

PARTNERRE LTD
Form 10-K
February 29, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

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)

90 Pitts Bay Road, Pembroke, Bermuda
(Address of principal executive offices)

(441) 292-0888

(Registrant's telephone number, including area code)

Not Applicable
(I.R.S. Employer Identification No.)

HM 08
(Zip Code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes 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 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 or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange 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, 2007) was \$4,374,784,093 based on the closing sales price of the Registrant's common shares of \$77.50 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 20, 2008 was 54,180,948.

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Documents Incorporated by Reference:

Document	Part(s) Into Which Incorporated
Portions of the Registrant's definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, relating to the Registrant's Annual General Meeting of Shareholders scheduled to be held May 22, 2008 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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PART I

ITEM 1. BUSINESS

General

PartnerRe Ltd. (the Company or PartnerRe), incorporated in Bermuda on August 24, 1993, is an international reinsurance group. The Company provides reinsurance on a worldwide basis through its wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance), PartnerRe SA, Partner Reinsurance Europe Limited (formerly Partner Reinsurance Ireland Limited) (PartnerRe Europe) and Partner Reinsurance Company of the U.S. (PartnerRe U.S.). Risks reinsured include, but are not limited to property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines and life/annuity and health. The Company also offers alternative risk products that include weather and credit protection to financial, industrial and service companies on a worldwide basis.

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

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

In November 2005, the European Parliament adopted Directive 2005/68/EC, the European Union Reinsurance Directive (Reinsurance Directive). The Reinsurance Directive seeks to harmonize the supervision of reinsurance business within the European Union by creating a single regulated market. Each member state needed to adopt the directive into local legislation by December 2007. 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. The Company determined that the appropriate entity to operate as such single operating platform was its Irish reinsurance subsidiary, PartnerRe Europe. The reorganization occurred on January 1, 2008, at which time PartnerRe SA ceased its underwriting operations. As part of the reorganization, PartnerRe SA, its Canadian non-life branch and the Swiss branch of Partner Reinsurance transferred substantially all of their business, assets and liabilities to PartnerRe Europe. Following the reorganization, PartnerRe Europe is the principal reinsurance carrier for all of the Company's business underwritten in France, Ireland and Switzerland and for the non-life business underwritten in Canada. Contemporaneously, the business, assets and liabilities of the Canadian life branch of PartnerRe SA were transferred to a new Canadian life branch of Partner Reinsurance.

While the restructuring of the European operations is expected to result in a more tax efficient corporate structure and a lower effective tax rate going forward, the Company expects to incur a non-recurring tax charge in the first quarter of 2008 of between \$35 million and \$55 million as a result of the asset transfers between the Company's various subsidiaries and branches described above.

Business Strategy

The Company assumes and manages global insurance and capital markets risks. Its strategy is founded on a capital-based risk appetite and the selected risks that Management believes will allow the Company to meet its goals for appropriate profitability and risk management within that appetite. Management believes that this

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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 over a reinsurance cycle. Operating ROE is obtained by dividing operating earnings by the net book value of the common shareholders' equity at the beginning of the year. Operating earnings is defined as net income less after-tax net realized investment gains or losses on investments, net after-tax interest in earnings or losses of equity investments 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 and geographies: PartnerRe writes most lines of business in approximately 150 countries worldwide. The Company's geographic spread of premiums mirrors that of the global insurance industry. Management believes diversification is a competitive advantage, which increases return per unit of risk, provides access to reinsurance business opportunities worldwide, and reduces the overall volatility of results. It is also the cornerstone of the Company's risk management approach. The reinsurance business is cyclical, but cycles by line of business and by geography are rarely synchronized. This diversification strategy allows the Company to rapidly deploy capital to risk classes and geographies that offer the greatest return over time.

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

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

Add value through underwriting and transactional excellence: Underwriting and transactional excellence is achieved in three principal ways: through the quality of the Company's people, the structure they operate in, and the effectiveness of various processes and tools. Maintaining continuity and depth in the Company's management, underwriting, actuarial and financial areas is critical to maintaining an independent view of risk, a core part of the strategy. Equally as 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

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

Reinsurance Operations

General

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

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

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

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

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other. The Non-life segment is further divided into four sub-segments, U.S., Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P & C), Global (Non-U.S.) Specialty and Catastrophe. Segments and sub-segments represent markets that are reasonably homogeneous either in terms of geography, client types, buying patterns, underlying risk patterns or approach to risk management.

The U.S. sub-segment includes property, casualty, motor, multiline, structured risk, agriculture, surety and other risks generally originating in the United States and written by PartnerRe U.S. The Global (Non-U.S.) P&C sub-segment includes property, casualty, motor and structured risk business generally originating outside of the United States, written by Partner Reinsurance and PartnerRe SA. 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 consists of catastrophe business written by Partner Reinsurance. The Life segment includes life, health and annuity lines of business. The Corporate and Other segment includes principal finance, insurance-linked securities (including weather related products), investment related activities (net investment income, realized gains and losses, and strategic investments) and corporate items.

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

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

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

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

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

Agriculture The Company reinsures, primarily on a proportional basis, risks such as flood, drought, hail and disease related to crops, livestock and aquaculture.

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

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

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

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

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

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

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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.

Other Lines of Business The Company supplies (re)insurance and other financial products, including strategic investments. These products include weather derivatives and interest rate and total return swaps referencing asset backed or other types of securities, which provide various types of weather and credit protection to clients. Clients for these products include insurance companies, financial institutions and industrial companies. When this protection is in the form of reinsurance, the contracts may be written on either a proportional, non-proportional or facultative basis.

The Company's strategic investments include the Company's investment in ChannelRe Holdings Ltd. (ChannelRe), a non-publicly traded financial guaranty reinsurer based in Bermuda, which provides reinsurance services exclusively to MBIA. The Company's investment represents 20% of the common shares of Channel Reinsurance Ltd., which is a subsidiary and the primary asset of ChannelRe. See Notes to Consolidated Financial Statements in Item 8 of Part II of this report for further information.

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, 2007, the Company had two brokers that individually accounted for 10% or more of its gross premiums written. Marsh & McLennan Companies (including Guy Carpenter) accounted for approximately \$705 million, or 19% of total gross premiums written, while Aon Group accounted for approximately \$654 million, or 17% 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, 2007:

	2007
Non-life	
U.S.	64%
Global (Non-U.S.) P&C	29
Global (Non-U.S.) Specialty	19
Catastrophe	47
Life	17

The Company's business is geographically diversified with premiums being written in approximately 150 countries. See Note 18 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.

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

Risk Management

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

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

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

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

Underwriting

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

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

Underwriting Risk and Exposure Controls

Because the Company underwrites volatile lines of business, such as catastrophe reinsurance, the operating results and financial condition of the Company can be adversely affected by catastrophes and other large losses that may give rise to claims under reinsurance coverages provided by the Company. The Company manages its

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

The Company remains liable to its cedants to the extent 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, 2007, the Company had \$158 million of reinsurance recoverables under such arrangements.

Claims

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

Reserves

General

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

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

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

Changes in Reserves

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

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

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

(in thousands of U.S. dollars)

	1997(1)	1998(2)	1999	2000	2001	2002	2003	2004	2005	2006	2007
Gross liability for unpaid losses and loss expenses	\$ 1,098,527	\$ 2,649,380	\$ 2,616,556	\$ 2,386,032	\$ 3,005,628	\$ 3,658,416	\$ 4,755,059	\$ 5,766,629	\$ 6,737,661	\$ 6,870,785	\$ 7,231,436
Retroceded liability for unpaid losses and loss expenses	126,112	257,398	205,982	203,180	214,891	217,777	175,685	153,018	185,280	138,585	132,479
Net liability for unpaid losses and loss expenses	\$ 972,415	\$ 2,391,982	\$ 2,410,574	\$ 2,182,852	\$ 2,790,737	\$ 3,440,639	\$ 4,579,374	\$ 5,613,611	\$ 6,552,381	\$ 6,732,200	\$ 7,098,957
Net liability re-estimated as of:											
One year later	949,203	2,189,064	2,376,763	2,111,483	3,035,309	3,806,231	4,688,964	5,006,767	6,602,832	6,715,107	
Two years later	869,741	2,010,885	2,205,861	2,302,284	3,310,898	3,975,926	4,301,161	5,044,922	6,618,112		
Three years later	851,427	1,912,869	2,316,164	2,489,601	3,456,250	3,781,574	4,373,992	5,092,289			
Four years later	809,959	1,948,521	2,448,562	2,611,045	3,326,527	3,894,500	4,494,182				
Five years later	832,798	2,044,481	2,540,927	2,513,123	3,433,887	4,019,813					
Six years later	883,067	2,103,952	2,461,178	2,617,775	3,528,665						
Seven years later	918,291	2,036,754	2,553,570	2,691,267							
Eight years later	884,965	2,123,245	2,626,386								
Nine years later	938,788	2,185,049									
Ten years later	978,476										
Cumulative (deficiency) redundancy	\$ (6,061)	\$ 206,933	\$ (215,812)	\$ (508,415)	\$ (737,928)	\$ (579,174)	\$ 85,192	\$ 521,322	\$ (65,731)	\$ 17,093	
Cumulative amount of net liability paid through:											
One year later	\$ 231,454	\$ 537,682	\$ 778,382	\$ 615,276	\$ 923,165	\$ 1,126,882	\$ 1,120,756	\$ 1,250,534	\$ 1,718,996	\$ 1,473,964	
Two years later	362,692	815,231	1,060,797	960,288	1,391,301	1,713,953	1,573,312	1,821,773	2,482,695		
Three years later	410,342	988,069	1,260,298	1,163,105	1,740,277	1,993,947	1,948,203	2,207,692			

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Four years later	417,613	1,089,279	1,373,693	1,354,886	1,924,833	2,248,980	2,219,506
Five years later	450,723	1,158,620	1,508,343	1,465,515	2,086,252		