s capital markets and investment operations, including public and private market investments, have experienced volatile market conditions since the middle of 2007, reflecting the continued instability in the global economy and financial markets. The Company believes that capital market risks managed in a disciplined and measured way will generate positive excess returns to the Company over time.

The Company follows prudent investment guidelines through a strategy that seeks to maximize returns while managing investment risk in line with the Company s overall objectives of earnings stability and long-term book value growth. The Company allocates its invested assets into two categories: liability funds and capital funds. See the discussion of liability funds and capital funds in Financial Condition, Liquidity and Capital Resources. A key challenge for the Company is achieving the right balance between current investment income and total returns (that include price appreciation or depreciation) in changing market conditions. The Company regularly reviews the allocation of investments to asset classes within its investment portfolio and its funds held directly managed account and allocates investments to those asset classes the Company anticipates will outperform in the near future, subject to limits and guidelines. Similarly, the Company reduces its exposure to risk asset classes where returns are underperforming. The Company may also lengthen or shorten the duration of its fixed income portfolio in anticipation of changes in interest rates, or increase or decrease the amount of credit risk it assumes, depending on credit spreads and anticipated economic conditions. During 2011, the Company shortened the duration of its fixed income portfolio given historically low interest rates and to limit the impact of a potential rise in interest rates.

Assuming constant foreign exchange rates, Management expects net investment income to decrease in 2012 compared to 2011 primarily due to lower reinvestment rates with low government yields expected to continue throughout 2012. Management expects this decrease to be partially offset by expected positive cash flow from operations (including net investment income).

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Key Financial Measures

In addition to the Consolidated Balance Sheets and Consolidated Statements of Operations and Comprehensive (Loss) Income, Management uses certain key measures to evaluate its financial performance and the overall growth in value generated for the Company s common shareholders. The four key measures that Management uses, together with definitions of their calculations, are as follows at December 31, 2011 and 2010 and for the years ended December 31, 2011, 2010 and 2009:

	December 31, 2011	December 31, 2010
Diluted book value per common share and common share equivalents outstanding (1)	**$ 84.82**	$ 93.77

	2011	2010	2009
Operating (loss) earnings available to common shareholders (in millions of U.S. dollars) (2)	**$ (642)**	$ 492	$ 931
Operating return on beginning diluted book value per common share and common share equivalents outstanding (3)	**(10.1)%**	7.4%	22.3%
Combined ratio (4)	**125.4%**	95.0%	81.8%

(1) *Diluted book value per common share and common share equivalents outstanding is calculated using common shareholders equity (shareholders equity less the aggregate liquidation value of preferred shares) divided by the number of fully diluted common shares and common share equivalents outstanding (assuming exercise of all stock-based awards and other dilutive securities).*

(2) *Operating earnings or loss available to common shareholders (operating earnings or loss) is calculated as net income or loss available to common shareholders excluding net realized and unrealized gains or losses on investments, net of tax, net realized gain on purchase of capital efficient notes (CENts), net of tax, net foreign exchange gains or losses, net of tax, and interest in earnings or losses of equity investments, net of tax, where the Company does not control the investee companies activities, and is calculated after preferred dividends. The presentation of operating earnings or loss is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the nearest GAAP financial measure below. Effective January 1, 2011, Management redefined its operating earnings or loss calculation, as discussed below.*

(3) *Operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE) is calculated using annualized operating earnings or loss, as defined above, per diluted common share and common share equivalents outstanding, divided by diluted book value per common share and common share equivalents outstanding as of the beginning of the year, as defined above. For the year ended December 31, 2009, following the acquisition of Paris Re, Management adjusted Operating ROE to be the sum of the operating earnings per diluted share for the nine months ended September 30, 2009 divided by the beginning diluted book value per common share plus the operating earnings per diluted share for the three months ended December 31, 2009 divided by the beginning diluted book value per common share plus the per diluted share impact of equity issued related to the acquisition of Paris Re. The presentation of Operating ROE is a non-GAAP financial measure within the meaning of Regulation G (see Comment on Non-GAAP Measures below) and is reconciled to the nearest GAAP financial measure below. Effective January 1, 2011, Management redefined its Operating ROE calculation, as discussed below.*

(4) *The combined ratio of the Non-life segment is calculated as 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).*

Effective January 1, 2011, Management redefined its operating earnings or loss available to common shareholders (operating earnings or loss) calculation to additionally exclude net foreign exchange gains or losses. Management believes that net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company s business as they predominantly result from general economic and foreign

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exchange market conditions. In addition, Management redefined its Annualized operating return on beginning diluted book value per common share and common share equivalents outstanding (Operating ROE, previously referred to as operating return on beginning common shareholders equity) calculation to measure Operating ROE on a diluted per share basis. Management believes that the redefined Operating ROE incorporates capital management activities whilst still being based on the concept of deploying available capital on an annual basis. Operating earnings or loss and Operating ROE for the years ended December 31, 2010 and 2009 have been recast to reflect the Company s redefined non-GAAP measures.

Diluted book value per common share and common share equivalents outstanding (Diluted Book Value per Share): Management uses compound annual growth rate 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 share price. Management has set a target compound annual growth rate of 10% in Diluted Book Value per Share, after the payment of dividends, over the reinsurance cycle. Diluted Book Value per Share is impacted by the Company s net income or loss, capital resources management and external factors such as foreign exchange, interest rates, credit spreads and equity markets, which can drive changes in realized and unrealized gains or losses on its investment portfolio.

The Company s Diluted Book Value per Share decreased by 10% to $84.82 at December 31, 2011 from $93.77 at December 31, 2010, primarily due to the comprehensive loss of $537 million. The comprehensive loss was driven by the net loss of $520 million resulting primarily from the significant level of 2011 catastrophic events and dividends declared on the Company s common and preferred shares of $206 million. These decreases were partially offset by the accretive impact of share repurchases during 2011. Net loss for the year ended December 31, 2011 and the significant level of 2011 catastrophic losses are described in Overview and Review of Net (Loss) Income below.

Over the past five years, since December 31, 2006, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 8% and over the past ten years, since December 31, 2001, the Company has generated a compound annual growth rate in Diluted Book Value per Share in excess of 11%. Both the 5-year and the 10-year compound annual growth rates, compared to the decrease in Diluted Book Value per Share during 2011, illustrate why Management takes a longer-term view of growth in Diluted Book Value per Share over the reinsurance cycle, given single periods can be volatile as a result of the level of catastrophe losses incurred.

Operating earnings or loss available to common shareholders (operating earnings or loss): Management uses operating earnings or loss to measure its financial performance as this measure focuses on the underlying fundamentals of the Company s operations by excluding net realized and unrealized gains or losses on investments, interest in earnings or losses of equity investments and net foreign exchange gains or losses. Net realized and unrealized gains or losses on investments in any particular period are not indicative of the performance of, and distort trends in, the Company s business as they predominantly result from general economic and financial market conditions, and the timing of realized gains or losses on investments is largely opportunistic. Interest in earnings or losses of equity investments are also not indicative of the performance of, or trends in, the Company s business as the Company does not control the investee companies activities. Net foreign exchange gains or losses are not indicative of the performance of, and distort trends in, the Company s business as they predominantly result from general economic and foreign exchange market conditions. Management believes that the use of operating earnings or loss enables investors and other users of the Company s financial information to analyze its performance in a manner similar to how Management analyzes performance. Management also believes that this measure follows industry practice and, therefore, allows the users of financial information to compare the Company s performance with its industry peer group, and that the equity analysts and certain rating agen