

PARTNERRE LTD
Form 10-K
March 01, 2010
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

OR

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

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of registrant as specified in its charter)

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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,
6.75% Series C Cumulative Preferred Shares,	Bermuda Stock Exchange
\$1.00 par value	New York Stock Exchange
6.50% Series D Cumulative Preferred Shares,	New York Stock Exchange
\$1.00 par value	

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 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

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 No

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

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

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.

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Large accelerated filer 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

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

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

Documents Incorporated by Reference:

Document

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

Part(s) Into Which Incorporated

Table of Contents**TABLE OF CONTENTS**

	Page
PART I	
Item 1. <u>Business</u>	2
Item 1A. <u>Risk Factors</u>	26
Item 1B. <u>Unresolved Staff Comments</u>	39
Item 2. <u>Properties</u>	39
Item 3. <u>Legal Proceedings</u>	39
Item 4. <u>Reserved</u>	39
PART II	
Item 5. <u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	40
Item 6. <u>Selected Financial Data</u>	42
Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operation</u>	43
Item 7A. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	118
Item 8. <u>Financial Statements and Supplementary Data</u>	126
Item 9. <u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	191
Item 9A. <u>Controls and Procedures</u>	191
Item 9B. <u>Other Information</u>	194
PART III	
Item 10. <u>Directors, Executive Officers and Corporate Governance</u>	194
Item 11. <u>Executive Compensation</u>	194
Item 12. <u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	194
Item 13. <u>Certain Relationships and Related Transactions, and Director Independence</u>	195
Item 14. <u>Principal Accountant Fees and Services</u>	195
PART IV	
Item 15. <u>Exhibits and Financial Statement Schedules</u>	196

Table of Contents

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

Table of Contents

PART I

ITEM 1. BUSINESS

General

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

2006 Acquisition Agreements

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

Quota Share Retrocession Agreement

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

Table of Contents

Issuance Agreement and Claims Management and Services Agreement

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

Reserve Agreement and Run Off Services and Management Agreement

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

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

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

Funds Held - Directly Managed Account

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

Table of Contents

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

Business Strategy

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

The Company has adopted the following five-point strategy:

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

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

Actively manage capital across the portfolio and over the cycle: PartnerRe seeks to manage its capital to optimize shareholder returns over the cycle. In order to manage capital across a portfolio and over a cycle, the Company believes two things are critical: an appropriate and common measure of risk-adjusted performance and the ability and willingness to redeploy capital for its most efficient and effective use, either within the business or

Table of Contents

by return to the shareholders. To achieve effective and efficient capital allocation, the Company has an intense focus on operating ROE. This discipline and focus, supported by strong actuarial and financial analysis, allows the Company to make well-informed decisions at the underwriting and pricing level, as well as in the allocation of capital within its portfolio of reinsurance businesses and within pre-established risk limits.

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

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

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

Reinsurance Operations

General

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

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

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

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

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

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

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

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

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

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

Table of Contents

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

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

Risk Management

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

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

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

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

Underwriting

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

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

Table of Contents

Underwriting Risk and Exposure Controls

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

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

Retrocessions

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

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

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

Claims

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

Reserves

General

Loss reserves represent estimates of amounts an insurer or reinsurer ultimately expects to pay in the future on claims incurred at a given time, based on facts and circumstances known at the time that the loss reserves are established. It is possible that the total future payments may exceed, or be less than, such estimates. The

Table of Contents

estimates are not precise in that, among other things, they are based on predictions of future developments and estimates of future trends in claim severity, frequency and other variable factors such as inflation. During the loss settlement period, it often becomes necessary to refine and adjust the estimates of liability on a claim either upward or downward. Despite such adjustments, the ultimate future liability may exceed or be less than the revised estimates.

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

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

Reserve Agreement

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

Changes in Reserves

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

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

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

Table of Contents**Development of Loss and Loss Expense Reserves**

(in thousands of U.S. dollars)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009 ⁽¹⁾
Gross liability for unpaid losses and loss expenses	\$ 2,616,556	\$ 2,386,032	\$ 3,005,628	\$ 3,658,416	\$ 4,755,059	\$ 5,766,629	\$ 6,737,661	\$ 6,870,785	\$ 7,231,436	\$ 7,510,666	\$ 10,811,483
Retroceded liability for unpaid losses and loss expenses	205,982	203,180	214,891	217,777	175,685	153,018	185,280	138,585	132,479	125,215	336,352
Net liability for unpaid losses and loss expenses	\$ 2,410,574	\$ 2,182,852	\$ 2,790,737	\$ 3,440,639	\$ 4,579,374	\$ 5,613,611	\$ 6,552,381	\$ 6,732,200	\$ 7,098,957	\$ 7,385,451	\$ 10,475,131
Net liability re-estimated as of:											
One year later	2,376,763	2,111,483	3,035,309	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	6,343,714	7,076,796	
Two years later	2,205,861	2,302,284	3,310,898	3,975,926	4,301,161	5,044,922	6,618,112	6,165,297	6,009,194		
Three years later	2,316,164	2,489,601	3,456,250	3,781,574	4,373,992	5,092,289	6,168,445	5,897,044			
Four years later	2,448,562	2,611,045	3,326,527	3,894,500	4,494,182	4,845,644	6,002,031				
Five years later	2,540,927	2,513,123	3,433,887	4,019,813	4,315,702	4,731,856					
Six years later	2,461,178	2,617,775	3,528,665	3,918,380	4,264,865						
Seven years later	2,553,570										