UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **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 1-10545

TRANSATLANTIC HOLDINGS, INC.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**13-3355897** (I.R.S. Employer Identification No.)
80 Pine Street, New York, New York (Address of principal executive offices)	**10005** (Zip Code)

(212) 365-2200
(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 Stock, Par Value $1.00 per Share	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 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 (§ 232.405 of this chapter) 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 (Section 229.405 of this chapter) 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. (check one):

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant computed by reference to the price at which the common equity was last sold, as of June 30, 2011 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $3,051,497,917.

As of January 31, 2012, there were outstanding 57,526,806 shares of Common Stock, $1.00 par value, of the registrant.

Documents Incorporated by Reference

Portions of the registrant's definitive proxy or information statement or amendment to this Form 10-K to be filed on or before April 29, 2012 with the Securities and Exchange Commission are incorporated by reference in Part III of this Form 10-K.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES

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PART I

Throughout this Annual Report on Form 10-K, Transatlantic Holdings, Inc. (the "Company", and collectively with its subsidiaries, "TRH") presents its operations in the way it believes will be most meaningful. In certain instances, TRH's unpaid losses and loss adjustment expenses are presented net of related reinsurance recoverable in accordance with principles prescribed or permitted by insurance regulatory authorities as these are standard measures in the insurance and reinsurance industries.

Item 1.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
BUSINESS

The Company and Its History

The Company, through its wholly-owned subsidiaries, Transatlantic Reinsurance Company® ("TRC"), Trans Re Zurich Reinsurance Company Ltd. ("TRZ"), acquired by TRC in 1996, and Fair American Insurance and Reinsurance Company (formerly Putnam Reinsurance Company) ("Fair American") (contributed by the Company to TRC in 1995), offers reinsurance capacity for a full range of property and casualty products, directly and through brokers, to insurance and reinsurance companies, in both the domestic and international markets on both a treaty and facultative basis. One or both of TRC and Fair American is licensed, accredited, authorized or can serve as a reinsurer in 50 states and the District of Columbia in the United States and in Puerto Rico and Guam. Through its international locations, TRH has operations worldwide, including Bermuda, Canada, seven locations in Europe, three locations in Central and South America, two locations in Asia (excluding Japan), and one location in each of Japan, Australia and Africa. TRC is licensed in Bermuda, Canada, Japan, the United Kingdom, the Dominican Republic, the Hong Kong Special Administrative Region, the People's Republic of China, Germany and Australia. TRC is an Admitted Reinsurer in Brazil, where it maintains an office in Rio de Janeiro. In addition, TRC is registered and authorized as a foreign reinsurer in Argentina (where it maintains a representative office in Buenos Aires, Transatlantic Re (Argentina) S.A.), the Republic of Panama (where it maintains a representative office, TRC (PANAMÁ) S.A.), Bolivia, Chile, Colombia, Ecuador, El Salvador, France, Guatemala, Honduras, Mexico, Nicaragua, Paraguay, Peru, Uruguay and Venezuela, and is authorized to maintain a representative office in Shanghai, the People's Republic of China. TRZ is licensed as a reinsurer in Switzerland and registered in Argentina, Colombia, the Dominican Republic, Guatemala and Honduras. Transatlantic Polska Sp. z o.o., a subsidiary of TRC, maintains a registered representative office in Warsaw, Poland.

The Company is a holding company incorporated in the state of Delaware. Originally formed in 1986 under the name PREINCO Holdings, Inc. as a holding company for Fair American, the Company's name was changed to Transatlantic Holdings, Inc. on April 18, 1990 following the acquisition on April 17, 1990 of all of the common stock of TRC in exchange for shares of common stock of the Company (the "Share Exchange"). Prior to the Share Exchange, American International Group, Inc. ("AIG", and collectively, with its subsidiaries, the "AIG Group") held a direct and indirect interest of approximately 25% in the Company and an indirect interest of 49.99% in TRC. As a result of the Share Exchange, AIG became the beneficial owner of approximately 41% of the Company's outstanding common stock and TRC became a wholly-owned subsidiary of the Company. In June 1990, certain stockholders of the Company (other than AIG) sold shares of the Company's common stock in a public offering.

Immediately prior to June 10, 2009, AIG beneficially owned approximately 59% of the Company's outstanding shares. On June 10, 2009, AIG and American Home Assurance Company ("AHAC"), a wholly-owned subsidiary of AIG, consummated a secondary public offering (the "June 2009 Offering") of 29.9 million issued and outstanding shares of the Company owned by AIG and AHAC. On March 15, 2010, AHAC consummated another secondary public offering (the "March 2010 Offering", and collectively with the June 2009 Offering, the "Secondary Offerings") of 8.5 million issued and outstanding shares of the Company's common stock owned by AHAC. The Company repurchased 2.0 million shares of its common stock from AHAC in the March 2010 Offering pursuant to a stock offering agreement for an aggregate purchase price of approximately $105 million. TRH did not receive any proceeds from the Secondary Offerings. Immediately following the March 2010 Offering, the AIG Group, including AHAC, beneficially owned 0.7 million shares of the Company's common stock (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG), representing approximately 1.1% of the Company's then outstanding shares. As a result of its reduced ownership percentage, the AIG Group was no longer considered a related party after March 15, 2010. (See **Relationship with the AIG Group** for a description of recent events relating to AIG.)

On November 20, 2011, the Company entered into an Agreement and Plan of Merger (the "Alleghany Merger Agreement") with Alleghany Corporation ("Alleghany") and Shoreline Merger Sub, Inc. (formerly, Shoreline Merger Sub, LLC), a wholly-owned subsidiary of Alleghany ("Shoreline"). The Alleghany Merger Agreement provides for the merger of the Company with and into Shoreline (the "Alleghany Merger"), with Shoreline continuing as the surviving company and a wholly-owned subsidiary of Alleghany. Upon completion of the Alleghany Merger, Shoreline's name will change to "Transatlantic Holdings, Inc." Pursuant to the terms and conditions of the Alleghany Merger Agreement, upon completion of the Alleghany Merger, stockholders of the Company will be entitled to receive, in exchange for each share of common stock they hold at the effective time of the Alleghany Merger, either stock or cash consideration with a value equal to the sum of (a) 0.145 multiplied by the average of the closing sales prices on the New York Stock Exchange for Alleghany common stock during the five trading days ending the day before the completion of the Alleghany Merger and (b) $14.22. On February 6, 2012, the stockholders of the Company and the stockholders of Alleghany each approved the Alleghany Merger. The Alleghany Merger is expected to close in the first quarter of 2012, subject to regulatory approvals and customary closing conditions. (See Note 3 of Notes to Consolidated Financial Statements.)

The Reinsurance Business

Reinsurance is an arrangement whereby one or more companies, the reinsurer(s), agrees to indemnify another insurance or reinsurance company, the ceding company, for all or part of the insurance risks underwritten by the ceding company. Reinsurance can provide certain basic benefits to the ceding company. It reduces net liability on individual risks, thereby enabling the ceding company to underwrite more business than its own resources can support and it provides catastrophe protection to lessen the impact of large or multiple losses.

TRH offers two types of reinsurance based on the underlying insurance coverage:

- ***Casualty.*** Casualty insurance protects the insured against financial loss arising out of its obligation to others for loss or damage to their person or property. Casualty reinsurance protects the ceding company against loss to the extent of the reinsurance coverage provided. TRH's principal lines of casualty reinsurance include other liability (including directors' and officers' liability ("D&O"), errors and omissions liability ("E&O") and general casualty), medical malpractice, ocean marine and aviation, auto liability (including non-standard risks), accident and health ("A&H") and surety and credit.

  Casualty insurance can be written on a claims-made or an occurrence basis. Claims-made policies generally provide coverage for claims made during the policy period regardless of when the act causing the claim occurred. Occurrence policies generally provide coverage in perpetuity for acts committed during the policy period regardless of when the claim is made. Depending on the nature of the business and statute of limitations, the final claims costs for occurrence business can take many years to be definitively known given that new claims can come in at any time and the cost of existing claims may continue to change over time. Claims-made business, while also taking a significant time to finalize claims costs, due to the development of open claims, generally has a shorter period for completion as the number of claims is known shortly after the policy expires.

Casualty business as a whole is volatile in that the ultimate claim costs for a policy or portfolio are not known for a significant amount of time. Reasons for this are the complexity of liability theory, the occurrence nature of some coverages, the potential for litigation, adverse court rulings, unpredictable claims and social inflation trends and reporting lag time between cedants and reinsurers.

- ***Property.*** Property insurance protects the insured against financial loss arising out of the loss of property or its use caused by an insured peril. Property reinsurance protects the ceding company against loss to the extent of the reinsurance coverage provided. TRH's principal lines of property reinsurance include fire, allied lines, auto physical damage and homeowners multiple peril.

  Property reinsurance is written on an occurrence basis, but, because the loss is generally immediate and manifest, claims are adjusted and closed in a much shorter period than casualty business. However, due to the unpredictable nature of fires, hurricanes, earthquakes and other natural or man-made catastrophic events as well as the imperfect models that exist in measuring the probability and potential magnitude of costs from these events, there is a great deal of volatility in property reinsurance as well.

TRH writes reinsurance either through treaty or facultative reinsurance arrangements:

- ***Treaty.*** Treaty reinsurance is a contractual arrangement that provides for the automatic reinsuring of a type or category of risk underwritten by the ceding company.

- ***Facultative.*** Facultative reinsurance is the reinsurance of individual risks. Rather than agreeing to reinsure all or a portion of a class of risk, the reinsurer separately rates and underwrites each risk. Facultative reinsurance is normally purchased for risks not covered by treaty reinsurance or for individual risks covered by reinsurance treaties that are in need of capacity beyond that provided by such treaties.

TRH provides reinsurance for most major lines of insurance on both pro rata and excess-of-loss bases. A ceding company's reinsurance program may involve pro rata and excess-of-loss reinsurance on both a treaty and facultative basis:

- ***Pro rata.*** Under pro rata reinsurance (also referred to as proportional), the ceding company and the reinsurer share the premiums as well as the losses and expenses in an agreed proportion. As pro rata business is a proportional sharing of premiums and losses between ceding company and reinsurer, generally, the underwriting results of such business more closely reflect the underwriting results of the business ceded than do the results of excess-of-loss business. In pro rata reinsurance, the reinsurer generally pays the ceding company a ceding commission. Generally, the ceding commission is based on the ceding company's cost of obtaining the business being reinsured (*i.e.*, brokers' and agents' commissions, local taxes and administrative expenses).

- ***Excess-of-Loss.*** Under excess-of-loss reinsurance, the reinsurer agrees to reimburse the ceding company for all losses in excess of a predetermined amount up to a predetermined limit. Premiums paid by the ceding company to the reinsurer for excess-of-loss coverage are generally not proportional to the premiums that the ceding company receives because the reinsurer does not assume a proportionate risk. Often there is no ceding commission on excess-of-loss reinsurance and therefore the pricing mechanism used by reinsurers in those instances is a rate applicable to premiums of the individual policy or policies subject to the reinsurance agreement.

Operations

TRH's activities in the United States are conducted through its worldwide headquarters in New York, NY, its branch in Miami, FL and offices in Chicago, IL, Overland Park, KS, San Francisco, CA, Columbus, OH and Stamford, CT. All domestic treaty and facultative business is underwritten by, or under the supervision of, senior officers of TRH located in New York. TRH's headquarters in New York and offices in Miami, Rio de Janeiro, Toronto, Bermuda, London, Paris, Zurich, Munich, Hong Kong, Tokyo and Sydney offer treaty as well as facultative reinsurance. In addition, TRH operates representative offices in Buenos Aires, Panama, Warsaw and Shanghai, and maintains exclusive representative arrangements with MS Upson Associates c.c. in Johannesburg, South Africa and with NOBARE in Stockholm, Sweden. TRH also operates Professional Risk Management Services, Inc. ("PRMS"), a wholly-owned subsidiary of the Company. Based in Arlington, VA, PRMS is an insurance program manager specializing in professional liability insurance services, including underwriting, claims and risk management, for individual healthcare providers, group practices, facilities and organizations. In 2010, TRH established Calpe Insurance Company Limited, to expand TRH's access to business in Europe and completed a strategic investment to participate as a corporate name in Lloyd's of London.

TRH reinsures risks from a broad spectrum of industries throughout the United States and foreign countries. Business underwritten by all branches located outside the United States and by the Miami branch (which underwrites business in Latin America and the Caribbean) accounted for approximately 51%, 50% and 49% of worldwide net premiums written in 2011, 2010 and 2009, respectively. (See Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") for a discussion of premium fluctuations between years, **Regulation** for a discussion of certain conditions associated with international business and Note 17 of Notes to Consolidated Financial Statements for financial data by business segment.)

After March 15, 2010, the AIG Group ceased to be a related party of TRH, as discussed above. Gross premiums written originated by the AIG Group and ceded to TRH from contracts that were entered into while the AIG Group was a related party were immaterial in 2011 and totaled approximately $196 million (4.8%) and $263 million (6.3%) in 2010 and 2009, respectively. These amounts exclude (a) premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement; (b) amounts assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries; and (c) all premiums from contracts that were effective after March 15, 2010. The amount of premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement are not material. (See Note 16 of Notes to Consolidated Financial Statements ("Note 16") for the amount of premiums assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries.) (See **Relationship with the AIG Group**.)

In addition, TRH holds a 40% interest in Kuwait Reinsurance Company (K.S.C.) ("Kuwait Re"), acquired in 2000, which has a balance sheet carrying value of $48.1 million and $49.0 million at December 31, 2011 and 2010, respectively. Kuwait Re provides property, casualty and life reinsurance products to clients in Middle Eastern and North African markets.

TRC and Fair American have a quota share reinsurance agreement where TRC cedes 5% of its assumed reinsurance, net of other retrocessions, to Fair American. Presently, all of Fair American's business is assumed from TRC pursuant to this quota share reinsurance agreement. This agreement was entered into for operational reasons and had no impact on TRH's consolidated financial position or results of operations.

Property and Casualty Lines of Business

Casualty reinsurance constitutes the larger portion of TRH's business, accounting for 70% of net premiums written in 2011 and 71% in each of 2010 and 2009. The following table presents certain underwriting information concerning TRH's casualty and property business for the periods indicated (see MD&A):

	Years Ended December 31,											
	Net Premiums Written			Net Premiums Earned			Net Losses and Loss Adjustment Expenses Incurred			Loss Ratio		
	2011	2010	2009	2011	2010	2009	2011	2010	2009	2011	2010	2009
	(dollars in millions)											
Casualty:												
Other liability(1)(2)(3)(4)	$ 950.0	$1,058.0	$1,077.5	$ 949.5	$1,081.0	$1,037.6	$ 788.0	$ 916.5	$ 865.7	83.0%	84.8%	83.4%
Accident and health	361.7	422.7	416.0	366.8	411.6	399.3	290.7	356.3	331.7	79.3	86.6	83.1
Medical malpractice	336.9	309.7	339.3	336.2	313.5	359.0	258.3	266.2	255.6	76.8	84.9	71.2
Auto liability	328.6	237.6	241.1	297.9	217.6	274.6	233.4	173.3	224.9	78.4	79.6	81.9
Ocean marine and aviation(3)	317.1	267.7	291.8	292.0	256.9	305.8	203.1	130.6	217.1	69.6	50.8	71.0
Surety and credit(2)(3)(4)	225.2	211.6	239.2	203.5	206.4	222.9	80.6	60.3	136.3	39.6	29.2	61.1
Other(2)(3)	198.9	235.7	236.7	194.0	235.1	246.8	131.8	216.3	218.3	67.9	92.0	88.5
Total casualty	2,718.4	2,743.0	2,841.6	2,639.9	2,722.1	2,846.0	1,985.9	2,119.5	2,249.6	75.2	77.9	79.0
Property:												
Fire(2)(3)(4)	553.6	497.3	507.5	566.3	492.0	544.6	989.9	321.2	236.2	174.8	65.3	43.4
Allied lines(2)(3)(4)	408.3	388.2	349.0	394.6	385.1	342.1	83.6	121.9	56.5	21.2	31.6	16.5
Homeowners multiple peril	61.2	82.9	70.5	65.2	74.5	77.5	34.9	17.3	16.1	53.6	23.3	20.7
Earthquake(2)(3)	51.4	52.4	61.4	55.8	51.1	61.6	115.6	39.3	5.2	207.3	77.0	8.4
Auto physical damage(3)	31.6	87.3	122.3	62.6	105.0	131.0	32.6	64.3	107.2	52.0	61.2	81.9
Other(3)	35.1	30.6	33.8	35.1	28.8	36.3	13.9	(1.7)	8.4	39.5	(5.9)	23.2
Total property	1,141.2	1,138.7	1,144.5	1,179.6	1,136.5	1,193.1	1,270.5	562.3	429.6	107.7	49.5	36.0
Total	$3,859.6	$3,881.7	$3,986.1	$3,819.5	$3,858.6	$4,039.1	$3,256.4	$2,681.8	$2,679.2	85.3	69.5	66.3

(1) A large majority of the amounts within the other liability line relates to complex risks such as E&O and D&O, to general casualty risks and, to a much lesser extent, environmental impairment liability.

(2) In 2011, development on reserves held at December 31, 2010 relating to losses that occurred in 2010 and prior years significantly decreased net losses and loss adjustment expenses incurred in the allied lines, other casualty, fire and surety and credit lines and significantly increased net losses and loss adjustment expenses incurred in the other liability lines. In addition, pre-tax net catastrophe losses of $883 million significantly increased net losses and loss adjustment expenses incurred in the fire, allied lines and earthquake lines.

(3) In 2010, development on reserves held at December 31, 2009 relating to losses that occurred in 2009 and prior years significantly decreased net losses and loss adjustment expenses incurred in the surety and credit, other property, ocean marine, auto physical damage and fire lines and significantly increased net losses and loss adjustment expenses incurred in the other casualty and other liability lines. In addition, pre-tax net catastrophe losses of $204 million significantly increased net losses and loss adjustment expenses incurred in the fire, earthquake, allied lines and ocean marine lines.

(4) In 2009, development on reserves held at December 31, 2008 relating to losses that occurred in 2008 and prior years significantly decreased net losses and loss adjustment expenses incurred in the fire, allied lines and surety and credit lines and significantly increased net losses and loss adjustment expenses incurred in the other liability line. There were no significant catastrophe losses incurred for events occurring in 2009.

Operating results in 2011, 2010 and 2009 included pre-tax net catastrophe costs (net of reinsurance and reinstatement premiums) of $852 million, $202 million and ($6) million, respectively. (See MD&A.)

In general, the overall operating results (including investment performance) and other changes to stockholders' equity of property and casualty insurance and reinsurance companies, and TRH, in particular, are subject to significant fluctuations due to competition, natural and man-made catastrophic events, general economic and social conditions, financial, credit and industry market conditions, foreign currency exchange rate fluctuations, interest rates, operating performance and prospects of investee companies and other factors, such as changes in tax laws, tort laws and the regulatory environment.

Treaty and Facultative Reinsurance

Treaty reinsurance constitutes the great majority of TRH's business, accounting for 97% of net premiums written in each of 2011, 2010 and 2009. Facultative reinsurance comprises the balance of net premiums written. In 2011, no single ceding company accounted for more than 7% of total gross premiums written and no single treaty exceeded 3% of total gross premiums written.

Treaty Reinsurance

TRH currently has approximately 4,000 treaties in effect for the current underwriting year. TRH's treaty business consists primarily of business within the other liability (including D&O and E&O), A&H, medical malpractice, ocean marine and aviation, auto liability (including non-standard risks), surety and credit, fire, allied lines, auto physical damage and homeowners multiple peril lines. A significant portion of TRH's business within these lines (primarily other liability, medical malpractice and A&H) is derived from complex risks. Approximately 69% of total treaty gross premiums written in 2011 represented treaty reinsurance written on a pro rata basis and the balance represented treaty reinsurance written on an excess-of-loss basis.

TRH's treaty business accepts a portfolio of risks on either a risk attaching basis or loss occurring during ("LOD") basis. For risk attaching treaties, if an individual risk covered by the treaty incepts during the treaty period, TRH's liability for that policy goes to that treaty year regardless of when the loss occurs. For LOD treaties, TRH covers losses occurring during the treaty coverage period on all in-force policies, regardless of the date the policies were issued by the ceding company.

TRH's treaty underwriting process emphasizes a team approach among TRH's underwriters, actuaries and claims staff, as appropriate. Treaties are reviewed for compliance with TRH's underwriting guidelines and objectives and most treaties are evaluated in part based upon actuarial analyses conducted by TRH. TRH's actuarial models used in such analyses are tailored in each case to the exposures and experience underlying the specific treaty and the loss experience for the risks covered. Property catastrophe exposed treaties are generally evaluated using industry standard models. These models are used as a guide for risk assessment and are continually being updated. TRH also frequently conducts underwriting and claims audits at the offices of a prospective ceding company both before and after entering into major treaties, because reinsurers, including TRH, do not separately evaluate each of the individual risks assumed under their treaties and, consequently, are largely dependent on the original underwriting decisions made by the ceding company. Such dependence subjects TRH, and reinsurers in general, to the possibility that the ceding companies have not adequately evaluated the risks to be reinsured and, therefore, that the premiums ceded in connection therewith may not adequately compensate the reinsurer for the risk assumed.

TRH offers brokers full service with large capacity for both casualty and property risks. TRH often seeks to lead treaty arrangements. The lead reinsurer on a treaty generally accepts one of the largest percentage shares of the treaty and takes the initiative in negotiating price, terms and conditions. TRH believes that this strategy has enabled it to influence more effectively the terms and conditions of the treaties in which it has participated. When TRH does not lead the treaty, it may still suggest changes to any aspect of the treaty. TRH may reject any treaty business offered to it based upon its assessment of all relevant factors. Such factors include type and level of risk assumed; actuarial and underwriting judgment with respect to rate adequacy; various treaty terms; prior and anticipated loss experience (including exposure to natural and man-made catastrophes) on the treaty; prior business experience with the ceding company; overall financial position; operating results; the Standard & Poor's ("S&P"), A.M. Best Company ("Best") and Moody's Investors Service ("Moody's") ratings of the ceding company; and social, legal, regulatory, environmental and general economic conditions affecting the risks assumed or the ceding company.

Facultative Reinsurance

TRH's facultative contracts (also called certificates) provide prospective coverage on virtually the same basis as the original policy issued by the ceding insurer. In 2011, TRH's facultative book of business focused on the property and other liability lines, although coverage is generally offered for most lines of business, and is written principally on a risk attaching basis for each risk (*i.e.*, TRH's liability starts with the underlying policy inception and ends when the underlying policy expires). With respect to facultative contracts, TRH's clients come to TRH on a risk by risk basis when they wish to obtain a larger policy limit than provided by their existing outward treaty reinsurance or when their existing treaty reinsurance excludes a class of business or type of coverage they provide to policyholders, or where a client wants to decrease their exposure to a particular risk.

Other underwriting expenses associated with facultative business are generally higher in proportion to related premiums than those associated with treaty business, reflecting, among other things, the more labor intensive nature of underwriting and servicing facultative business.

Retrocession Arrangements

To a limited extent, TRH enters into retrocession arrangements, generally in order to reduce the effect of individual or aggregate losses, to reduce volatility in specific lines, to improve risk adjusted portfolio returns and to increase gross premium writings and risk capacity without requiring additional capital.

Retrocession arrangements do not relieve TRH from its obligations to the insurers and reinsurers from whom it assumes business. The failure of retrocessionnaires to honor their obligations could result in losses to TRH. TRH holds substantial amounts of funds, trust agreements and letters of credit to collateralize reinsurance recoverables. Such funds, trust agreements and letters of credit can be drawn on for amounts remaining unpaid beyond contract terms. In addition, an allowance has been established for estimated unrecoverable amounts.

As of December 31, 2011, TRH had in place active retrocessional arrangements for current and prior underwriting years with approximately 280 retrocessionnaires, and reinsurance recoverable on paid and unpaid losses and loss adjustment expenses totaled $531.3 million. No unsecured recoverables from a single retrocessionnaire are considered material to the financial position of TRH. (See Note 16.)

Risk Management

TRH employs an Enterprise Risk Management ("ERM") framework to identify, assess, quantify, mitigate and manage TRH's risks in order to maximize its long-term value and achieve its corporate objectives. This framework is integrated into the day-to-day activities of TRH as well as its strategic planning processes.

As part of this framework, TRH determines its underwriting risk profile by giving underwriters written underwriting authorities which are linked to competence and delegated according to class, risk limits, program limits and premium limits. The monitoring of underwriting and claims performance takes various forms including the qualitative review of underwriting files and rationales by peers and internal audit reviews of underwriting authorities and data input into TRH's real-time management information system. Class results are reviewed quarterly at meetings between the regional Chief Underwriting Officers, the risk management department, the heads of underwriting areas, line underwriters, actuaries and the claims department. In addition, the actuarial department monitors rate adequacy, conducts profitability studies and assesses reserve adequacy.

Aggregating exposures are managed centrally through the establishment of risk tolerances which are set annually and monitored through quarterly and half-yearly roll ups of actual exposures. TRH has also developed a scenario-based assessment of potential loss events that focuses on cross-class aggregations and correlations. For natural catastrophe exposures, roll-ups are conducted using proprietary rating models supplemented by internally generated assessments for un-modeled exposures. (See **Catastrophe Exposure** in MD&A for further information.)

The risk management team is led by the Chief Risk Officer ("CRO") who reports directly to the Chief Executive Officer ("CEO"). The CEO chairs a Corporate Risk Management Committee composed of executive officers including the CRO, Chief Financial Officer, President International Operations, President Latin American and Caribbean Division, President of North America, Chief Actuary, General Counsel, Chief Information Officer, Senior Claims Executive in New York and the Chief Compliance Officer, among others. In addition, the Risk Management Committee of the Company's Board of Directors provides board oversight of the risk management of TRH.

In all major branches, local risk committees meet quarterly to review the major risks of TRH including regulatory, operational, credit and other financial risks. These committees include senior representatives from among the finance and accounting, claims, actuarial, systems, legal, compliance and underwriting departments and report to the risk management department in New York. TRH uses various tools including an employee code of conduct, mandatory ethics training, internal audit reviews and business continuity planning to mitigate its operational risks.

TRH utilizes investment strategies to manage asset type, sector, industry, issuer and issue concentrations within the investment portfolio and uses an approved reinsurers list to communicate throughout TRH the acceptability of potential retrocessionaires.

TRH is engaged in the continuous review and enhancement of its ERM framework, which includes the development of an economic capital model to assess the probability and potential severity of risk events and to determine the optimum risk adjusted profile for TRH.

Marketing

TRH provides property and casualty reinsurance capacity through brokers as well as directly to insurance and reinsurance companies in both the domestic and international markets. TRH believes its worldwide network of offices helps position TRH to take advantage of market opportunities.

Brokerage fees generally are paid by reinsurers. In 2011, approximately 80% of TRH's gross premiums written was written through brokers and the balance was written directly. In 2011, companies controlled by Aon Corporation ("Aon"), Marsh & McLennan Companies, Inc. ("Marsh") and Willis Group Holdings, plc ("Willis"), were TRH's largest brokerage sources of business. Business brokered by Aon, Marsh, Willis and the rest of TRH's ten largest brokerage sources of business as a percentage of TRH's consolidated revenues and total gross premiums written in 2011 are presented below:

	Revenues	Gross Premiums Written
Aon	24%	26%
Marsh	18	19
Willis	11	11
Next seven largest brokerage sources	11	13
Ten largest brokerage sources	64%	69%

The business attributable to a broker includes all gross premiums produced by that broker and its affiliates in the full year regardless of the date that any such affiliate was acquired.

TRH believes that its emphasis on generally seeking the lead position in reinsurance treaties in which it participates is beneficial in obtaining business. Brokers do not have the authority to bind TRH with respect to reinsurance agreements, nor does TRH commit in advance to accept any portion of the business that brokers submit to it.

Claims

Claims are managed by TRH's professional claims staff whose responsibilities include the review of initial loss reports, creation of claim files, determination of whether further investigation is required, establishment and adjustment of case reserves and payment of claims. In addition to claims assessment, processing and payment, the claims staff conducts comprehensive claims audits of both specific claims and overall claims procedures at the offices of selected ceding companies, which TRH believes benefit all parties to the reinsurance arrangement. Claims audits are conducted in the ordinary course of business. In certain instances, a claims audit may be performed prior to assuming reinsurance business.

Reserves for Unpaid Losses and Loss Adjustment Expenses ("Gross Loss Reserves")

Significant periods of time may elapse between the occurrence of an insured loss, the reporting of the loss to the ceding company and the reinsurer, and the ceding company's payment of that loss and subsequent payments to the ceding company by the reinsurer. Insurers (and reinsurers) establish gross loss reserves, which represent estimates of future amounts needed to pay claims and related expenses with respect to insured events which have occurred on or before the balance sheet date, including events which have not been reported to the company.

Upon receipt of a notice of claim from the ceding company, TRH establishes its own case reserve for the estimated amount of the ultimate settlement, if any. Case reserves usually are based upon the amount of reserves recommended by the ceding company and may be supplemented by additional amounts as deemed necessary. In certain instances, TRH establishes case reserves even when the ceding company has not reported any liability to TRH.

TRH also establishes reserves to provide for the estimated expenses of settling claims, including legal and other fees, the general expenses of administering the claims adjustment process (*i.e.*, loss adjustment expenses ("LAE")), and for losses and LAE incurred but not reported ("IBNR"). TRH calculates LAE and IBNR reserves by using generally accepted actuarial reserving techniques to estimate the ultimate liability for losses and LAE. Such reserves are periodically reassessed by TRH to adjust for changes in the expected loss emergence pattern over time. TRH has an in-house actuarial staff which periodically reviews TRH's unpaid losses and LAE both gross and net of related reinsurance recoverables.

Gross loss reserves represent the accumulation of case reserves and IBNR reserves. Provisions for inflation and social inflation (*e.g.*, awards by judges and juries which progressively increase in size at a rate exceeding that of general inflation) are implicitly considered in the overall reserve setting process as an element of the numerous judgments which are made as to expected trends in average claim severity. Legislative changes may also affect TRH's liabilities, and evaluation of the impact of such changes is made in the reserve setting process.

The methods of determining estimates for unreported losses and establishing the resulting reserves and related reinsurance recoverable are continually reviewed and updated, and any resulting adjustments are reflected in income currently. The process relies upon the basic assumption that past experience, adjusted for the effect of current developments and likely trends, is an appropriate basis for predicting future events. However, estimation of loss reserves is a difficult process, especially in view of changing legal and economic environments which impact the development of loss reserves, and therefore quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future.

While the reserving process is difficult and subjective for the ceding companies, the inherent uncertainties of estimating such reserves are even greater for the reinsurer, due primarily to the longer term nature of much reinsurance business, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims and differing reserving practices among ceding companies, which can be subject to change without notice. TRH writes a significant amount of non-proportional assumed casualty reinsurance as well as proportional assumed reinsurance of excess casualty business for classes such as medical malpractice and D&O, which can exhibit greater volatility over time than most other classes due to their low frequency, high severity nature and loss cost trends that are more difficult to predict.

During the loss settlement period, which can be many years in duration, additional facts regarding individual claims and trends usually become known. As these become apparent, it usually becomes necessary to refine and adjust the reserves upward or downward. Even then, the ultimate net liability may be materially different from the revised estimates which are reflected in TRH's consolidated financial statements, and such differences may have, and in certain years have had, a material effect on net income. (See MD&A, including the discussion of **Critical Accounting Estimates**, and Note 2(j) of Notes to Consolidated Financial Statements for further discussion.)

Net losses and LAE incurred consist of the estimated ultimate cost of settling claims incurred within the reporting period (net of related reinsurance recoverable), including IBNR claims, plus changes in estimates of liabilities for prior period losses.

The "Analysis of Consolidated Net Loss Reserves Development" which follows presents the development of unpaid losses and LAE net of related reinsurance recoverables ("net loss reserves") for calendar years 2001 through 2011. The upper half of the table shows the cumulative amounts paid during successive years relating to the opening reserve. For example, with respect to the net loss reserve of $7.87 billion as of December 31, 2009, by the end of 2011 (two years later) $2.84 billion had actually been paid in settlement of those net loss reserves. In addition, as reflected in the lower section of the table, the original net loss reserve of $7.87 billion was re-estimated to be $7.80 billion at December 31, 2011. This change from the original estimate would normally result from a combination of a number of factors, including losses being settled for different amounts than originally estimated. The original estimates will also be increased or decreased as more information becomes known about the individual claims, overall claim frequency and severity patterns. The net (deficiency) redundancy depicted in the table, for any particular calendar year, shows the aggregate change in estimates over the period of years subsequent to the calendar year reflected at the top of the respective columns. For example, the net redundancy of $76.2 million at December 31, 2011 relating to December 31, 2009 net loss reserves of $7.87 billion represents the cumulative amount by which net loss reserves as of year-end 2009 have developed favorably from that date through the end of 2011.

Each amount other than the original reserves in the following table includes the effects of all changes in amounts for prior periods. For example, if a loss settled in 2007 for $150,000 was first reserved in 2004 at $100,000 and remained unchanged until settlement, the $50,000 deficiency (actual loss minus original estimate) would be included in the cumulative net (deficiency) redundancy in each of the years in the period 2004 through 2006 shown in the following table. Conditions and trends that have affected development of liability in the past may not necessarily occur in the future. Accordingly, it may not be appropriate to extrapolate future development based on this table.

The "Analysis of Net Unpaid Losses and Loss Adjustment Expenses and Net Reestimated Liability" presents additional information regarding the development of gross loss reserves.

ANALYSIS OF CONSOLIDATED NET LOSS RESERVES DEVELOPMENT(1)

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
						(in thousands)					
Net loss reserves, as of December 31(2):	$ 2,908,887	$ 3,257,906	$ 3,956,420	$ 4,980,609	$ 5,690,443	$6,207,220	$6,899,716	$7,349,078	$7,871,825	$8,214,773	$9,029,066
Cumulative paid as of:											
One year later	1,033,574	1,057,314	1,090,058	1,492,464	1,447,284	1,464,916	1,841,768	1,559,712	1,730,801	1,628,168	
Two years later	1,759,047	1,806,388	2,035,299	2,416,036	2,526,261	2,761,250	2,813,396	2,785,333	2,838,248		
Three years later	2,332,901	2,535,149	2,792,484	3,263,061	3,549,463	3,485,127	3,670,987	3,594,031			
Four years later	2,932,043	3,198,831	3,485,611	4,028,731	4,127,882	4,087,258	4,237,617				
Five years later	3,479,594	3,792,955	4,112,690	4,453,364	4,600,637	4,499,813					
Six years later	3,953,515	4,297,909	4,470,656	4,830,109	4,938,569						
Seven years later	4,365,880	4,609,558	4,787,305	5,107,677							
Eight years later	4,620,686	4,877,601	5,021,878								
Nine years later	4,840,932	5,068,733									
Ten years later	4,996,715										
Net reestimated liability as of(2):											
End of year	2,908,887	3,257,906	3,956,420	4,980,609	5,690,443	6,207,220	6,899,716	7,349,078	7,871,825	8,214,773	9,029,066
One year later	3,248,013	3,580,493	4,273,802	5,249,445	5,871,571	6,295,600	6,899,232	7,310,130	7,814,866	8,092,769	
Two years later	3,561,876	4,112,290	4,781,344	5,557,243	6,133,365	6,385,124	6,958,926	7,405,177	7,795,602		
Three years later	4,176,419	4,637,194	5,110,862	5,878,870	6,282,334	6,441,824	7,040,272	7,414,851			
Four years later	4,641,988	4,976,922	5,485,195	6,066,219	6,401,324	6,530,650	7,062,339				
Five years later	4,904,646	5,345,798	5,701,065	6,209,964	6,527,430	6,574,507					
Six years later	5,184,316	5,555,013	5,881,308	6,364,893	6,592,287						
Seven years later	5,390,160	5,742,547	6,044,934	6,446,796							
Eight years later	5,570,367	5,911,378	6,143,924								
Nine years later	5,730,318	6,014,758									
Ten years later	5,833,046										
Net (deficiency) redundancy as of December 31, 2011	$(2,924,159)	$(2,756,852)	$(2,187,504)	$(1,466,187)	$ (901,844)	$ (367,287)	$ (162,623)	$ (65,773)	$ 76,223	$ 122,004	

(1) This table is on a calendar year basis and does not present accident or underwriting year data.
(2) Represents unpaid losses and loss adjustment expenses, net of related reinsurance recoverables.

ANALYSIS OF NET UNPAID LOSSES AND LOSS ADJUSTMENT EXPENSES AND NET REESTIMATED LIABILITY[1]

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
						(in thousands)					
End of year:											
Gross liability	$ 3,747,583	$ 4,032,584	$ 4,805,498	$ 5,941,464	$ 7,113,294	$7,467,949	$7,926,261	$8,124,482	$8,609,105	$9,020,610	$9,529,003
Related reinsurance recoverable	838,696	774,678	849,078	960,855	1,422,851	1,260,729	1,026,545	775,404	737,280	805,837	499,937
Net liability	$ 2,908,887	$ 3,257,906	$ 3,956,420	$ 4,980,609	$ 5,690,443	$6,207,220	$6,899,716	$7,349,078	$7,871,825	$8,214,773	$9,029,066
One year later:											
Gross reestimated liability	$ 4,136,126	$ 4,465,908	$ 5,117,490	$ 6,344,019	$ 7,306,595	$7,633,138	$7,918,300	$8,070,824	$8,584,657	$8,798,808	
Reestimated related reinsurance recoverable	888,113	885,415	843,688	1,094,574	1,435,024	1,337,538	1,019,068	760,694	769,791	706,039	
Net reestimated liability	$ 3,248,013	$ 3,580,493	$ 4,273,802	$ 5,249,445	$ 5,871,571	$6,295,600	$6,899,232	$7,310,130	$7,814,866	$8,092,769	
Two years later:											
Gross reestimated liability	$ 4,556,676	$ 5,003,598	$ 5,761,231	$ 6,633,579	$ 7,618,979	$7,722,795	$7,988,632	$8,192,939	$8,482,991		
Reestimated related reinsurance recoverable	994,800	891,308	979,887	1,076,336	1,485,614	1,337,671	1,029,706	787,762	687,389		
Net reestimated liability	$ 3,561,876	$ 4,112,290	$ 4,781,344	$ 5,557,243	$ 6,133,365	$6,385,124	$6,958,926	$7,405,177	$7,795,602		
Three years later:											
Gross reestimated liability	$ 5,188,506	$ 5,678,239	$ 6,096,568	$ 7,017,192	$ 7,769,983	$7,770,305	$8,109,348	$8,180,496			
Reestimated related reinsurance recoverable	1,012,087	1,041,045	985,706	1,138,322	1,487,649	1,328,481	1,069,076	765,645			
Net reestimated liability	$ 4,176,419	$ 4,637,194	$ 5,110,862	$ 5,878,870	$ 6,282,334	$6,441,824	$7,040,272	$7,414,851			
Four years later:											
Gross reestimated liability	$ 5,814,220	$ 6,034,785	$ 6,536,334	$ 7,219,505	$ 7,886,168	$7,905,520	$8,136,014				
Reestimated related reinsurance recoverable	1,172,232	1,057,863	1,051,139	1,153,286	1,484,844	1,374,870	1,073,675				
Net reestimated liability	$ 4,641,988	$ 4,976,922	$ 5,485,195	$ 6,066,219	$ 6,401,324	$6,530,650	$7,062,339				
Five years later:											
Gross reestimated liability	$ 6,099,084	$ 6,467,893	$ 6,766,081	$ 7,364,727	$ 8,064,325	$7,967,934					
Reestimated related reinsurance recoverable	1,194,438	1,122,095	1,065,016	1,154,763	1,536,895	1,393,427					
Net reestimated liability	$ 4,904,646	$ 5,345,798	$ 5,701,065	$ 6,209,964	$ 6,527,430	$6,574,507					
Six years later:											
Gross reestimated liability	$ 6,441,624	$ 6,692,327	$ 6,952,158	$ 7,577,067	$ 8,153,244						
Reestimated related reinsurance recoverable	1,257,308	1,137,314	1,070,850	1,212,174	1,560,957						
Net reestimated liability	$ 5,184,316	$ 5,555,013	$ 5,881,308	$ 6,364,893	$ 6,592,287						
Seven years later:											
Gross reestimated liability	$ 6,660,562	$ 6,887,469	$ 7,177,351	$ 7,684,686							
Reestimated related reinsurance recoverable	1,270,402	1,144,922	1,132,417	1,237,890							
Net reestimated liability	$ 5,390,160	$ 5,742,547	$ 6,044,934	$ 6,446,796							
Eight years later:											
Gross reestimated liability	$ 6,849,486	$ 7,120,562	$ 7,305,583								
Reestimated related reinsurance recoverable	1,279,119	1,209,184	1,161,659								
Net reestimated liability	$ 5,570,367	$ 5,911,378	$ 6,143,924								
Nine years later:											
Gross reestimated liability	$ 7,075,398	$ 7,254,115									
Reestimated related reinsurance recoverable	1,345,080	1,239,357									
Net reestimated liability	$ 5,730,318	$ 6,014,758									
Ten years later:											
Gross reestimated liability	$ 7,208,948										
Reestimated related reinsurance recoverable	1,375,902										
Net reestimated liability	$ 5,833,046										
Gross (deficiency) redundancy as of December 31, 2011	$(3,461,365)	$(3,221,531)	$(2,500,085)	$(1,743,222)	$(1,039,950)	$ (499,985)	$ (209,753)	$ (56,014)	$ 126,114	$ 221,802	

(1) This table is on a calendar year basis and does not represent accident or underwriting year data.

The trend depicted in the latest development year in the net reestimated liability portion of the "Analysis of Consolidated Net Loss Reserves Development" table and in the "Analysis of Net Unpaid Losses and Loss Adjustment Expenses and Net Reestimated Liability" table reflects net favorable development. Net favorable development of $122.0 million was recorded in 2011 on losses occurring in all prior years. (See MD&A for a discussion of the causes of the net favorable development.) This net favorable development was comprised of net favorable development of $224.7 million for losses occurring in 2002 to 2010, partially offset by net adverse development of $102.7 million for losses occurring in 2001 and prior.

For TRH's domestic subsidiaries (TRC and Fair American), there is no difference in reserves for losses and LAE, net of related reinsurance recoverable, whether determined in accordance with generally accepted accounting principles in the U.S. ("GAAP") or statutory accounting principles. (See Note 7 of Notes to Consolidated Financial Statements for a reconciliation of beginning and ending gross and net loss reserves.)

Investment Operations

TRH's investments must comply with the insurance laws of the State of New York, the state of domicile of TRC and Fair American, and of the other states and jurisdictions in which the Company and its subsidiaries are regulated. These laws prescribe the kind, quality and concentration of investments which may be made by insurance companies. In general, these laws permit investments, within specified limits and subject to certain qualifications, in federal, state and municipal obligations, corporate fixed maturities, preferred and common stocks, real estate mortgages and real estate. The Finance and Investment Committee of the Company's Board of Directors and senior management oversee investments, establish TRH's investment strategy and implement investment decisions. Through June 30, 2009, the AIG Group acted as financial advisors and managers of TRH's investment portfolio and, in connection therewith, made the selection of particular investments. Effective July 1, 2009, TRH employed a third party not affiliated with AIG to provide these services.

TRH's current investment strategy seeks to optimize after-tax income through a high quality diversified taxable fixed maturity and tax-exempt municipal fixed maturity portfolio, while maintaining an adequate level of liquidity. TRH adjusts its mix of taxable and tax-exempt investments, as appropriate, generally as a result of strategic investment and tax planning considerations. Historically, tax-exempt fixed maturities carry lower pre-tax yields than taxable fixed maturities that are comparable in risk and term to maturity due to their tax-advantaged status. (See MD&A.) The equity portfolio is structured to achieve capital appreciation primarily through a selection of large capitalization U.S. stocks. Other invested assets principally include alternative investments and TRH's 40% interest in Kuwait Re.

Through 2008, TRH participated in a securities lending program (the "Securities Lending Program") managed by a subsidiary of AIG, whereby certain securities (principally fixed maturities available for sale) from its portfolio were loaned to third parties. Under such program, TRH loaned securities to counterparties and received collateral, generally cash, which was invested to earn a spread. The collateral received was invested in separate portfolios containing floating rate bonds (*i.e.,* fixed maturities), including asset-backed securities, and interest-bearing cash equivalents. These portfolios were maintained in segregated accounts for TRH by the program manager. The collateral was returned to the counterparties when the loaned securities were returned to TRH at a future date. In the fourth quarter of 2008, TRH terminated its participation in the Securities Lending Program.

The following table reflects investment results for TRH for each of the five years in the period ended December 31, 2011.

INVESTMENT RESULTS

Years Ended December 31,	Consolidated: Average Investments and Interest-Bearing Cash[(2)]	Consolidated: Pre-Tax Net Investment Income	Consolidated: Pre-Tax Effective Yield[(3)]	Excluding Securities Lending Program[(1)]: Average Investments and Interest-Bearing Cash[(4)]	Excluding Securities Lending Program[(1)]: Pre-Tax Net Investment Income[(5)]	Excluding Securities Lending Program[(1)]: Pre-Tax Effective Yield[(6)]
	(dollars in thousands)					
2011	$13,451,778	$457,558	3.4%	$13,451,778	$457,558	3.4%
2010	12,838,300	473,547	3.7	12,838,300	473,547	3.7
2009	11,460,994	467,402	4.1	11,460,994	467,402	4.1
2008	11,595,522	440,451	3.8	10,589,507	437,883	4.1
2007	12,024,944	469,772	3.9	10,171,508	467,293	4.6

(1) Represents consolidated information excluding the Securities Lending Program, which was terminated in the fourth quarter of 2008.
(2) Average of beginning and ending carrying values of investments and interest-bearing cash and cash equivalents for the year.
(3) Pre-tax net investment income divided by average investments and interest-bearing cash and cash equivalents.
(4) Average of beginning and ending carrying values of investments and interest-bearing cash and cash equivalents excluding securities lending invested collateral.
(5) Pre-tax net investment income excluding net investment income from securities lending invested collateral.
(6) Pre-tax net investment income excluding net investment income from securities lending invested collateral divided by average investments and interest-bearing cash and cash equivalents excluding securities lending invested collateral.

The carrying values of available for sale securities are subject to significant volatility from changes in their fair values. (See MD&A.)

As of December 31, 2011, the fair value of the total investment portfolio was $13.42 billion.

In addition, TRH's investments are exposed to market and other significant risks which could result in the loss of fair value. Market risk results from the potential for adverse fluctuations in interest rates, equity prices and foreign currency exchange rates. TRH has performed Value at Risk ("VaR") analyses to estimate the maximum potential loss of fair value that could occur as a result of market risk over a period of one month at a confidence level of 95%. TRH's market risk analyses do not provide weight to risks relating to market issues such as liquidity and the credit-worthiness of investments. (See **Item 7A.** *Quantitative and Qualitative Disclosures About Market Risk*.)

Competition

The reinsurance business is a mature, highly competitive industry in virtually all lines of business. (See MD&A for a discussion of market conditions and trends in competition intensity in recent years.)

Competition in the types of reinsurance in which TRH engages is based on many factors, including the perceived overall financial strength of the reinsurer; S&P, Best and Moody's ratings; states or other jurisdictions where the reinsurer is licensed, accredited, authorized or can serve as a reinsurer; capacity and coverages offered; premiums charged; specific terms and conditions of the reinsurance offered; value added services offered; speed of claims payment; and reputation and experience in the lines of business underwritten. These factors also operate in the aggregate across the reinsurance industry, generally in combination with prevailing economic conditions. Reinsurance purchases are also sensitive to cyclical movements in reinsurance rates, terms and conditions and, ultimately, the reinsurance industry's overall financial results.

TRH competes in the United States and international reinsurance markets with numerous international and domestic reinsurance companies, some of which have greater resources than TRH or operate in different regulatory jurisdictions and tax environments. TRH's competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain primary insurance companies, domestic and European underwriting syndicates and, in some instances, government owned or subsidized facilities. Although most reinsurance companies operate in the broker market, TRH's largest competitors also work directly with ceding companies, competing with brokers.

Traditional reinsurers as well as capital market participants from time to time produce alternative products (such as reinsurance securitizations, catastrophe bonds and various derivatives such as swaps) that may compete with certain types of reinsurance, such as property catastrophe. Over time, these numerous initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

Employees

At December 31, 2011, TRH had approximately 630 employees. Approximately 270 employees were located in the New York headquarters; 120 employees were located in other locations in the United States and 240 employees were located in offices outside of the United States.

Regulation

TRH's operations are subject to regulation in the U.S. and abroad. Changes to the regulatory environment can have a significant effect on TRH and its businesses. TRC, TRZ and Fair American, in common with other reinsurers, are subject to regulation and supervision by the states and by other jurisdictions in which they do business. Within the United States, the method of such regulation varies but generally has its source in statutes that delegate regulatory and supervisory powers to an elected or appointed state insurance official. This regulation and supervision focuses primarily on the level of solvency that must be maintained, including risk-based capital measurements, limitations on the form of investments and other forms of risk. In addition, such regulation covers the licensing of underwriters of insurance and reinsurance, restrictions on the size of risks which may be insured under a single contract, specifications for deposits of securities for the benefit of ceding companies, methods of accounting, periodic examinations of the affairs and financial reports of insurance companies, the form and content of reports of financial condition required to be filed, and reserves for unearned premiums, losses and other purposes. As required by the State of New York, TRC and Fair American use the Codification of Statutory Accounting Principles as primary guidance on statutory accounting. In general, such regulation is for the protection of the ceding companies and, ultimately, their policyholders rather than security holders.

The rates and coverage terms of reinsurance agreements with non-affiliates are generally not subject to regulation by any governmental authority. This contrasts with primary insurance agreements where the rates and policy terms are generally closely regulated by governmental authorities. As a practical matter, however, the rates charged by primary insurers and the policy terms of primary insurance agreements may affect the rates charged and the policy terms under associated reinsurance agreements.

The Company, under the relevant insurance laws, is deemed an insurance holding company and TRH and its insurance company affiliates are subject to the insurance holding company statutes of various states and jurisdictions. The insurance holding company laws and regulations vary from jurisdiction to jurisdiction, but generally require domestic insurance holding companies and insurers and reinsurers that are subsidiaries of insurance holding companies to register with the applicable state regulatory authority and to file with that authority certain reports which provide information concerning their capital structure, ownership, financial condition, affiliated company transactions and general business operations.

Such insurance holding company laws generally also require prior regulatory agency approval of changes in direct or indirect control of an insurer or reinsurer and of certain material intercorporate transfers of assets within the holding company structure. The New York insurance laws provide that no corporation or other person may acquire direct control of TRC or Fair American, or acquire control of the Company and thus indirect control of TRC and Fair American, unless such corporation or person has obtained the prior approval of the New York State Department of Financial Services (the "NYS DFS") for such acquisition. For the purposes of the New York insurance laws, any investor acquiring ten percent or more of the Company's common shares would be presumed to be a "controlling person" of the Company and its subsidiaries, unless the NYS DFS determines upon application that such investor would not control the Company. An investor who could be deemed a "controlling person" of the Company would be required to obtain the approval of the NYS DFS prior to such acquisition. In addition, such investor would become subject to various ongoing reporting requirements in New York and in certain other states. In connection with the Alleghany Merger Agreement, Alleghany has made the requisite filings with the NYS DFS.

Risk Based Capital ("RBC") is designed to measure the adequacy of an insurer's statutory surplus in relation to the risks inherent in its business. Thus, in theory, inadequately capitalized insurance companies can be identified. The RBC formula develops a risk adjusted target level of statutory surplus by applying certain factors to various asset, premium and reserve items. Higher factors are applied to items deemed to have more risk by the National Association of Insurance Commissioners ("NAIC") and lower factors are applied to items that are deemed to have less risk. Thus, the target level of statutory surplus varies not only as a result of the insurer's size, but also on the risk profile of the insurer's operations.

The RBC Model Law provides for four incremental levels of regulatory attention for insurers whose surplus is below the calculated RBC target. These levels of attention range in severity from requiring the insurer to submit a plan for corrective action to placing the insurer under regulatory control.

At December 31, 2011, the statutory surplus of TRC and Fair American each exceeded the level of surplus required under RBC requirements for regulatory attention.

Through the "credit for reinsurance" mechanism, TRC and Fair American are indirectly subject to the effects of regulatory requirements imposed by the states in which TRC's and Fair American's ceding companies are licensed. In general, an insurer which obtains reinsurance from a reinsurer that is licensed, accredited or authorized by the state in which the insurer files statutory financial statements is permitted to take a credit on its statutory financial statements in an aggregate amount equal to the reinsurance recoverable on paid losses and the liabilities for unearned premiums and loss and LAE reserves ceded to the reinsurer, subject to certain limitations where amounts of reinsurance recoverable on paid losses are more than 90 days overdue. Certain states impose additional requirements that make it difficult to become so authorized, and certain states do not allow credit for reinsurance ceded to reinsurers that are not licensed or accredited in that state without additional provision for security.

In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") was enacted. Dodd-Frank included specific provisions regarding the regulation of reinsurance. Under the reinsurance provisions of Dodd-Frank, with respect to reinsurance agreements entered on or after July 21, 2011, whether credit for reinsurance in financial statements is allowed will be determined by the state that is the domestic U.S. regulator of the ceding insurer, provided such state is accredited by the NAIC or found to be substantially equivalent. This provision prevents the non-domestic regulators of the ceding insurer from reaching a separate determination with respect to availability of credit for reinsurance. Dodd-Frank also creates the Federal Insurance Office (the "FIO"). The FIO has no administrative authority but will have the authority to collect data and to assist the U.S. Secretary of the Treasury in negotiating covered agreements. A covered agreement is a bilateral or multilateral agreement regarding prudential measures with respect to the business of insurance or reinsurance that is (a) entered into between the U.S. and one or more foreign governments, authorities or regulatory entities; and (b) relates to the recognition of prudential measures with respect to the business of insurance or reinsurance that achieves a level of protection achieved under state insurance or reinsurance regulation.

In response to Dodd-Frank, several individual states including Florida, New York and New Jersey have developed their own credit for reinsurance guidelines modeled on the NAIC Reinsurance Regulatory Modernization Framework proposal. These state-based initiatives permit the insurance supervisor to consider the financial condition of an assuming reinsurer in addition to its domicile when determining credit for reinsurance. The NAIC is currently in the process of drafting a sweeping Solvency Modernization Initiative. While this initiative is in its early stages, the NAIC has completed a road-map and has articulated its objectives. The final manifestation of the initiative will come in the form of draft Model Laws and Acts for adoption by the individual states. These drafts are not expected to be completed in the near future.

In addition to the Dodd-Frank and the various state actions, a federal proposal was introduced in Congress which would allow industry participants to voluntarily choose a federal charter over the current state system. Consequently, collateral requirements under credit for reinsurance rules may be based in part on domicile and in part on each reinsurer's financial strength rating as assigned by the NAIC or its designated rating organization(s). TRH does not presently expect this proposal to have a material effect on its operations. However, such proposal is expected to reduce the amount of collateral that many non-U.S. domiciled companies will need to post to secure their obligations to U.S. domiciled insurers and reinsurers.

TRH's international operations are regulated in various jurisdictions with respect to licensing requirements, currency, amount and type of security deposits, amount and type of reserves and amount and type of local investment. International operations and assets held abroad may be adversely affected by political and other developments in foreign countries, including possible tax changes, nationalization and changes in regulatory policy, as well as by consequences of hostilities and unrest. The risks of such occurrences and their overall effect upon TRH vary from country to country and cannot easily be predicted. Regulations governing technical reserves and remittance of balances in some countries may hinder remittance of profits and repatriation of assets.

The Terrorism Risk Insurance Act of 2002 ("TRIA") was signed into law in November 2002 and extended for two years in December 2005. TRIA provided coverage to the insurance industry for acts of terrorism, as defined by TRIA. The Terrorism Risk Insurance Extension Act of 2005 ("TRIEA") greatly increased the portion of the loss the insurance industry would pay in the event of a terrorist attack and reduced the number of lines covered. This coverage does not apply to reinsurers. The Terrorism Risk Insurance Program Reauthorization Act of 2007 ("TRIPRA") extended the TRIEA program through 2014. TRIPRA removes the distinction between foreign and domestic acts of terrorism and hardens the cap on insurers' aggregate liability at $100 billion. Additionally, TRIPRA mandates that Federal fund outlays be recouped by mandatory policyholder surcharges. In general, TRH does not provide terrorism cover under international property treaties nor does it provide cover for certified acts of terrorism, as defined by TRIEA, under domestic property treaties. TRH offers terrorism-specific treaty coverages to ceding companies on a limited basis. With respect to other lines of business, TRH assumes terrorism risk in marine, aviation and other casualty treaties after careful underwriting consideration and, in many cases, with limitations.

Within the European Union (the "EU"), the EU Reinsurance Directive of November 2005 (the "Reinsurance Directive") was adopted. The Reinsurance Directive requires member countries to lift barriers to trade within the EU for companies that are domiciled in an EU country. TRH operates within the EU, as a "Third Country Reinsurer" through a series of foreign branches and continues to evaluate the potential impact of the implementation of the Reinsurance Directive which could vary from country to country. TRH has contacted insurance regulators throughout the EU to ascertain their regulatory intent and to discuss each country's rule applicable to TRH. Currently, TRH continues to conduct business within the EU through its foreign branches with no significant impact on its operations. As each country within the EU adopts rules implementing the Reinsurance Directive, TRH could be materially adversely affected by the adopted rules. TRH may be required to post additional collateral in EU countries or may need to consider restructuring its business in order to comply with the rules adopted in EU countries implementing the Reinsurance Directive.

In addition to the Reinsurance Directive, the EU is phasing in a new regulatory regime for regulation of financial services known as "Solvency II." Solvency II is a principles-based regulatory regime that seeks to enhance transparency, promote uniformity, and encourage a proactive approach to company solvency. It is built on a risk-based approach to setting capital requirements of insurers and reinsurers. TRH could be materially impacted by the implementation of Solvency II depending on the costs associated with implementation by each EU country, any increased capitalization requirements and any costs associated with adjustments to TRH's corporate operating structure.

Traditionally, regulatory and legislative changes affecting the insurance and reinsurance industries, as well as the financial services industry as a whole, are conducted in an organized and structured manner encompassing the issuance of draft legislation or regulations and a significant period for review, evaluation and comment by the industry and markets. As a result of the recent displacement in the financial markets and its impact on the insurance and reinsurance industry, legislators and/or regulators may feel compelled to pass new rules in an expedited manner without the normal review periods. The passage of new regulatory rules on an expedited basis may have a material adverse impact on TRH if those rules increase the cost of doing business or restrict TRH's ability to underwrite certain lines of business and/or make certain investments without providing TRH with the normal amount of time to review the new rules, assess their impact on TRH and allow TRH to alter its business strategies or restructure in the most efficient manner.

Relationship with the AIG Group

Secondary Public Offerings of the Company's Common Stock by AIG

AIG, a Delaware corporation, is a holding company which, through its subsidiaries, is engaged in a broad range of insurance and insurance-related activities in the United States and abroad. AIG's primary activities include property-casualty insurance, life insurance and retirement services operations.

Immediately prior to June 10, 2009, AIG beneficially owned approximately 59% of the Company's outstanding shares. On June 10, 2009, AIG and AHAC, a wholly-owned subsidiary of AIG, consummated the June 2009 Offering of 29.9 million issued and outstanding shares of the common stock of the Company owned by AIG and AHAC. On March 15, 2010, AHAC consummated the March 2010 Offering of 8.5 million issued and outstanding shares of the Company's common stock owned by AHAC. The Company repurchased 2.0 million shares of its common stock from AHAC in the March 2010 Offering pursuant to a stock offering agreement for an aggregate purchase price of approximately $105 million. TRH did not receive any proceeds from the Secondary Offerings. Immediately following the March 2010 Offering, the AIG Group, including AHAC, beneficially owned 0.7 million shares of the Company's common stock (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG), representing approximately 1.1% of the Company's then outstanding shares. As a result of its reduced ownership percentage, the AIG Group was no longer considered a related party after March 15, 2010.

Reinsurance Assumed from the AIG Group

In the normal course of business, TRH sells reinsurance to subsidiaries of the AIG Group. Based upon TRH's assessment of risk selection, pricing, terms and conditions and other relevant factors, TRH either accepts or rejects potential AIG Group business. Except where premiums assumed were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement, TRH has generally not set terms and conditions as lead underwriter with respect to the treaty reinsurance purchased by the AIG Group; however, TRH may in the future set terms and conditions with respect to such business as lead underwriter.

After March 15, 2010, the AIG Group ceased to be a related party of TRH, as discussed above. Gross premiums written originated by the AIG Group and ceded to TRH from contracts that were entered into while the AIG Group was a related party were immaterial in 2011 and totaled approximately $196 million (4.8%) and $263 million (6.3%) in 2010 and 2009, respectively. These amounts exclude (a) premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement; (b) amounts assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries; and (c) all premiums from contracts that were effective after March 15, 2010. The amount of premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement are not material. (See Note 16 for the amount of premiums assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries.)

Available Information

The Company files annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"). The public may read and copy any materials filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Also, the SEC maintains an Internet Web site that contains reports, proxy and information statements, and other information regarding issuers, including the Company, that file electronically with the SEC. The public can obtain any documents that the Company files electronically with the SEC at *http://www.sec.gov* or through the New York Stock Exchange, 20 Broad Street, New York, New York 10005, on which the Company's common stock is listed.

TRH's website, which can be found on the Internet at *http://www.transre.com*, contains frequently updated information about the Company and its operations. Copies of the Company's recent Forms 10-K, Forms 10-Q and Forms 8-K, and all amendments to those reports, can be accessed free of charge as soon as reasonably practicable after the reports and amendments are electronically filed with or furnished to the SEC by selecting "SEC Filings" on the menu under "Investor Information." References to TRH's website in this report are provided as a convenience and do not constitute, and should not be viewed as, an incorporation by reference of the information contained on, or available through, the website. Therefore, such information should not be considered part of this report.

In addition, copies of any of the Company's reports on Form 10-K, Form 10-Q and Form 8-K, and all amendments to those reports, as well as any Quarterly Earnings Press Release may be obtained by contacting the Company's Investor Relations department at:

Transatlantic Holdings, Inc.
80 Pine Street
New York, New York 10005
Telephone: (212) 365-2200
E-mail: *investor_relations@transre.com*

Item 1A.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
RISK FACTORS

The risks described below could materially affect TRH's business, results of operations, cash flows or financial condition.

(a) Risks Related to TRH's Operations

The occurrence of severe catastrophic events could have a material adverse effect on TRH's financial condition, results of operations and operating cash flows.

Because TRH underwrites property and casualty reinsurance and has large aggregate exposures to natural and man-made disasters, TRH expects that its loss experience will from time to time include events of great severity. The frequency and severity of catastrophe losses are inherently unpredictable, particularly in light of the acceleration of climate change. Consequently, the occurrence of losses from a severe catastrophe or series of catastrophes could have a material adverse effect on TRH's financial condition, results of operations and cash flows. Increases in the values and geographic concentrations of insured property and the effects of inflation have historically resulted in increased severity of industry losses in recent years, and TRH expects that those factors will increase the severity of catastrophe losses in the future.

If TRH is required to increase its liabilities for loss reserves, TRH's financial condition, results of operations and ultimately its cash flows may be materially adversely affected.

Significant periods of time may elapse between the occurrence of an insured loss, the reporting of the loss to the ceding company and the reinsurer, and the ceding company's payment of that loss and subsequent payments to the ceding company by the reinsurer. TRH is required by applicable insurance laws and regulations and GAAP to establish liabilities on its consolidated balance sheet for payment of losses and LAE that will arise in the future from its reinsurance products for losses that have occurred as of the balance sheet date. Under GAAP, TRH is not permitted to establish liabilities until an event occurs that may give rise to a loss. Once such an event occurs, liabilities are established in TRH's financial statements for its losses, based upon estimates of losses incurred by the ceding companies. As a result, only liabilities applicable to losses incurred up to the reporting date may be established, with no allowance for the provision of a contingency reserve to account for expected or unexpected future losses. Losses arising from future events will be estimated and recognized at the time the losses occur. Although TRH annually reviews the adequacy of its established reserves for losses and LAE, there can be no assurance that TRH's loss reserves will not develop adversely and have a material effect on TRH's results of operations. To the extent these liabilities may be insufficient to cover actual losses or LAE, TRH will have to add to these liabilities and incur a charge to its earnings, which could have a material adverse effect on TRH's financial condition, results of operations and ultimately its cash flows. (See MD&A for a further discussion of the risks and uncertainties relating to loss reserves.)

A downgrade in the ratings assigned to TRH could adversely affect TRH's ability to write new business and/or TRH's cost and availability of any future unsecured financing, and may adversely impact TRH's existing agreements.

S&P, Best and Moody's are generally considered to be significant rating agencies with respect to the evaluation of insurance and reinsurance companies. Financial strength and credit ratings by these rating agencies are important factors in establishing a competitive position for insurance and reinsurance companies. Financial strength ratings measure a company's ability to meet its insurance and reinsurance obligations to contract holders. Credit ratings measure a company's ability to repay its debt obligations and directly affect the cost and availability of unsecured financing. Ratings are subject to periodic review at the discretion of each respective rating agency and may be revised downward or revoked at their sole discretion. Rating agencies also may increase their scrutiny of rated companies, revise their rating standards or take other action. In addition, a ceding company's own rating may be adversely affected by a downgrade in the rating of its reinsurer or an affiliated company. Therefore, a downgrade of a rating of the Company or its operating subsidiaries may dissuade a ceding company from reinsuring with TRH in the future and may influence a ceding company to reinsure with one of TRH's competitors that has a higher financial strength rating. In general, if the insurer financial strength ratings and/or financial strength ratings of TRC, TRZ or Fair American from these rating agencies fall below "A-," certain rating agency triggers in TRH's contracts would allow customers to elect to take a number of actions such as terminating the contracts on a run-off or cut-off basis, requiring TRH to post collateral for all or a portion of the obligations or requiring commutation under the contract as described below. A downgrade of TRH's debt ratings may also increase future borrowing costs.

A significant portion of TRH's in-force treaty contracts as of December 31, 2011 permit the ceding company to cancel the contract on a cut-off or run-off basis if TRH's operating subsidiaries' financial strength rating is downgraded below a certain rating level, generally "A-". In addition, contracts may also permit the ceding company to cancel the contract if there is a significant decline in the statutory surplus of TRC, generally of at least 20%. Contracts may contain one or both of the aforementioned contractual provisions, certain other cancellation triggers or other stipulations, such as a requirement to post collateral for all or a portion of TRH's obligations or require commutation under the contract if a triggering event occurs. Whether a ceding company would exercise any of these cancellation rights would depend on, among other factors, the reason and extent of such downgrade or surplus reduction, the prevailing market conditions and the pricing and availability of replacement reinsurance coverage.

When a contract is cancelled on a "cut-off" basis, as opposed to a "run-off" basis, the liability of the reinsurer under policies which became effective under the treaty prior to the cancellation date of such treaty ceases with respect to losses resulting from events taking place on and after said cancellation date. Accordingly, unearned premiums on that business as of the cut-off date are returned to the ceding company, net of a proportionate share of the original ceding commission. In the accounting period of the cancellation effective date, the amount of unearned premiums returned would be recorded as a reduction of gross premiums written with a like reduction in gross unearned premiums with no effect on gross premiums earned. Thus, the canceling of a contract generally has liquidity and future implications to TRH's business but rarely affects premiums already earned.

TRH cannot predict in advance the extent to which these cancellation rights would be exercised, if at all, or what effect such cancellations would have on TRH's financial condition or future operations, but such effect potentially could be materially adverse.

TRH may secure its obligations under its various reinsurance contracts using trusts and letters of credit. TRH may enter into agreements with ceding companies that require TRH to provide collateral for its obligations under certain reinsurance contracts with these ceding companies under various circumstances, including where TRH's obligations to these ceding companies exceed negotiated thresholds. These thresholds may vary depending on TRH's ratings, and a downgrade of TRH's ratings or a failure to achieve a certain rating may increase the amount of collateral TRH is required to provide. TRH may provide the collateral by delivering letters of credit to the ceding company, depositing assets into a trust for the benefit of the ceding company or permitting the ceding company to withhold funds that would otherwise be delivered to TRH under the reinsurance contract. The amount of collateral TRH is required to provide typically represents all or a portion of the obligations TRH may owe the ceding company, often including estimates made by the ceding company of IBNR claims. Since TRH may be required to provide collateral based on the ceding company's estimate, TRH may be obligated to provide collateral that exceeds TRH's estimates of the ultimate liability to the ceding company. An increase in the amount of collateral TRH is obligated to provide to secure its obligations may have an adverse impact on, among other things, TRH's ability to write additional reinsurance.

If TRH's risk management methods and pricing models are not effective, TRH's financial condition, results of operations and cash flows could be materially adversely affected.

TRH's property and casualty reinsurance contracts cover unpredictable events such as hurricanes, windstorms, hailstorms, earthquakes, volcanic eruptions, fires, industrial explosions, freezes, riots, floods and other natural or man-made disasters, including those that may result from terrorist activity. TRH is also exposed to multiple insured losses arising out of a single occurrence that have the potential to accumulate to material amounts and affect multiple risks/programs and classes of business. TRH uses modeling techniques to manage certain of such risks to acceptable limits, although current techniques used to estimate the exposure may not accurately predict the probability of such an event or the extent of resulting losses. In addition, TRH may purchase retrocession protection designed to limit the amount of losses that it may incur. Retrocession arrangements do not relieve TRH from its obligations to the insurers and reinsurers from whom TRH assumes business. The failure of retrocessionnaires to honor their obligations could result in losses to TRH. Moreover, from time to time, market conditions may limit and in some cases prevent reinsurers from obtaining the types and amounts of reinsurance that they consider adequate for their risk management. If TRH is unable to obtain retrocessional coverage in the amounts it desires or on acceptable terms, TRH's capacity and appetite for risk could change, and TRH's financial condition, results of operations and cash flows may be materially adversely affected.

Further, various provisions of TRH's contracts, such as limitations to or exclusions from coverage or choice of legal forum, may not be enforceable in the manner TRH intends, due to, among other things, disputes relating to coverage and choice of legal forum. Additionally, underwriting is a matter of judgment, involving important assumptions about matters that are inherently difficult to predict and are beyond TRH's control, and for which historical experience and probability analysis may not provide sufficient guidance. Also, TRH's risk management methods, models, databases and experience may not adequately address the emergence of various matters, such as the impact of climate change or TRH employees or third-party service providers exceeding their authority or otherwise breaching their obligations, that could significantly affect TRH's business in future periods. One or more catastrophic or other events and emerging risks could result in claims or have an impact that substantially exceeds TRH's expectations, which could have a material adverse effect on TRH's financial condition, results of operations and cash flows.

The property and casualty reinsurance business is historically cyclical, and TRH expects to experience periods with excess underwriting capacity and unfavorable pricing.

Historically, property and casualty reinsurers have experienced significant fluctuations in operating results. Demand for reinsurance is influenced significantly by underwriting and investment results of primary insurers and prevailing general economic and market conditions, all of which affect ceding companies' decisions as to the amount or portion of risk that they retain for their own accounts and consequently how much they decide to cede to reinsurance companies. The supply of reinsurance is related to prevailing prices, the levels of insured losses and the levels of industry surplus, among other factors, that, in turn, may fluctuate in response to changes in rates of return on investments being earned in the reinsurance industry. In addition, the supply of reinsurance is affected by a reinsurer's confidence in its ability to accurately assess the probability of expected underwriting outcomes, particularly with respect to catastrophe losses. As a result, the property and casualty reinsurance business historically has been a cyclical industry, characterized by periods of intense price competition due to excessive underwriting capacity as well as periods when shortages of capacity permitted favorable pricing.

The cyclical trends in the industry and the industry's profitability can also be affected significantly by volatile and unpredictable developments, including what TRH believes to be a trend of courts to grant increasingly larger awards for certain damages, changes in the political, social or economic environment, natural disasters (such as catastrophic hurricanes, windstorms, tornadoes, earthquakes and floods), man-made disasters (such as those arising from terrorist activities), fluctuations in interest rates, changes in the investment environment that affect market prices of and returns on investments and inflationary pressures that may affect the size of losses experienced by primary insurers. TRH cannot predict whether market conditions will improve, remain constant or deteriorate. Unfavorable market conditions may affect TRH's ability to write reinsurance at rates that TRH considers appropriate relative to the risk assumed. If TRH cannot write property and casualty reinsurance at appropriate rates, TRH's ability to transact reinsurance business would be significantly and adversely affected.

Increased competition could adversely affect TRH's profitability.

The property and casualty reinsurance industry is highly competitive in virtually all lines. TRH could face increased competition from new market entrants, existing market participants devoting additional capital to the types of business written by TRH, alternatives to reinsurance available to cedants, such as capital market alternatives, and government-sponsored reinsurance entities.

Competition in the types of reinsurance in which TRH is engaged is based on many factors, including the perceived overall financial strength of the reinsurer; ratings of S&P, Best and Moody's; states or other jurisdictions where the reinsurer is licensed, accredited, authorized or can serve as a reinsurer; capacity and coverages offered; premiums charged; specific terms and conditions of the reinsurance offered; services offered; speed of claims payment; and reputation and experience in the lines of business underwritten.

TRH competes in the U.S. and international reinsurance markets with numerous international and domestic reinsurance companies, some of which have greater resources than TRH or operate in different regulatory jurisdictions and tax environments. TRH's competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, reinsurance departments of certain primary insurance companies, domestic and European underwriting syndicates and, in some instances, government-owned or subsidized facilities. Certain of these competitors have been operating substantially longer than TRH and have established long-term and continuing business relationships throughout the industry, which can be a significant competitive advantage.

Traditional reinsurers as well as capital market participants from time to time produce alternative products or reinsurance vehicles (such as reinsurance securitizations, catastrophe bonds and various derivatives, such as swaps, and sidecars) that may compete with certain types of reinsurance, such as property catastrophe. Hedge funds may provide reinsurance and retrocessional protections through captive companies or other alternative transactions on a fully collateralized basis for property and energy catastrophe business. Over time, these numerous initiatives could significantly affect supply, pricing and competition in the reinsurance industry.

A limited number of brokers account for a large portion of TRH's premiums; the loss of all or a substantial portion of the business provided by them may have an adverse effect on TRH.

The great majority of TRH's premiums are written through brokers. In 2011, business brokered by companies controlled by Aon, Marsh and Willis accounted for 26%, 19% and 11%, respectively, of total gross premiums written. In addition, business brokered by TRH's 10 largest brokerage sources of business accounted for 69% of total gross premiums written in 2011. These brokers also have, or may in the future acquire, ownership interests in insurance and reinsurance companies that may compete with TRH. The loss of all or a substantial portion of the business provided by TRH's brokers could have a material adverse effect on TRH.

Concentration of TRH's investment portfolios in any particular segment of the economy may have adverse effects.

Concentration of TRH's investment portfolios in any particular industry, group of related industries, asset class or geographic region could have an adverse effect on TRH's investment portfolios and consequently on TRH's consolidated results of operations or financial condition. While TRH seeks to mitigate this risk by having a broadly diversified portfolio, events or developments that have a negative effect on any particular industry, group of related industries, asset class or geographic region may have a greater adverse effect on investment portfolios to the extent that the portfolios are concentrated rather than diversified. Further, TRH's ability to sell assets relating to such particular groups of related assets may be limited if other market participants are seeking to sell at the same time.

The valuation of TRH's investments includes methodologies, estimations and assumptions which are subject to differing interpretations; a change in interpretations could result in changes to investment valuations that may adversely affect TRH's results of operations or financial condition.

The vast majority of TRH's investments are measured at fair value using methodologies, estimations and assumptions which are subject to differing interpretations. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. Investments recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three "levels" based on the observability of inputs available in the marketplace used to measure the fair values. (See Note 4 of Notes to Consolidated Financial Statements for the types of assets included in each of the three levels.)

Securities that are less liquid are more difficult to value and trade. During periods of market disruption, including periods of significantly rising or high interest rates, rapidly widening credit spreads or illiquidity, it may be difficult to value certain of the securities in TRH's investment portfolio if trading becomes less frequent or market data becomes less observable. There may be certain asset classes that were in active markets with significant observable data that became illiquid due to changes in the financial environment. In such cases, more securities may fall to Level 3 and thus require more subjectivity and judgment of TRH's management. In addition, prices provided by independent pricing services and independent broker quotes can vary widely even for the same security.

As such, valuations may include inputs and assumptions that are less observable or require greater estimation as well as valuation methods which are more sophisticated, thereby resulting in values which may be greater or less than the value at which the investments may be ultimately sold. Further, rapidly changing or strained credit and equity market conditions could materially impact the valuation of securities as reported within TRH's consolidated financial statements and the period-to-period changes in value could vary significantly. Decreases in value may have a material adverse effect on TRH's results of operations or financial condition. (See MD&A for a further discussion of the risks and uncertainties relating to critical accounting estimates.)

The determination of the amount of other-than-temporary impairment ("OTTI") taken on TRH's investments is subjective and could materially impact TRH's results of operations or financial condition.

The determination that a security has incurred an other-than-temporary decline in value requires the judgment of TRH's management and consideration of the fundamental condition of the issuer, its near-term prospects and all relevant facts and circumstances. (See Note 5(g) of Notes to Consolidated Financial Statements for the methodology TRH uses to determine OTTI.)

There can, however, be no assurance that TRH has accurately assessed the level of impairments reflected in its financial statements. Furthermore, additional impairments may need to be taken in the future. Historical trends may not be indicative of future impairments.

An investment is impaired if its fair value falls below its cost or amortized cost. The determination of whether an impairment is other-than-temporary is subjective and involves considerable judgment and the consideration of various factors and circumstances. The significant factors include:

- the severity of the decline in fair value
- the length of time the fair value is below cost
- the issuer's financial condition, including profitability and cash flows
- the issuer's credit status
- the issuer's specific and general competitive environment
- published reports
- the general economic environment
- the regulatory and legislative environment
- other relevant factors

If TRH's determination of OTTI is materially incorrect, it could have a material adverse effect on TRH's financial condition, results of operations and cash flows.

TRH's liquidity could be materially impaired by future events within or outside of TRH's control, including conditions in the financial and credit markets.

The Company depends on dividends, distributions and other payments from its subsidiaries to fund dividend payments and to fund payments on its obligations, including debt obligations. Regulatory and other legal restrictions may limit TRH's ability to transfer funds freely, either to or from its subsidiaries. In particular, certain of TRH's branches or subsidiaries are subject to laws and regulations, including those in foreign jurisdictions, that authorize regulatory bodies to block or reduce transfers of funds to the home office in the U.S. or TRH's affiliates. These laws and regulations may hinder TRH's ability to access funds that it may need to make payments on its obligations.

Certain of TRH's investments may become illiquid. TRH's investments include fixed maturities (including asset-backed securities), equity investments and other invested assets (including alternative investments and direct equity investments). Disruptions in the credit and financial markets may materially affect the liquidity of TRH's investments. If TRH requires significant amounts of cash on short notice in excess of normal cash requirements in a period of market illiquidity, then TRH may have difficulty selling investments in a timely manner or may be forced to dispose of them for less than what TRH might otherwise have been able to under other conditions.

Furthermore, TRH does not currently have a credit facility to help it respond to any liquidity problems it may encounter and from time to time it may be difficult for TRH to obtain a credit facility. In addition, conditions in the credit and financial markets, changes in the Company's stock price and other factors could make it difficult for TRH to raise cash in the capital markets.

The impact on TRH of governmental actions made in response to the recent economic crisis is difficult to determine at this time.

In response to the recent financial crises affecting the credit and financial markets and concern about certain financial institutions' ongoing viability, numerous regulatory and governmental actions have been taken or proposed. Within the U.S., the Federal Reserve has taken action through reduced federal funds rates and the expansion of acceptable collateral for its loans to provide additional liquidity. Numerous financial institutions have received and may continue to receive capital both in the form of emergency loans and direct U.S. Government equity investments. Within the United Kingdom and Europe, similar actions, including interest rate cuts and capital injections into financial institutions, have been undertaken. It is possible that some of TRH's competitors may participate in some of these programs. There can be no assurance as to the effect that any such governmental actions will have on the financial markets generally or on TRH's financial condition, results of operations and cash flows in particular.

Difficult and volatile conditions in the global capital and credit markets and in the overall economy could materially and adversely affect TRH's operating results, investment portfolio and financial condition.

Disruption and volatility in the global capital and credit markets and in the overall economy affects TRH's business in a number of ways, including the following:

- disruption in the capital and credit markets may increase claims activity in TRH's reinsurance lines, such as D&O, E&O and trade credit
- significant fluctuations in the fixed maturities, asset-backed securities and equities markets could reduce TRH's investment returns and the fair value of its investment portfolio
- volatility in the capital and credit markets makes it more difficult to access those markets, if necessary, to maintain or improve TRH's financial strength and credit ratings or to generate liquidity
- disruption in the overall economy may reduce demand for insurance and reinsurance products
- increases in inflation could result in higher losses on reinsurance contracts, particularly in longer tailed lines of business, increased operating costs and decrease the fair value of TRH's investment portfolio

It is difficult to predict when and how long these conditions will exist and how TRH's markets, business and investments will be adversely affected. Accordingly, these conditions could have a material adverse effect on TRH's consolidated financial condition or results of operations in future periods.

TRH may be adversely affected by the impact of market volatility and interest rate and foreign currency exchange rate fluctuations.

TRH's principal invested assets are fixed maturity investments and other interest rate sensitive securities, which are subject to the market risk of potential losses from adverse changes in interest rates, credit spreads or trading liquidity and may also be adversely affected by foreign currency exchange rate fluctuations. Depending on TRH's classification of the investment, changes in the fair value of TRH's securities are reflected in its consolidated balance sheet, statement of operations and/or statement of comprehensive income. TRH's investment portfolio is also subject to credit risk resulting from adverse changes in the issuers' ability to repay the debt or the ability of bond insurers to meet their obligations to pay principal and/or interest if an issuer is unable to repay its debt. Moreover, issuers may face liquidity pressures as a result of economic conditions and, in turn, may be subject to downgrades by the credit rating agencies. These risks could materially adversely affect TRH's results of operations and financial condition.

A principal exposure to foreign currency risk is TRH's obligation to settle claims in foreign currencies. The possibility exists that TRH may incur foreign currency exchange gains or losses as TRH ultimately settles claims required to be paid in foreign currencies. To mitigate this risk, TRH also maintains investments denominated in certain foreign currencies in which the claims payments will be made. To the extent TRH does not seek to hedge its foreign currency risk or hedges prove ineffective, the resulting impact of a movement in foreign currency exchange rates could materially adversely affect TRH's results of operations or financial condition.

TRH's businesses are heavily regulated, and changes in regulation may reduce TRH's profitability and limit its growth.

TRH's reinsurance subsidiaries are subject to extensive regulation and supervision in the jurisdictions in which they conduct business. This regulation is generally designed to protect the interests of policyholders, as opposed to reinsurers and their stockholders and other investors, and relates to authorization to transact certain lines of business, capital and surplus requirements, investment limitations, underwriting limitations, transactions with affiliates, dividend limitations, changes in control and a variety of other financial and non-financial components of an insurance company's business.

Traditionally, regulatory and legislative changes affecting the insurance and reinsurance industries, as well as the financial services industry as a whole, are conducted in an organized and structured manner encompassing the issuance of draft legislation or regulations and a significant period for review, evaluation and comment by the industry and markets. As a result of the displacement in the financial markets and its impact on the insurance and reinsurance industry, legislators and/or regulators may feel compelled to pass new rules in an expedited manner without the normal review periods. The passage of new regulatory rules on an expedited basis may have a material adverse impact on TRH if those rules increase the cost of doing business or restrict TRH's ability to underwrite certain lines of business and/or make certain investments without providing TRH with the normal amount of time to review the new rules, assess their impact on TRH and allow TRH to alter its business strategies or restructure in the most efficient manner. Additionally, any proposed or future legislation or insurance regulatory initiatives may be more restrictive than current regulatory requirements or may result in higher costs. (See **Regulation** in **Item 1.** *Business* for a discussion of regulatory developments and related risks.)

TRH's offices that operate in jurisdictions outside the U.S. are subject to certain limitations and risks that are unique to foreign operations.

TRH's international operations are also regulated in various jurisdictions with respect to licensing requirements, currency, amount and type of security deposits, amount and type of reserves, amount and type of local investments and other matters. International operations and assets held abroad may be adversely affected by political and other developments in foreign countries, including possibilities of tax changes, nationalization and changes in regulatory policy, as well as by consequences of hostilities and unrest. The risks of such occurrences and their overall effect upon TRH vary from country to country and cannot easily be predicted. In addition, TRH's results of operations and net unrealized currency translation gain or loss (a component of accumulated other comprehensive income) are subject to volatility as the value of the foreign currencies fluctuate relative to the U.S. dollar. Regulations governing technical reserves and remittance balances in some countries may hinder remittance of profits and repatriation of assets.

The loss of key personnel or the inability to access TRH's facilities could adversely affect TRH's results of operations, financial condition and cash flows.

TRH relies upon the knowledge and talent of its employees to successfully conduct business. A loss of key personnel could have a material effect on TRH's results of operations, financial condition and cash flows in future periods. TRH also relies upon access to its facilities by employees to conduct such business. The inability by employees to access TRH's facilities, if over a prolonged time period, could have a material effect on TRH's results of operations, financial condition and cash flows in future periods.

The Company is a holding company and depends on the ability of its subsidiaries to distribute funds to it in order to meet its financial and other obligations.

The payment of dividends, interest and other obligations by the Company is dependent on the ability of its subsidiaries to pay dividends. The payment of dividends by the Company's subsidiaries is restricted by insurance regulations. For example, under New York insurance law, TRC and Fair American may pay dividends only out of their statutory earned surplus. The inability of the Company's subsidiaries to pay dividends in an amount sufficient for the Company to meet its obligations could have a material adverse effect on TRH.

TRH's counterparties may acquire certain rights upon a change in control of TRH, which could negatively affect TRH.

TRH is a party to numerous contracts, agreements, licenses, permits, authorizations and other arrangements that contain provisions giving counterparties certain rights (including, in some cases, termination rights) in the event of a change in control of the Company or its subsidiaries. If a change in control occurs, cedants may be permitted to cancel contracts on a cut-off or run-off basis, and TRH may be required to provide collateral to secure premium and reserve balances or may be required to cancel and commute the contract, subject to an agreement between the parties that may be settled in arbitration. If a contract is cancelled on a cut-off basis, TRH may be required to return unearned premiums, net of commissions. In certain instances, contracts contain dual triggers, such as a change in control and a ratings downgrade, both of which must be satisfied for the contractual right to be exercisable.

Whether a ceding company would have cancellation rights in connection with a change in control of TRH depends upon the language of its agreement with TRH. Whether a ceding company exercises any cancellation rights it has would depend on, among other factors, such ceding company's views with respect to the financial strength and business reputation of the new controlling party or other significant owners of the Company's shares, the extent to which such ceding company has reinsurance coverage with such persons or its affiliates, the prevailing market conditions, the pricing and availability of replacement reinsurance coverage and TRH's ratings following the change in control.

In addition, contracts may provide a ceding company with multiple options, such as collateralization or commutation, that would be triggered by a change in control. As of December 31, 2011, TRH estimates that with respect to a change in control of TRH, approximately $642 million of unearned premiums, which would be reduced by applicable commissions, could be subject to return to the ceding company should every cedant exercise their contractual termination right, including the rights of collateralization or commutation. With respect to gross loss reserves, approximately $1.73 billion of gross loss reserves could be subject to collateralization requirements or commutation. Collateral requirements may take the form of trust agreements, funded by securities held, or letters of credit. Should cedants invoke the right to commute, an amount would be payable by TRH to the respective ceding companies representing both a return of unearned premiums and a settlement of loss reserves, where applicable. Upon commutation, the amount to be paid to settle the liability for gross loss reserves may include a discount or premium to the financial statement loss reserve value.

TRH cannot presently predict the effects, if any, a change in control will have, including the extent to which cancellation rights would be exercised, if at all, nor the effect of a change in control on TRH's financial condition, results of operations, or cash flows, but such effect could be material.

(b) Risks Related to the Merger Pursuant to the Alleghany Merger Agreement

Failure to complete the Alleghany Merger could negatively impact the Company's share price, future business and financial results.

The Alleghany Merger Agreement contains a number of conditions precedent that must be satisfied or waived prior to the consummation of the Alleghany Merger. In addition, the Alleghany Merger Agreement may be terminated by the Company or Alleghany under certain circumstances.

If the Alleghany Merger is not completed, TRH's ongoing business may be adversely affected as follows:

- the market price of the Company's common stock may decline
- the manner in which brokers, insurers, cedants and other third parties perceive TRH may be negatively impacted, which in turn could affect TRH's ability to compete for or to win new business or obtain renewals in the marketplace

- TRH's current and prospective employees may experience uncertainty about their future roles, which may adversely affect TRH's ability to attract and retain key personnel; the attention of TRH's management will have been diverted to the Alleghany Merger instead of being directed solely to TRH's own operations and pursuit of other opportunities that could have been beneficial to TRH
- TRH may have to pay certain fees and costs relating to the Alleghany Merger, such as legal, accounting, financial advisor and printing fees

Current stockholders of the Company will have a reduced ownership and voting interest after the Alleghany Merger and will exercise less influence over management.

Current stockholders of the Company have the right to vote in the election of the Company's board of directors (the "Board") and on other matters affecting the Company. Immediately after the Alleghany Merger is completed, it is expected that, on a fully diluted basis, current stockholders of the Company will own approximately 49% of the outstanding shares of Alleghany common stock. As a result of the Alleghany Merger, current stockholders of the Company will have less influence on the management and policies of Alleghany post-merger than they now have on the management and policies of the Company.

The shares of Alleghany common stock to be received by stockholders of the Company as a result of the merger will have different rights from the shares of the Company's common stock.

Upon completion of the merger, stockholders of the Company will become stockholders of Alleghany, and their rights as stockholders will be governed by the Alleghany charter and the Alleghany bylaws. The rights associated with the Company's common stock are different from the rights associated with shares of Alleghany common stock.

The combined company is expected to incur substantial expenses related to the Alleghany Merger and the integration of the companies.

The combined company is expected to incur substantial expenses in connection with the Alleghany Merger and the integration of the Company and Alleghany. There are a large number of processes, policies, procedures, operations, technologies and systems that must be integrated. While the Company assumed that a certain level of expenses would be incurred, there are many factors beyond its control that could affect the total amount or the timing of the integration expenses. Moreover, many of the expenses that will be incurred are, by their nature, difficult to estimate accurately. These expenses could, particularly in the near term, exceed the savings that the combined company expects to achieve from the elimination of duplicative expenses and the realization of economies of scale and cost savings. These integration expenses likely will result in the combined company taking significant charges against earnings following the completion of the Alleghany Merger, and the amount and timing of such charges are uncertain at present.

The occurrence of severe catastrophic events may cause the combined company's financial results to be volatile and may affect the financial results of the combined company differently than such an event would have affected the financial results of the Company on a stand-alone basis.

Because the combined company will, among other things, underwrite property catastrophe insurance and reinsurance and have large aggregate exposures to natural and man-made disasters, management expects that the combined company's loss experience generally will include infrequent events of great severity. Consequently, the occurrence of losses from catastrophic events is likely to cause substantial volatility in the combined company's financial results. In addition, because catastrophes are an inherent risk of the combined company's business, a major event or series of events can be expected to occur from time to time and to have a material adverse effect on the combined company's financial condition and results of operations, possibly to the extent of eliminating the combined company's shareholders' equity. Upon completion of the Alleghany Merger, the combined company's exposure to natural and man-made disasters will be different from the exposure of the Company prior to the completion of the Alleghany Merger. Accordingly, the Alleghany Merger may exacerbate the exposure described above.

Item 1B.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
UNRESOLVED STAFF COMMENTS

None.

Item 2.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
PROPERTIES

TRH utilizes office space in New York, where TRH's headquarters is located, and in various locations around the world, all of which are leased.

Item 3.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
LEGAL PROCEEDINGS

TRH, in common with the reinsurance industry in general, is subject to litigation in the normal course of its business. TRH does not believe that any pending litigation will have a material adverse effect on its consolidated results of operations, financial position or cash flows.

In the ordinary course of business, TRH is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine TRH's rights and obligations under reinsurance agreements and other more general contracts. In some disputes, TRH seeks to enforce its rights under an agreement or to collect funds due to TRH. In other matters, TRH is resisting attempts by others to enforce alleged rights. Such disputes are resolved through formal and informal means, including litigation, arbitration and mediation.

In all such matters, TRH believes that its positions are legally and commercially reasonable. TRH also regularly evaluates those positions, and where appropriate, establishes or adjusts loss reserves to reflect its evaluation. TRH's aggregate loss reserves take into account the possibility that TRH may not ultimately prevail in each and every disputed matter. TRH takes into consideration changes in judicial interpretation of legal liability and policy coverages, changes in claims handling practices and inflation. TRH considers not only monetary increases in the cost of what it reinsures, but also changes in societal factors that influence jury verdicts and case law, TRH's approach to claim resolution, and, in turn, claim costs. TRH believes its aggregate loss reserves reduce the potential that an adverse resolution of one or more of these matters, at any point in time, would have a material impact on TRH's financial condition, results of operations or cashflows. However, there can be no assurance that adverse resolutions of such matters in any one period or in the aggregate will not result in a material adverse effect on TRH's results of operations, financial condition or cashflows.

In addition, from time to time, regulators commence investigations into insurance and reinsurance industry practices. TRH has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests. While TRH does not believe that any of these inquiries will have a material impact on TRH's business or financial results, it is not possible to predict with any certainty at this time what impact, if any, these inquiries may have on TRH's business or financial results.

(a) Stockholder Legal Proceedings Related to the Agreement and Plan of Merger, dated as of June 12, 2011 (the "Allied World Merger Agreement"), between Allied World Assurance Company Holdings, AG ("Allied World"), the Company and GO Sub, LLC, a wholly-owned subsidiary of Allied World ("GO Sub"), and the Alleghany Merger Agreement

In connection with the since-terminated Allied World Merger Agreement, five putative stockholder class action lawsuits were filed against the Company and the members of the Board challenging the merger contemplated by the Allied World Merger Agreement: *Ivers v. Transatlantic Holdings, Inc., et al.*, C.A. No. 6574-VCP (Court of Chancery of the State of Delaware), *Clark v. Transatlantic Holdings, Inc., et al.*, Index No. 651706/2011 (Supreme Court of the State of New York, County of New York), *Sutton v. Transatlantic Holdings, Inc., et al.*, Index No. 651705/2011 (Supreme Court of the State of New York, County of New York), *Jaroslawicz v. Transatlantic Holdings, Inc., et al.*, Index No. 651718/2011 (Supreme Court of the State of New York, County of New York), and *Kramer v. Transatlantic Holdings, Inc., et al.*, C.A. No. 6626-VCP (Court of Chancery of the State of Delaware). Each lawsuit named the Company, the members of the Board, and Allied World as defendants. Four of the lawsuits also named GO Sub as a defendant, and the Sutton lawsuit named a former director of the Company as a defendant. Each of the lawsuits asserted that the members of the Board breached a fiduciary duty in connection with the approval of the merger of GO Sub with and into the Company pursuant to the terms of the Allied World Merger Agreement (the "Allied World Merger"), and that Allied World and its subsidiaries aided and abetted the alleged breaches of a fiduciary duty. The Clark action also alleged that the Company aided and abetted its directors' alleged breach of a fiduciary duty. The lawsuits sought to enjoin the Allied World Merger, among other relief.

On June 29, 2011, defendants moved to dismiss or stay the three New York actions in favor of the virtually identical proceedings pending in the Delaware Court of Chancery. On July 25, 2011, the plaintiffs in the three New York actions moved to consolidate those actions into a single action. On October 18, 2011, the parties stipulated that each of these actions would be discontinued without prejudice. The Court entered the parties' stipulation the following day.

On July 21, 2011, Vice Chancellor Parsons of the Court of Chancery of the State of Delaware entered an order consolidating the two Delaware actions. Under that order, the Delaware plaintiffs filed a consolidated amended complaint on August 1, 2011 alleging that the Board breached a fiduciary duty by approving certain deal measures that purportedly privileged the Allied World Merger over other potential proposals, including a proposal from Validus Holdings, Ltd. ("Validus"), and by allegedly failing to include material information in the Company's proxy materials, and that Allied World and GO Sub aided and abetted such breaches. Additionally, on August 1, 2011, the Delaware plaintiffs filed a motion to expedite proceedings and a motion for a preliminary injunction, both of which the Company opposed. At a conference held on August 22, 2011, the court declined to set a hearing date on the Delaware plaintiffs' motion for a preliminary injunction and, except for a very narrow issue, denied the Delaware plaintiffs' motion for expedited discovery.

On October 10, 2011, the Delaware plaintiffs filed a second consolidated amended complaint alleging that the Board breached a fiduciary duty (and that Allied World and GO Sub aided and abetted such breach) by, among other things, adopting and refusing to rescind a shareholder rights plan, approving certain payments to Allied World in conjunction with the termination agreement, dated September 15, 2011, among the Company, Allied World and GO Sub (the "Termination Agreement") and approving a share repurchase program. The second amended complaint also asserted derivative claims for breach of fiduciary duty against the Board, Allied World and GO Sub, a claim for unjust enrichment against Allied World and GO Sub, and a derivative claim for declaratory relief that the Termination Agreement is null and void. The lawsuit sought the return of any payments from the Company to Allied World pursuant to the Termination Agreement, among other relief. On October 24, 2011, defendants moved to dismiss the second consolidated amended complaint.

On December 21, 2011, the Delaware plaintiffs filed their third consolidated amended complaint. This third consolidated amended complaint added Alleghany and Shoreline as defendants, and alleged that the members of the Board breached a fiduciary duty in connection with the approval of the Alleghany Merger and that Alleghany and Shoreline aided and abetted the alleged breaches of fiduciary duty. In addition, this third consolidated amended complaint retained its allegations against Allied World and its subsidiaries. On January 6, 2012, defendants moved to dismiss the third consolidated amended complaint.

In connection with the Alleghany Merger Agreement, two additional putative stockholder class action lawsuits were filed against the Company and the members of the Board challenging the merger contemplated by the Alleghany Merger Agreement: *Clark v. Transatlantic Holdings, et al.*, Index No. 653256/2011 (Supreme Court of the State of New York, County of New York) and *Sutton v. Transatlantic Holdings, et al.*, Index No 653532/2011 (Supreme Court of the State of New York, County of New York). These lawsuits asserted that the members of the Board breached a fiduciary duty in connection with the approval of the Alleghany Merger and that the Company, Alleghany and Shoreline aided and abetted the alleged breaches of fiduciary duty. On January 4, 2012, the Company and the Board filed a motion to dismiss or stay the *Clark* action.

On January 30, 2012, the Company entered into a memorandum of understanding with the plaintiffs regarding the settlement of these putative stockholder class actions against the Company and its directors, Alleghany, Shoreline, Allied World and GO Sub. The Company agreed, pursuant to the terms of the proposed settlement, to make certain supplemental disclosures related to the Alleghany Merger. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court approval following notice to the Company's stockholders. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Court of Chancery of the State of Delaware will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the Alleghany Merger, the Alleghany Merger Agreement, and any disclosure made in connection therewith (but excluding claims for appraisal under Section 262 of the Delaware General Corporation Law), among other claims, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel will file a petition in the Court of Chancery of the State of Delaware for an award of attorneys' fees and expenses to be paid by the Company or its successor, which the defendants may oppose. The Company or its successor will pay or cause to be paid any attorneys' fees and expenses awarded by the Court of Chancery of the State of Delaware. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the Court of Chancery of the State of Delaware will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

(b) *Validus Holdings, Ltd. v. Transatlantic Holdings, Inc., et al.*, C.A. No. 6776-VCP (Court of Chancery of the State of Delaware)

On August 10, 2011, Validus filed a complaint in Delaware Chancery Court against the Company, the Board, Allied World and GO Sub. The complaint alleges that the Company and the Board breached their fiduciary duties (and that Allied World and GO Sub aided and abetted such breaches) (a) by requiring Validus to execute a confidentiality agreement containing a standstill provision prior to engaging in negotiations with Validus and (b) as a result of the Company's and Allied World's various disclosures regarding both the proposed merger with Allied World and Validus' proposal, which Validus alleges include false and misleading statements. On August 16, 2011, Validus filed a Motion for Preliminary Injunction and a Motion for Expedited Proceedings, both of which the Company opposed. At a conference held on August 22, 2011, the court declined to set a hearing date on Validus' motion for a preliminary injunction and indicated that it was unlikely to conclude that Validus asserted a colorable claim for breach of fiduciary duty based on the Company's requirement that Validus enter into a confidentiality agreement with a standstill provision. On August 24, 2011, Validus withdrew its motion for expedited proceedings. On September 6, 2011, the Company and the Board moved to dismiss the complaint.

The Company and the Board believe this lawsuit is without merit and intend to defend against it vigorously.

(c) *Transatlantic Holdings, Inc. v. Validus Holdings Ltd.*, Case No. 1:11-cv-00661 (U.S. District Court for the District of Delaware)

On July 28, 2011, the Company filed a lawsuit in the United States District Court for the District of Delaware against Validus alleging that Validus violated Sections 14(a) and (e) of the Securities Exchange Act of 1934 ("Securities Exchange Act") and Section 11 of the Securities Act of 1933 by making materially false and/or misleading statements in its proxy and tender offer materials filed with the SEC. The lawsuit seeks, among other relief, an order: (a) compelling Validus to correct the material false and/or misleading statements it has made in connection with both its proxy and tender offer materials; and (b) prohibiting Validus from acquiring or attempting to acquire shares of the Company until its misstatements have been corrected. On August 10, 2011, Validus filed a motion to dismiss the Company's lawsuit. On September 12, 2011, the Company filed an amended complaint against Validus and two Validus executives alleging that Validus and the executives violated Section 14(a) of the Securities Exchange Act by making materially false and/or misleading statements in its proxy and tender offer materials filed with the SEC and seeking a declaration that the Company's Schedule 14(D)-9 filed with the SEC complies with Section 14(d)(1) of the Securities Exchange Act. Pursuant to a stipulation filed with the court on October 3, 2011, the parties agreed, among other things, that Validus' motion to dismiss would be withdrawn as moot and that the Company could file an amended complaint after October 31, 2011.

(d) Other Legal Proceedings

On January 26, 2012, the Company reached an agreement with AIG to settle a dispute, previously in arbitration, which arose as a result of losses claimed by TRH from its participation in a securities lending program administered and managed by AIG. The agreement calls for the parties to attempt to reach a mediated settlement involving the securities lending program, along with various other business issues that were not the subject of the arbitration proceedings. If a mediated settlement is not reached, the parties have agreed that the mediator will determine the amount of a settlement payment to TRH by June 1, 2012 with respect to the securities lending claims alone within a range between $45 million and $125 million. TRH will record the benefit resulting from this settlement when the final outcome is determined. The agreement settles all of the claims in the arbitration without any admission of liability by any party.

On September 15, 2011, TRC entered into a negotiated settlement and commutation with United Guaranty Residential Insurance Company, United Guaranty Mortgage Indemnity Company, United Guaranty Credit Insurance Company and United Guaranty Residential Insurance Company of North Carolina (collectively, "UGC") with respect to arbitration proceedings involving certain contracts related to subprime mortgages and credit default insurance pursuant to which UGC purchased reinsurance from TRC. The negotiated settlement reduced 2011 net premiums written and net premiums earned by $19 million, net losses and loss adjustment expenses incurred in respect of losses occurring in prior years by $61 million and net commissions by $3 million, resulting in a pre-tax net benefit to (loss) income before income taxes of $45 million.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
EXECUTIVE OFFICERS OF THE REGISTRANT

The table below sets forth the names, positions and ages of the persons who are the executive officers of the Company as of February 27, 2012.

Name	Position	Age	Served as Officer Since
Michael C. Sapnar	President and Chief Executive Officer and Director	45	2005[(1)]
Kenneth Apfel	Executive Vice President and Chief Actuary	53	2004[(2)]
Paul A. Bonny	Executive Vice President, President International Operations	55	1994
Gary A. Schwartz	Executive Vice President and General Counsel	51	1999[(3)]
Steven S. Skalicky	Executive Vice President and Chief Financial Officer	63	1995
Javier E. Vijil	Executive Vice President, President Latin American and Caribbean Division	58	1996

(1) Mr. Sapnar was named President and Chief Executive Officer of the Company, TRC and Fair American by election of the Board of Directors effective as of January 1, 2012. From September 2011 to December 2011, Mr. Sapnar was President of the Company, TRC and Fair American. From May 2011 to September 2011, Mr. Sapnar was Executive Vice President and Chief Operating Officer of the Company, TRC and Fair American. From May 2006 to May 2011, Mr. Sapnar was Executive Vice President and Chief Underwriting Officer, Domestic Operations of the Company, TRC and Fair American. Since May 2011 to the present, Mr. Sapnar has served as a Director of the Company. Since December 2004 to the present, Mr. Sapnar has served as a Director of TRC and Fair American.

(2) Mr. Apfel was named Executive Vice President and Chief Actuary of the Company, TRC and Fair American by election of the Board of Directors in September 2008. From August 2004 to September 2008, Mr. Apfel was Senior Vice President and Chief Actuary of the Company, TRC and Fair American. Since May 2005 to the present, Mr. Apfel has served as a Director of TRC and Fair American, but not of the Company.

(3) Mr. Schwartz was named Executive Vice President and General Counsel of the Company, TRC and Fair American by election of the Board of Directors in September 2011. From May 2004 to September 2011, Mr. Schwartz was Senior Vice President and General Counsel of the Company, TRC and Fair American. From November 2008 to March 2009, Mr. Schwartz also was Corporate Secretary of the Company, TRC and Fair American. Since May 2005 to the present, Mr. Schwartz has served as a Director of TRC and Fair American, but not of the Company.

PART II

Item 5.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The following table sets forth the high and low sales prices and the dividends declared per share of Transatlantic Holdings, Inc. (the "Company") Common Stock ("TRH shares") on the New York Stock Exchange Composite Tape for each of the four quarters of 2011 and 2010:

	2011			2010		
	High	Low	Dividends Declared	High	Low	Dividends Declared
First Quarter	$52.68	$46.17	$0.21	$54.25	$46.67	$0.20
Second Quarter	51.23	43.85	0.22	53.39	44.08	0.21
Third Quarter	53.00	44.54	0.22	51.50	46.05	0.21
Fourth Quarter	56.03	46.81	—	54.08	49.68	0.21

The Company paid each dividend in the quarter following the quarter of declaration.

Under the terms of the Agreement and Plan of Merger (the "Alleghany Merger Agreement") dated November 20, 2011 with Alleghany Corporation ("Alleghany") and Shoreline Merger Sub, Inc. (formerly Shoreline Merger Sub, LLC), a wholly-owned subsidiary of Alleghany ("Shoreline"), the Company is prohibited from paying dividends on its common stock during the pendency of the merger. However, the Company was permitted to pay in the fourth quarter of 2011 the $0.22 per share dividend declared in the third quarter of 2011. See Note 15 of Notes to Consolidated Financial Statements for restrictions on the Company's operating subsidiaries' ability to pay dividends.

As of January 31, 2012, the approximate number of holders of TRH shares, including those whose TRH shares are held in nominee name, was 15,000.

In December 2009, the Board of Directors (the "Board") authorized the purchase of up to $200 million of TRH shares from time to time in the open market or via negotiated transactions through December 31, 2011 (the "December 2009 Authorization"). In October 2010, the Board approved a new share repurchase program, which authorized the Company to repurchase up to $200 million of the Company's outstanding common shares from time to time in the open market or via negotiated transactions through December 31, 2012 (the "October 2010 Authorization"). The October 2010 Authorization superseded the December 2009 Authorization.

In September 2011, the Board approved a strategic plan for the Company, which provided, among other things, for the repurchase of up to $600 million of the Company's common shares (the "September 2011 Authorization") through open market or negotiated purchases. The September 2011 Authorization superseded the October 2010 Authorization. Pursuant to the terms of the Alleghany Merger Agreement, the Company ceased repurchasing its common shares under the September 2011 Authorization as of

November 20, 2011. In the fourth quarter of 2011, prior to November 20, 2011, the Company repurchased 4.3 million shares of its common stock under its share repurchase program as detailed below:

	Total Number of Shares Purchased[(1)]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Share Repurchase Program	Dollar Amount Still Available Under Share Repurchase Program at End of Month (in thousands)[(2)]
October 2011	3,033,006	$50.81	3,033,006	$404,701
November 2011	1,226,475	53.97	1,226,475	338,506
December 2011	—	—	—	338,506
Total	4,259,481	51.72	4,259,481	338,506

(1) Does not include 2,177 shares relating to restricted stock units ("RSUs") that were attested to in satisfaction of withholding taxes relating to the issuance of the Company's shares for vested RSUs by holders of the Company's employee RSUs.

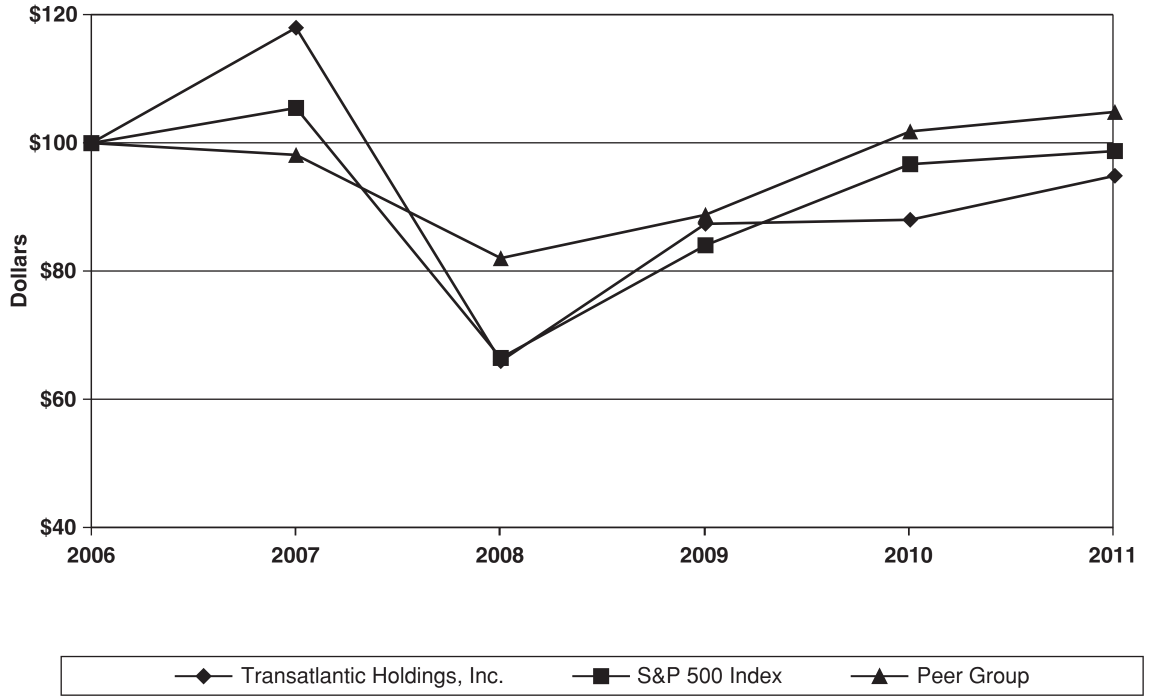
(2) Under the terms of the Alleghany Merger Agreement, the Company is prohibited from repurchasing its common shares during the pendency of the merger.

Performance Graph

The following Performance Graph compares the cumulative total return to stockholders on TRH shares for a five-year period (December 31, 2006 to December 31, 2011) with the cumulative total return of the S&P 500 stock index (the "S&P 500 Index") and peer group of companies (the "Peer Group"). Dividend reinvestment has been assumed and returns have been weighted to reflect relative stock market capitalization.

The Peer Group consists of seventeen reinsurance companies to which TRH compared its business and operations: Alterra Capital Holdings Ltd. (starting on May 13, 2010, the first trading day following its formation), Arch Capital Group Ltd., Axis Capital Holdings Ltd., Endurance Specialty Holdings Ltd., Everest Re Group Ltd., IPC Holdings, Ltd. (through September 4, 2009, when it was acquired by Validus Holdings, Ltd.), Max Capital Group Ltd. (through May 12, 2010, when it merged with Harbor Point Ltd. to form Alterra Capital Holdings Ltd.), Montpelier Re Holdings Ltd., Odyssey Re Holdings Corp. (through October 28, 2009, when it was acquired by Fairfax Financial Holdings Limited), Partner Re Ltd., Platinum Underwriters Holdings, Ltd., PXRE Group Ltd. (through August 6, 2007, when it was acquired by Argo Group International Holdings, Ltd.), RenaissanceRe Holdings Ltd., SCOR S.E., SCOR Holding (Switzerland) (formerly known as Converium Holding AG, through June 27, 2008 when it was delisted), Swiss Reinsurance Company Ltd. and Validus Holdings Ltd. (starting on September 8, 2009, the first day following its acquisition of IPC Holdings, Ltd.). The performance of Alterra Capital Holdings Ltd., IPC Holdings, Ltd., Max Capital Group Ltd., Odyssey Re Holdings Corp., PXRE Group Ltd., and SCOR Holding (Switzerland) are included for a shorter period since they were not public companies for the entire five-year performance period.

Cumulative Total Return to Stockholders
Value of $100 Invested at December 31, 2006
Comparison of Cumulative Five Year Total Return



Company/Index	Dec. 2006	Dec. 2007	Dec. 2008	Dec. 2009	Dec. 2010	Dec. 2011
Transatlantic Holdings, Inc.	$100.00	$118.01	$65.96	$87.40	$ 88.03	$ 94.90
S&P 500 Index	100.00	105.49	66.46	84.05	96.71	98.76
Peer Group	100.00	98.16	82.04	88.81	101.83	104.87

Item 6.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
SELECTED FINANCIAL DATA

The Selected Financial Data should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included elsewhere herein.

	Years Ended December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data and ratios)				
Statement of Operations Data:					
Net premiums written	$ 3,859,567	$ 3,881,693	$ 3,986,101	$ 4,108,092	$ 3,952,899
Net premiums earned	$ 3,819,462	$ 3,858,620	$ 4,039,082	$ 4,067,389	$ 3,902,669
Net losses and loss adjustment expenses incurred	(3,256,401)	(2,681,774)	(2,679,171)	(2,907,227)	(2,638,033)
Net commissions	(932,108)	(932,820)	(927,918)	(980,626)	(980,121)
Increase (decrease) in deferred policy acquisition costs	11,506	2,898	(12,406)	6,956	16,901
Other underwriting expenses	(172,332)	(177,624)	(158,181)	(131,555)	(115,760)
Underwriting (loss) profit[(1)]	(529,873)	69,300	261,406	54,937	185,656
Net investment income	457,558	473,547	467,402	440,451	469,772
Realized net capital gains (losses)[(2)]	88,600	30,101	(70,641)	(435,541)	9,389
(Loss) gain on early extinguishment of debt	(1,179)	(115)	9,869	10,250	—
Interest on senior notes	(66,769)	(68,272)	(43,454)	(43,359)	(43,421)
Other expenses, net[(3)]	(163,004)	(31,773)	(28,549)	(23,515)	(25,644)
(Loss) income before income taxes	(214,667)	472,788	596,033	3,223	595,752
Income (taxes) benefits	115,448	(70,587)	(118,371)	99,031	(108,611)
Net (loss) income	$ (99,219)	$ 402,201	$ 477,662	$ 102,254	$ 487,141
Per Common Share:					
Net (loss) income:					
Basic	$ (1.62)	$ 6.28	$ 7.20	$ 1.54	$ 7.37
Diluted	(1.62)	6.19	7.15	1.53	7.31
Cash dividends declared	0.65	0.83	0.79	0.73	0.62
Share Data:					
Weighted average common shares outstanding:					
Basic	61,424	64,092	66,381	66,270	66,124
Diluted	61,424	64,930	66,802	66,722	66,654
Ratios[(4)]:					
Loss ratio	85.3%	69.5%	66.3%	71.5%	67.6%
Commission ratio	24.1	24.1	23.3	23.9	24.7
Other underwriting expense ratio	4.5	4.6	3.9	3.2	2.9
Underwriting expense ratio	28.6	28.7	27.2	27.1	27.6
Combined ratio	113.9%	98.2%	93.5%	98.6%	95.2%

	As of December 31,				
	2011	2010	2009	2008	2007
	(in thousands, except per share data)				
Balance Sheet Data:					
Total investments	$13,419,699	$12,972,739	$12,315,395	$10,229,557	$12,500,540
Cash and cash equivalents	367,806	284,491	195,723	288,920	255,432
Total assets	15,934,673	15,705,354	14,943,659	13,376,938	15,484,327
Unpaid losses and loss adjustment expenses	9,529,003	9,020,610	8,609,105	8,124,482	7,926,261
Unearned premiums	1,177,325	1,212,535	1,187,526	1,220,133	1,226,647
Senior notes	1,005,960	1,030,511	1,033,087	722,243	746,930
Total stockholders' equity	4,082,953	4,284,459	4,034,380	3,198,220	3,349,042
Book value per common share[5]	$ 71.15	$ 68.83	$ 60.77	$ 48.19	$ 50.56

(1) Includes pre-tax net catastrophe (costs) of ($852) million in 2011, ($202) million in 2010, $6 million in 2009, ($170) million in 2008 and ($55) million in 2007.

(2) Includes OTTI write-downs charged to earnings of ($4) million in 2011, ($8) million in 2010, ($83) million in 2009, ($318) million in 2008 and ($27) million in 2007.

(3) 2011 includes merger-related costs of $138 million.

(4) The loss ratio represents the absolute value of net losses and loss adjustment expenses incurred expressed as a percentage of net premiums earned. The underwriting expense ratio represents the sum of the commission ratio and the other underwriting expense ratio. The commission ratio represents the absolute value of the sum of net commission and the (decrease) increase in deferred policy acquisition costs expressed as a percentage of net premiums earned. The other underwriting expense ratio represents the absolute value of other underwriting expenses expressed as a percentage of net premiums earned. The combined ratio represents the sum of the loss ratio and the underwriting expense ratio.

(5) Book value per common share is stockholders' equity divided by common shares outstanding.

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K and other publicly available documents may include, and Transatlantic Holdings, Inc. (the "Company") and its subsidiaries (collectively with the Company, "TRH"), through their officers and representatives, may from time to time make, statements which may constitute "forward-looking statements" within the meaning of the U.S. federal securities laws. These forward-looking statements are identified, including without limitation, by their use of such terms and phrases as:

- "intend"
- "intends"
- "intended"
- "goal"
- "estimate"
- "estimates"
- "expect"
- "expects"
- "expected"
- "project"
- "projects"
- "projected"
- "projections"
- "plans"
- "anticipates"
- "anticipated"
- "should"
- "think"
- "thinks"
- "designed to"
- "foreseeable future"
- "believe"
- "believes"
- "scheduled"
- and similar expressions

These statements are not historical facts but instead represent only TRH's belief regarding future events and financial performance, many of which, by their nature, are inherently uncertain and outside of TRH's control. These statements may address, among other things, TRH's strategy and expectations for growth, product development, government and industry regulatory actions, legal matters, financial, credit and industry market conditions, financial results and reserves, as well as the expected impact on TRH of natural and man-made (*e.g.*, terrorist attacks) catastrophic events and political, economic, legal and social conditions.

It is possible that TRH's actual results, financial condition and expected outcomes may differ, possibly materially, from those anticipated in these forward-looking statements. Important factors that could cause TRH's actual results to differ, possibly materially, from those discussed in the specific forward-looking statements may include, but are not limited to, uncertainties relating to economic conditions, financial and credit market conditions, cyclical industry conditions, credit quality, government, regulatory and accounting policies, volatile and unpredictable developments (including natural and man-made catastrophes), the legal environment, legal and regulatory proceedings, failures of pricing models to accurately assess risks, the reserving process, the competitive environment in which TRH operates, interest rate and foreign currency exchange rate fluctuations, the uncertainties inherent in international operations, risks associated with the ability to consummate the merger with Alleghany and the timing of the closing of the merger, the ability to successfully integrate our operations and employees, the ability to realize anticipated benefits and synergies of the transaction, the potential impact of the announcement of the transaction or consummation of the transaction on relationships, including with employees, credit rating agencies, customers and competitors the ability to retain key personnel, pricing and policy term trends, increased competition, the impact of acts of terrorism and acts of war, greater frequency or severity of unpredictable catastrophic events, negative rating agency action, the adequacy of loss reserves, changes in regulations or tax laws, changes in the availability, cost or quality of reinsurance or retrocessional coverage, adverse general economic conditions, and judicial, legislative, political and other government developments, as well as management's response to these factors.

These factors are further discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations and in **Part I**, **Item 1A.** *Risk Factors* of this Form 10-K. TRH is not under any obligation to (and expressly disclaims any such obligation to) update or alter any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future events or otherwise, except as required by law.

Item 7.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
("MD&A")

Throughout this Annual Report on Form 10-K, Transatlantic Holdings, Inc. (the "Company", and collectively with its subsidiaries, "TRH") presents its operations in the way it believes will be most meaningful. In certain instances, TRH's unpaid losses and loss adjustment expenses ("LAE") are presented net of related reinsurance recoverable ("net loss reserves") in accordance with principles prescribed or permitted by insurance regulatory authorities, as these are standard measures in the insurance and reinsurance industries.

Financial Statements

The following discussion refers to the consolidated financial statements of TRH as of December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, which are presented elsewhere herein. Financial data discussed below have been affected by certain transactions between TRH and related parties. (See Notes 14 and 16 of Notes to Consolidated Financial Statements.)

Executive Overview

The operations of the Company are conducted principally by its three major operating subsidiaries — Transatlantic Reinsurance Company® ("TRC"), Trans Re Zurich Reinsurance Company Ltd. ("TRZ") and Fair American Insurance and Reinsurance Company (formerly Putnam Reinsurance Company) ("Fair American") — and are managed based on its geographic segments. Through its operations on six continents, TRH offers reinsurance capacity on both a treaty and facultative basis — structuring programs for a full range of property and casualty products, with an emphasis on specialty lines, which may exhibit greater volatility of results over time than most other lines. Such capacity is offered through reinsurance brokers and, to a lesser extent, directly to domestic and foreign insurance and reinsurance entities.

TRH conducts its business and assesses performance through segments organized along geographic lines. The Domestic segment principally includes financial data from branches in the United States except Miami, as well as revenues and expenses of the Company (including interest expense on the Company's senior notes and merger-related costs (see Note 3 of Notes to Consolidated Financial Statements ("Note 3")). Prior to 2011, financial information for the Sydney branch was included in the London branch as part of the International-Europe segment. Sydney branch financial information for prior periods was not material. Starting in 2011, Sydney is more appropriately considered a segment for financial reporting purposes and is aggregated with other segments that are generally not material in International-Other. Segment information for periods prior to 2011 have been revised to conform to the current segment presentation. Data from the London and Paris branches and from TRZ are reported in the aggregate as International-Europe and considered as one segment due to operational and regional similarities. Data from the Miami (which serves Latin America and the Caribbean), Toronto, Hong Kong, Tokyo and Sydney branches are grouped as International-Other and represent the aggregation of segments that are generally not material.

TRH's operating strategy emphasizes product and geographic diversification as key elements in managing its level of risk concentration. TRH seeks to focus on more complex risks within the casualty and property lines and adjusts its mix of business to take advantage of market opportunities. Over time, TRH has most often capitalized on market opportunities when they arise by strategically expanding operations in an existing location or opening a branch or representative office in new locations. TRH's operations serving international markets leverage TRH's product knowledge, worldwide resources and financial strength, typically utilizing indigenous management and staff with a thorough knowledge of local markets and product characteristics.

In 2011, casualty lines comprised 70% of TRH's net premiums written, while property lines totaled 30%. Business written by international operations represented 51% of net premiums written in 2011. (See **Operational Review** for year to year comparisons of such measures.)

TRH's major sources of revenues are net premiums earned for reinsurance risks undertaken and income from investments. The great majority of TRH's investments are in available for sale fixed maturities. In general, premiums are received significantly in advance of related claims payments.

Merger Agreement with Alleghany Corporation ("Alleghany") and Terminated Merger Agreement with Allied World Assurance Company Holdings, AG ("Allied World")

In 2011, TRH was involved in merger-related activities. See Note 3 for merger-related costs and Note 18 of Notes to Consolidated Financial Statements ("Note 18") for legal proceedings related to merger-related activities.

(a) Merger Agreement with Alleghany

On November 20, 2011, the Company entered into an Agreement and Plan of Merger (the "Alleghany Merger Agreement") with Alleghany and Shoreline Merger Sub, Inc. (formerly, Shoreline Merger Sub, LLC), a wholly-owned subsidiary of Alleghany ("Shoreline"). The Alleghany Merger Agreement provides for the merger of the Company with and into Shoreline (the "Alleghany Merger"), with Shoreline continuing as the surviving company and a wholly-owned subsidiary of Alleghany. Upon completion of the Alleghany Merger, Shoreline's name will change to "Transatlantic Holdings, Inc." Pursuant to the terms and conditions of the Alleghany Merger Agreement, upon completion of the Alleghany Merger, stockholders of the Company will be entitled to receive, in exchange for each share of common stock they hold at the effective time of the Alleghany Merger, either stock or cash consideration with a value equal to the sum of (a) 0.145 multiplied by the average of the closing sales prices on the New York Stock Exchange for Alleghany common stock during the five trading days ending the day before the completion of the Alleghany Merger and (b) $14.22.

On February 6, 2012, the stockholders of the Company and the stockholders of Alleghany each approved the Alleghany Merger. The Alleghany Merger is expected to close in the first quarter of 2012, subject to regulatory approvals and customary closing conditions.

(b) Terminated Merger Agreement with Allied World

On June 12, 2011, Allied World and the Company agreed to a "merger of equals" business combination of the two companies pursuant to the terms of an Agreement and Plan of Merger, dated as of June 12, 2011 (the "Allied World Merger Agreement"), between Allied World, the Company and GO Sub, LLC, a wholly-owned subsidiary of Allied World ("GO Sub"). Pursuant to the terms of the Allied World Merger Agreement, GO Sub would have merged with and into the Company, with the Company surviving as a wholly-owned subsidiary of Allied World. Pursuant to the terms and conditions of the Allied World Merger Agreement, stockholders of the Company would have been entitled to receive 0.88 common shares of Allied World for each share of the Company's common stock (and cash in lieu of any fractional shares).

On September 15, 2011, the Company, Allied World and GO Sub entered into a termination agreement (the "Termination Agreement") pursuant to which the parties mutually terminated the

Allied World Merger Agreement. Pursuant to the Termination Agreement, the Company paid Allied World termination fees and expenses totaling $115.0 million in 2011.

Secondary Public Offerings of the Company's Common Stock by American International Group, Inc. ("AIG") and its subsidiaries (collectively, the "AIG Group")

Immediately prior to June 10, 2009, AIG beneficially owned approximately 59% of the Company's outstanding shares. On June 10, 2009, AIG and American Home Assurance Company ("AHAC"), a wholly-owned subsidiary of AIG, consummated a secondary public offering (the "June 2009 Offering") of 29.9 million issued and outstanding shares of the common stock of the Company owned by AIG and AHAC. On March 15, 2010, AHAC consummated another secondary public offering (the "March 2010 Offering", and collectively with the June 2009 Offering, the "Secondary Offerings") of 8.5 million issued and outstanding shares of the Company's common stock owned by AHAC. The Company repurchased 2.0 million shares of its common stock from AHAC in the March 2010 Offering pursuant to a stock offering agreement for an aggregate purchase price of approximately $105 million. TRH did not receive any proceeds from the Secondary Offerings. Immediately following the March 2010 Offering, the AIG Group, including AHAC, beneficially owned 0.7 million shares of the Company's common stock (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG), representing approximately 1.1% of the Company's then outstanding shares. As a result of its reduced ownership percentage, the AIG Group was no longer considered a related party after March 15, 2010.

Consolidated Results

The following table summarizes TRH's revenues, (loss) income before income taxes and net (loss) income for the periods indicated:

	Years Ended December 31,				
	2011		2010		2009
	Amount	Change From Prior Year	Amount	Change From Prior Year	Amount
	(dollars in millions)				
Revenues	$4,364.4	0.1%	$4,362.2	(1.9)%	$4,445.7
(Loss) income before income taxes	(214.7)	(145.4)	472.8	(20.7)	596.0
Net (loss) income	(99.2)	(124.7)	402.2	(15.8)	477.7

Revenues in 2011 were level with 2010 as increases in realized net capital gains were offset by decreases in net premiums earned and net investment income. The increase in realized net capital gains in 2011 is due to an increase in realized net capital gains on equities available for sale, due in part to the rebalancing of TRH's equity portfolio, and net foreign currency transaction gains in 2011 compared to net realized foreign currency transaction losses in 2010. The decrease in net investment income is due principally to a decrease in investment income from other invested assets, partially offset by increased investment income from equities. The decrease in investment income from other invested assets is due mainly to losses from an insurance-related alternative investment and a decrease in equity method income from TRH's 40% interest in Kuwait Reinsurance Company (K.S.C.) ("Kuwait Re"). The increase in net investment income from equities is due in part to the rebalancing of TRH's equity portfolio to place a greater emphasis on dividend generation. The decrease in net premiums earned occurred in the Domestic segment, partially offset by an increase in the International-Other segment. The lines with the most significant decreases in net premiums earned were the other liability, accident and health ("A&H"), fidelity, credit and mortgage guaranty lines, partially offset by significant increases in the auto liability, property, ocean marine and medical malpractice lines. (See Note 5(e) of Notes to Consolidated Financial Statements ("Note 5(e)") for a breakdown of realized net capital gains (losses).)

Revenues decreased in 2010 compared to 2009 due primarily to a decrease in net premiums earned, partially offset by realized net capital gains in 2010 compared to realized net capital losses in 2009. The decrease in net premiums earned occurred principally in the Domestic and International-Europe segments. The lines with the most significant decreases in net premiums earned were the auto liability, property, medical malpractice and ocean marine lines, partially offset by a significant increase in the other liability line. The increase in realized net capital gains (losses) in 2010 is due to a decrease in other-than-temporary impairments ("OTTI") and an increase in realized net capital gains on sales and redemptions of securities, partially offset by an increase in net foreign currency transaction losses.

Results for 2011 included pre-tax net catastrophe costs of $852 million principally relating to the March 2011 Tohoku earthquake and resulting tsunami in Japan; the February 2011 earthquake in New Zealand; fourth quarter 2011 flooding in Thailand; first quarter 2011 flooding in Australia and Cyclone Yasi; and second quarter 2011 tornado activity in the United States. Results for 2010 included pre-tax net catastrophe costs of $202 million principally relating to the February 2010 earthquake in Chile; the September 2010 earthquake in New Zealand; first quarter 2010 storms in Australia and fourth quarter 2010 flooding in Australia; and the April 2010 Deepwater Horizon explosion. While there were no significant catastrophe losses for events occurring in 2009, the year 2009 included a reduction of pre-tax net catastrophe costs incurred of ($6) million relating to events occurring in prior years. Catastrophe costs include losses incurred and related reinstatement premiums, the details of which can be found in Note 11 of Notes to Consolidated Financial Statements ("Note 11"). Reinstatement premiums may arise on both assumed and ceded business as a result of contractual provisions found in certain catastrophe excess-of-loss reinsurance contracts that require additional premium to be paid in the event of a loss to reinstate coverage for the remaining portion of the contract period. Net assumed (ceded) reinstatement premiums serve to increase (decrease) net premiums written and earned.

The loss before income taxes and net loss in 2011 compared to income before income taxes and net income in 2010 is primarily the result of an underwriting loss of ($529.9) million in 2011 compared to an underwriting profit of $69.3 million in 2010 and $138.4 million of merger-related costs, partially offset by an increase in realized net capital gains. (See Note 3.) The decrease in underwriting profit (loss) was primarily due to an increase in catastrophe costs in 2011, partially offset by an increase in favorable net loss reserve development and the net benefit from the negotiated settlement of an arbitration proceeding. In the aggregate, net catastrophe costs, net favorable development and the negotiated settlement of an arbitration proceeding decreased 2011 underwriting profit by $594.6 million compared to 2010. The percentage decrease in net income (loss) between periods is less than the percentage decrease in income (loss) before income taxes largely as a result of the significant tax benefits recorded related to the significant net catastrophe costs in 2011, partially offset by the limited tax benefit on merger-related costs recorded in 2011.

Income before income taxes and net income decreased in 2010 compared to 2009 primarily as a result of a decrease in underwriting profit and an increase in interest expense, offset in part by realized net capital gains in 2010 compared to realized net capital losses in 2009. The decrease in underwriting profit was primarily due to an increase in catastrophe costs in 2010, partially offset by an increase in favorable net loss reserve development. The net impact of increased catastrophe costs and increased favorable net loss reserve development was to decrease pre-tax underwriting profit in 2010 by $185.5 million compared to

2009. The increase in interest expense is due to the issuance of $350 million principal amount of TRH's 8.00% senior notes due in 2039 (the "2039 Notes") in November 2009. The decrease in net income between periods was mitigated by reduced tax expense in 2010 primarily related to the lower pre-tax income in 2010.

TRH recognized income tax (benefits) expenses relating to pre-tax net catastrophe costs of ($298.1) million, ($70.9) million and $2.0 million in 2011, 2010 and 2009, respectively, and, in 2011, recognized income tax benefits of ($6.1) million associated with merger-related costs.

Underwriting profit (loss) is defined as net premiums earned less net losses and LAE incurred, net of commissions and other underwriting expenses, plus (minus) any increase (decrease) in deferred policy acquisition costs. (See **Operational Review** for further discussion.)

Market Conditions and Outlook

The market conditions in which TRH operates have historically been cyclical, experiencing periods of price erosion followed by rate strengthening as a result of catastrophes or other significant losses or events that affect the overall capacity of the industry to provide coverage. For the years under discussion, the reinsurance market has been characterized by significant competition worldwide in most lines of business. Additionally, TRH is exposed to the operating cycles of primary insurers as the rates charged by, and the policy terms associated with, primary insurance agreements may affect the rates charged by, and the policy terms associated with, reinsurance agreements, particularly for pro rata reinsurance business.

Trends in reinsurance rates at the beginning of 2009 were inconsistent, with rates increasing, staying level or deteriorating depending on the line of business or region. However, as 2009 progressed, improvements in general economic conditions, the strengthening of insurers' and reinsurers' balance sheets and the low level of catastrophe losses in 2009 put downward pressure on reinsurance rates. Insurers had greater capacity to retain risk and increased access to capital market alternatives to reinsurance compared to late 2008, while the strengthening of reinsurer balance sheets increased the amount of capacity available in the reinsurance market.

In the casualty lines, rates were uneven in 2009. Certain lines, like directors' and officers' liability ("D&O") of financial institutions showed rate increases, while others were flat or showed decreases. Results in many casualty lines benefited from favorable accident year loss severity and frequency trends in 2009. In the property lines, some catastrophe exposed regions, particularly peak zones, saw significant rate increases in the first half of 2009, which leveled off in the second half of 2009.

Market conditions were generally challenging in 2010 as a result of several trends: there was downward pressure on reinsurance rates in many lines; ceding companies increased their retentions; there was excess capital in the reinsurance marketplace; and ceding companies attempted to increase ceding commissions to recoup the cost of higher primary insurance broker commissions.

While the catastrophe events occurring in 2010, which principally affected property lines, resulted in significant losses for the industry, they did not meaningfully impact overall catastrophe reinsurance pricing trends. In addition, some rate softening was evident, with U.S. catastrophe exposed lines coming under greater pressure than international lines. In the casualty lines, opportunities remained in certain specialty casualty lines such as D&O, which continues to show favorable loss frequency trends, medical malpractice and A&H, although these lines faced increased pressure as the year progressed. Market conditions for marine and offshore energy lines showed sustained improvement following the Deepwater Horizon explosion, while rate increases leveled off in the aviation line. Primary rates for other casualty lines generally remained under pressure, although internationally they are showing some signs of improvement.

Overall market conditions were mixed in 2011, but with some positive signs in certain areas in which TRH is well positioned. 2011 was marked by major catastrophe events, with significant industry losses from earthquakes in Japan and New Zealand, flooding in Australia and Thailand and tornados in the U.S. Following the severity and frequency of catastrophe events over the last two years, rate improvements in property catastrophe exposed lines were evident in the loss-affected areas. However, areas not significantly impacted by catastrophe losses were more resistant to rate improvements. Overall U.S. property catastrophe business exhibited modestly higher risk-adjusted rates and stable terms and conditions. Additionally, changes to industry risk-exposure models in the U.S. increased upward rate pressure in certain regions and property lines, but significant industry capacity and a difficult economy limited improvements. In the catastrophe affected areas of the Pacific Rim, property catastrophe and other property rates improved in New Zealand, Australia and Japan. In the U.K. and continental Europe, traditional property and property catastrophe rates remained generally flat except in loss affected areas. In Latin America, property rates increased modestly but the market remained competitive.

Specialty casualty lines continued to be competitive. Certain pockets of opportunity existed in errors and omissions liability ("E&O"). Additionally, market volatility and the sovereign debt crisis eased downward pressure on rates in D&O and E&O. Rates in medical malpractice continued to soften slightly although loss frequency and severity trends remain acceptable, with U.S. business being more attractive than international business. General casualty business remained mixed, with international general liability and umbrella business generally remaining highly competitive and unattractive, while U.S. regional and umbrella business started to show modest rate improvements.

In the January 1, 2012 renewal period, rates for casualty lines generally remained mixed, with terms and conditions largely remaining stable. In general casualty, U.S. general casualty, auto and umbrella rates generally remained flat or increased slightly, while rates in the U.K. and continental Europe generally faced downward pressure, although U.K. motor rates did see significant increases. Rates strengthened in marine programs and aviation programs saw some rate softening. In specialty casualty, D&O and E&O rates were generally flat while medical malpractice rates faced increased downward pressure as a result of favorable claims frequency levels in recent periods.

Property catastrophe rates increased during the January 1, 2012 renewal period, but were tempered by abundant capacity. Given the magnitude and frequency of catastrophe events in recent years, TRH expects rates for catastrophe exposed lines to continue to increase in 2012.

The existence of favorable or improving market conditions in certain regions and lines of business does not necessarily translate into ultimate pricing adequacy for business written under such conditions. In addition, there can be no assurance that these favorable or improving conditions will occur or remain in effect in the future.

Further information relating to items discussed in this **Executive Overview** may be found throughout MD&A.

Critical Accounting Estimates

This discussion and analysis of financial condition and results of operations is based on TRH's consolidated financial statements which have been prepared in accordance with generally accepted accounting principles in the U.S. ("GAAP"). The preparation of these financial statements requires the use of estimates and judgments that affect the reported amounts and related disclosures. TRH relies on historical experience and on various other assumptions that it believes to be reasonable, under the circumstances, to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

TRH believes its most critical accounting estimates are those with respect to loss reserves, fair value measurements of certain financial assets, OTTI of investments and premium revenues, as they require management's most significant exercise of judgment on both a quantitative and qualitative basis in the preparation of TRH's consolidated financial statements and footnotes. The accounting estimates that result require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, TRH's results of operations and financial condition would be affected, possibly materially. A discussion of these most critical accounting estimates follows:

(a) Loss Reserves

Estimates of loss reserves take into account TRH's assumptions with respect to many factors that will affect ultimate loss costs but are not yet known. The ultimate process by which actual carried reserves are determined considers not only actuarial estimates but a myriad of other factors. Such factors, both internal and external, which contribute to the variability and unpredictability of loss costs, include trends relating to jury awards, social inflation, medical inflation, worldwide economic conditions, tort reforms, court interpretations of coverages, the regulatory environment, underlying policy pricing, terms and conditions and claims handling, among others. In addition, information gathered through underwriting and claims audits is also considered. To the extent that these assumptions underlying the loss reserve estimates are significantly incorrect, ultimate losses may be materially different from the estimates included in the financial statements and may materially and adversely affect results of operations and financial condition. The impact of those differences is reflected in the period they become known.

The reserving process is inherently difficult and subjective, especially in view of changing legal and economic environments which impact the development of loss reserves, and therefore quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect development to the same degree in the future.

While this process is difficult and subjective for ceding companies, the inherent uncertainties of estimating loss reserves are even greater for reinsurers, due primarily to the longer-term nature of much reinsurance business, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims and differing reserving practices among ceding companies, which can be subject to change without notice. Nevertheless, data received from cedants is subjected to audits periodically by TRH claims and underwriting personnel, to help ensure that reported data is supported by proper documentation and conforms to contract terms, and is analyzed, as appropriate, by TRH underwriting and actuarial personnel. Such analysis often includes a detailed review of reported data to assess the underwriting results of reinsurance assumed and to explain any significant departures from expected performance. Over time, reported loss information is ultimately corroborated when such information eventually attains paid status.

Standard actuarial methodologies employed to estimate ultimate losses incorporate the inherent "lag" from the time claims are reported to the cedant to when the cedant reports the claims to the reinsurer. Certain actuarial methodologies may be more appropriate than others in instances where this "lag" may not be consistent from period to period. Consequently, additional actuarial judgment is employed in the selection of methodologies to best incorporate the potential impact of this situation.

Generally, for each line of business, significant actuarial judgments are made with respect to the following factors used in the loss reserve setting process:

- **Loss trend factors** are used to establish expected loss ratios ("ELRs") for subsequent accident years based on the projected loss ratios for prior accident years. Provisions for inflation and social inflation (*e.g.,* awards by judges and juries which progressively increase in size at a rate exceeding that of general inflation) and trends in court interpretations of coverage are among the factors which must be considered.

- **ELRs** for the latest accident years generally reflect the ELRs from prior accident years adjusted for the loss trend (see **Loss trend factors** discussion), as well as the impact of rate level changes and other quantifiable factors. For certain longer-tail lines of business that are typically lower frequency, higher severity classes, such as excess medical malpractice and D&O, ELRs are often utilized for the last several accident years.

- **Loss development factors** are used to arrive at the ultimate amount of losses incurred for each accident year based on reported loss information. These factors, which are initially calculated based on historical loss development patterns (*i.e.,* the emergence of reported losses over time relative to the ultimate losses to be paid) may then be adjusted for current trends.

During the loss settlement period, which can be many years in duration, additional facts regarding individual claims and trends generally become known. As these facts and trends emerge, it usually becomes necessary to refine and adjust the loss reserves upward or downward and even then the ultimate net liability may be materially different from the revised estimates. There is potential for significant variation in the development of loss reserves when actual costs differ from those costs implied by the use of the assumptions employed in the reserve setting process. This is particularly true for assumed reinsurance of long-tail casualty classes. Among the most critical assumptions are those made for ELRs and loss development factors.

The methodologies that TRH employs to assess the reasonableness of loss reserve estimates include the paid loss development, incurred loss development, paid Bornhuetter-Ferguson ("B-F") and incurred B-F methods. The actuarial methods that TRH employs to determine the appropriate loss reserves for short-tail lines of business are the same as those employed for longer-tail lines. However, the judgments that are made with regard to factors such as loss trends, ELRs and loss development factors for shorter-tail lines generally have much less of an effect on the determination of the loss reserve amount than when those same judgments are made regarding longer-tailed lines of business. In contrast to the longer-tailed lines of business, reported losses for the shorter-tailed classes, such as the property lines of business (*e.g.,* fire and homeowners multiple peril) and certain marine and energy classes, generally reach the ultimate level of incurred losses in a relatively short period of time. Rather than having to rely on assumptions regarding ELRs and loss development factors for many accident years for a given line, these assumptions are generally only relevant for the most recent accident year or two. Therefore, these assumptions tend to be less critical and the reserves calculated pursuant to these assumptions are subject to less variability for the shorter-tailed lines of business.

The characteristics of each line of business are considered in the reserving process. TRH's major lines of business and reserve methodologies are discussed below:

- Other Liability: The key components of the other liability line of business are excess casualty, D&O and E&O.
  - Excess Casualty: The vast majority of this class consists of domestic treaties, including pro rata and excess-of-loss contracts of general liability business. Excess casualty is dominated by umbrella business, some of which have very high attachment points. This business is generally very long-tailed and characterized by relatively low frequency and high severity type losses. Therefore, expected loss ratio methods, such as the incurred B-F method, are heavily relied upon for most years due to the lack of mature reported experience in the most recent years and the volatile nature of experience in older years. The ELRs utilized for the most recent years are based on the projected ultimate loss ratios of prior years adjusted for rate level changes, estimated loss cost trends and other quantifiable changes, as well as actuarial pricing indications.
  - D&O and E&O: These classes are dominated by high layer excess-of-loss D&O business as well as E&O classes such as lawyers and accountants. Much of this business is domestic, although significant amounts are written by the London branch. This business is reviewed separately by operating branch and for pro rata versus excess-of-loss contracts and for treaty versus facultative. Additionally, homogeneous groupings of accountant, lawyer, and architect and engineer risks are reviewed separately. These classes are long-tailed in nature, often characterized by very high attachment points. Therefore, B-F methods are generally relied upon for the most recent years due to the lack of mature reported experience. The selections for older years will often be based on the weighted average of the loss development methods and B-F methods. The selection of ELRs for these classes is generally analogous to that of the Excess Casualty class described above but with added emphasis on actuarial pricing indications, as these accounts are often very large and are virtually all actuarially reviewed before the business is underwritten.
- Medical Malpractice: Healthcare professional, which is the most significant component of TRH's medical malpractice line of business, is reviewed by operating branch and separately for treaty and facultative contracts. Pro rata contracts are reviewed separately from excess-of-loss contracts. There is significant volume in all groupings. This class is also quite long-tailed due to the excess-of-loss nature of many of the contracts. Due to the lack of mature reported experience, B-F methods are generally utilized for the most recent underwriting years with some weight given to the loss development methods for earlier years. Because almost all of these accounts are actuarially priced, the indications from these reviews are critical to the selection of the ELRs.
- Shorter-tailed lines: These would include the property lines of business (such as fire and homeowners multiple peril), A&H and certain marine and energy classes. These lines are written by several of TRH's worldwide offices and the reserves are reviewed separately for each operating branch. Where sufficiently credible experience exists, these lines are reviewed after segregating pro rata contracts from excess-of-loss contracts. For a reinsurer, these lines do not develop to ultimate loss as quickly as when written on a primary basis; however, they are significantly shorter-tailed than the casualty classes discussed earlier. For these classes, a combination of loss development methods and B-F methods are used. Generally, selections for all but the most recent few years are based on

loss development methods with the most recent years based on weightings of loss development and expected loss ratio indications.

A comprehensive annual loss reserve review is conducted in the fourth quarter of each year. The review is conducted in full detail for each class or line of business for each underwriting office and consists of more than one hundred individual analyses. In completing these detailed actuarial reserve analyses significant actuarial judgment is often employed. TRH is required to make numerous assumptions, including the selection of loss development factors and ELRs. Additionally, TRH needs to select the most appropriate actuarial method(s) to employ for each class of business.

Triangles of written premium, paid losses and incurred losses are organized by underwriting year evaluated at six month intervals. The data triangles are split by branch, contract type (*i.e.*, treaty versus facultative), line of business and often between excess-of-loss and pro rata business. The line of business groupings vary by branch and are reviewed annually to ensure a proper balance between homogeneity and credibility of data. In the loss development methods, paid and incurred losses by underwriting year are projected to an ultimate basis by applying appropriate age to ultimate development factors to the inception to date paid and incurred losses. The development factors are selected based on curves fitted to the historical average which best represent the data. In the B-F methods, estimates of unpaid and unreported losses are arrived at by multiplying underwriting year earned premium by an ELR and an estimated percentage of unpaid or unreported losses. These percentages of unpaid or unreported losses are derived from the loss development factors described above. These methods yield an indication of the ultimate losses for each underwriting year. The indicated incurred but not reported ("IBNR") reserve need is then determined (by year, by line of business) by subtracting the reported losses (which are equal to the sum of inception to date paid losses and the case reserves as of the balance sheet date) from the indicated ultimate losses.

In the course of these detailed loss reserve reviews, which are performed by underwriting year and by line of business, a point estimate of the loss reserve need is determined. Differences between the indications arising from the various methods are analyzed to understand the drivers of these differences, so that TRH can make a selection based on the methods that are believed to be most appropriate for that line of business. Frequently, the selection is based on an average of the various indications, giving the most weight to the indications deemed most appropriate. Generally speaking, TRH is often able to give more weight to loss development indications for more mature years where credible reported losses exist, as opposed to the more current years, where the B-F method is often highly relied upon due to the lack of credible and mature reported experience. When the actuarial point estimate is compared to the carried reserve, it is recognized that there is an implicit range around the indicated point estimate whereby a carried reserve within that range may be considered reasonable. TRH reviews the appropriateness of the held reserves relative to the indicated point estimate considering many factors. These factors may include, but are not limited to, the amount and direction of any difference between the point estimate and the held reserve, any operational issues which may be difficult to actuarially quantify, various actuarial assumptions on which management may want additional input or any observations regarding optimism or conservatism which management may believe need to be considered. Thus, the carried reserves, as determined by management, may be more or less than the actuarially determined point estimate. As of December 31, 2011 and 2010, TRH's carried loss and LAE reserves, net of related reinsurance recoverable, were $9.03 billion and $8.21 billion, respectively, and were equal to the actuarial point estimate.

There is potential for significant variation in the development of loss reserves when actual costs differ from those costs implied by the assumptions used to test the loss reserves. This is particularly true for assumed reinsurance of long-tail casualty classes. Among the most critical assumptions are those made for ELRs and loss development factors.

TRH's annual loss reserve review for 2011 did not include the calculation of a range of loss reserve estimates. Because management does not believe it can currently assign credible probabilistic values to a range, a better understanding of the volatility of loss reserve estimates can be gained via an analysis of the sensitivity of these estimates to changes in the critical assumptions used in the loss reserve review process as opposed to creating a range during the loss reserve review process.

An analysis of the sensitivity of the loss reserve indications to these key assumptions can be performed by measuring the effect of various changes to the assumptions utilized in the reviews. The assumptions made regarding factors considered in the sensitivity analysis, such as loss trends, ELRs and loss development factors, are generally consistent with TRH's historical experience. Loss development factors, for example, which are used to project reported paid and incurred losses to an ultimate incurred loss, are selected based on the curves fitted to the historical averages which best represent the data. ELRs are based on the ultimate loss ratios for the more mature years adjusted for changes in the rate levels and other quantifiable factors to enable the ELRs to remain consistent with historical experience. In general, it is believed that the vast majority of potential volatility in the loss reserves results from the longer-tailed lines of business. For the purpose of these sensitivity analyses, only the IBNR portion of loss reserves from these longer-tailed lines, which represent approximately 80% of the total IBNR portion of loss reserves at December 31, 2011, were included in the calculations. Additionally, only those underwriting years where it is believed reasonable for deviations from the original assumptions to occur were utilized. Generally, the last 16 years were included in the analysis. The results derived from the sensitivity analyses are roughly the same whether utilizing unpaid losses and loss adjustment expenses ("gross loss reserves") or net loss reserves.

While noting that there exists the potential for greater variations, TRH believes utilizing 5% and 10% changes to the assumptions made for both loss development factors and ELRs provide reasonable benchmarks for a sensitivity analysis of the loss reserve estimates at December 31, 2011. For example, changing the ELRs by 5 percentage points has an impact of about $190 million (either positively or negatively) on the loss reserve estimate. While less likely for many classes of business, TRH notes that changing the ELRs by 10 percentage points has an effect of about $385 million. As previously described, another key assumption is the selection of loss development patterns. The effect of increasing the tail on the selected loss development patterns by 5% is about $390 million. Similarly, a 10% deviation would impact the reserve estimate by about $765 million. Because a downward adjustment to the loss development patterns can result in implied negative future development on reported losses for certain years, this scenario is not believed to be as likely as that of an upward deviation of this amount.

Due to the assumptions and methodologies utilized by TRH in its reviews of longer-tailed classes of business, changes to the ELRs generally have a much greater impact on the assessment of loss reserves for the most recent few underwriting years while deviations from the loss development factors utilized in the reviews generally are more critical to the loss reserve indications for older underwriting years (*i.e.*, 2002 and prior). Management believes that it is reasonable to simultaneously vary both of the assumptions previously discussed by 5% and 10%. The effect of varying these assumptions together by 5% is about $600 million. Increasing these assumptions by 10% simultaneously adds approximately $1.25 billion to the reserve estimates, although management considers this scenario to be significantly less likely than the 5%

scenario previously discussed. TRH also notes that the classes of business for which these assumptions are most critical are medical malpractice, D&O, E&O and excess casualty.

Net loss reserves include amounts for risks relating to environmental impairment and asbestos-related illnesses. The reserves carried for these claims, including the IBNR portion, are based upon known facts and current law. However, significant uncertainty exists in determining the amount of ultimate liability for environmental impairment and asbestos-related losses, particularly for those occurring in 1985 and prior. This uncertainty is due to inconsistent court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages, among other things.

See discussion of net development on losses occurring in prior years (which includes a discussion of the causative factors of such net development) under **Results of Operations** and further information about gross loss reserves under **Financial Condition and Liquidity**.

(b) Fair Value Measurements of Certain Financial Assets

TRH measures at fair value on a recurring basis financial instruments included principally in its available for sale securities portfolios and short-term investments. The fair value of a financial instrument is the amount that would be received to sell an asset in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset being valued occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions. (See Note 4 of Notes to Consolidated Financial Statements ("Note 4") for the valuation techniques and inputs that TRH uses to determine fair value.)

As of December 31, 2011, of TRH's $13.2 billion of fixed maturities available for sale, equities available for sale and other invested assets measured at fair value on a recurring basis, approximately $13.1 billion was based on prices received from independent pricing services and approximately $0.1 billion was based on non-binding broker quotes or internal valuation sources. Management reviewed all fair values from external sources and did not make any material adjustments to the fair values.

Through June 30, 2009, the AIG Group managed the investments and performed investment recordkeeping and the valuation services discussed in Note 4 for TRH. Effective July 1, 2009, TRH employed third parties not affiliated with AIG to provide these services.

See Note 4 for discussion of how TRH determines the fair value of its fixed maturities available for sale, equities available for sale and short-term investments.

Fair Value Hierarchy and Level 3 Assets

Assets recorded at fair value in the consolidated balance sheet are classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the market place used to measure fair value. (See Note 4 for additional information about fair value measurements.)

The valuation of Level 3 assets requires the greatest degree of judgment, as these measurements may be made under circumstances in which there is little, if any, market activity for the asset. At December 31, 2011, TRH classified $185.1 million of assets measured at fair value on a recurring basis as Level 3. This represented 1.4% of total assets measured at fair value on a recurring basis. Level 3 fair value measurements are based on valuation techniques that use at least one significant input that is unobservable. TRH's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment.

In making the assessment, TRH considers factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety.

TRH values its assets classified as Level 3 using judgment and valuation models or other pricing techniques that require a variety of inputs including contractual terms, market prices and rates, yield curves, credit curves, measures of volatility, prepayment rates and correlations of such inputs, some of which may be unobservable. The following paragraphs describe the methods TRH uses to measure on a recurring basis the fair value of the most significant types of assets classified as Level 3.

- Residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"): These assets initially are valued at the transaction price. Subsequently, they may be valued by comparison to transactions in instruments with similar collateral and risk profiles, remittances received and updated cumulative loss data on underlying obligations, discounted cash flow techniques and/or option adjusted spread analyses.

- Other asset-backed securities—non-mortgage: These assets initially are valued at the transaction price. Subsequently, they may be valued based on external price/spread data. When position-specific external price data are not observable, the valuation is based on prices of comparable securities.

- Other invested assets: Fair values for other invested assets, principally private equity investments, are initially valued at the transaction price. Subsequently, fair value is based on the financial statement information or net asset value of the investee.

(c) OTTI of Investments

See Note 5(g) of Notes to Consolidated Financial Statements ("Note 5(g)") for the criteria TRH uses to evaluate if an investment is a candidate for OTTI.

The determination that a security has incurred OTTI in value requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances.

There can, however, be no assurance that TRH has accurately assessed the level of OTTI reflected in its financial statements. Furthermore, additional OTTI may need to be taken in the future. Historical trends may not be indicative of future OTTI.

At December 31, 2011, TRH had gross unrealized losses on all fixed maturities available for sale and equities available for sale totaling $116 million which did not meet the criteria for OTTI charged to earnings. If TRH's determination of OTTI is materially incorrect, it could have a material adverse effect on TRH's results of operations.

(d) Premium Revenues

Management must make certain judgments in the determination of premiums written and earned by TRH. For pro rata contracts, premiums written and earned are generally based on reports received from ceding companies. For excess-of-loss contracts, premiums are generally recorded as written based on contract terms and are earned ratably over the terms of the related coverages provided. Unearned premiums and prepaid reinsurance premiums represent the portion of gross premiums written and ceded premiums written, respectively, relating to the unexpired terms of such coverages. The relationship between net premiums written and net premiums earned will, therefore, vary depending generally on the volume and inception dates of the business assumed and ceded and the mix of such business between pro rata and excess-of-loss reinsurance.

Premiums written and earned, along with related costs, for which data have not been reported by the ceding companies, are estimated based on historical patterns and other relevant information. Such estimates of premiums earned are considered when establishing the IBNR portion of loss reserves. The differences between these estimates and the actual data subsequently reported, which may be material as a result of the diversity of cedants and reporting practices and the inherent difficulty in estimating premium inflows, among other factors, are recorded in the period when the actual data become available and may materially affect results of operations. In the Consolidated Statements of Operations, premiums written and earned and the change in unearned premiums are presented net of reinsurance ceded.

TRH's financial statements reflected estimates of gross premiums written, commissions and premium balances receivable, for which data had as yet to be reported by cedants as of December 31, 2011 and 2010, as follows:

2011

Major Class	Gross Premiums Written	Commissions	Premium Balances Receivable
		(in thousands)	
Casualty:			
Other liability	$ 96,830	$33,648	$ 63,182
Accident and health	10,047	2,758	7,289
Medical malpractice	17,186	4,655	12,531
Auto liability	16,920	4,085	12,835
Ocean marine and aviation	62,364	7,959	54,405
Surety and credit	32,751	7,249	25,502
Other	25,871	6,019	19,852
Total casualty	261,969	66,373	195,596
Property:			
Fire	91,423	17,187	74,236
Allied lines	23,165	6,798	16,367
Homeowners multiple peril	1,548	653	895
Earthquake	8,996	1,590	7,406
Auto physical damage	2,759	856	1,903
Other	1,155	340	815
Total property	129,046	27,424	101,622
Total	$391,015	$93,797	$297,218

2010

Major Class	Gross Premiums Written	Commissions	Premium Balances Receivable
		(in thousands)	
Casualty:			
Other liability	$108,025	$39,656	$ 68,369
Accident and health	20,232	1,594	18,638
Medical malpractice	23,059	6,119	16,940
Auto liability	7,325	1,522	5,803
Ocean marine and aviation	42,013	4,611	37,402
Surety and credit	31,137	9,827	21,310
Other	17,961	4,845	13,116
Total casualty	249,752	68,174	181,578
Property:			
Fire	55,952	13,009	42,943
Allied lines	10,873	2,360	8,513
Homeowners multiple peril	11,491	3,975	7,516
Earthquake	9,169	1,708	7,461
Auto physical damage	4,639	1,259	3,380
Other	913	288	625
Total property	93,037	22,599	70,438
Total	$342,789	$90,773	$252,016

TRH has provided no allowance for bad debts relating to the premium estimates based on its historical experience, the general profile of its cedants and the ability TRH has in most cases to significantly offset these premium receivables with losses and LAE or other amounts payable to the same parties.

Operational Review

Results of Operations

TRH derives its revenue from two principal sources: premiums from reinsurance assumed net of reinsurance ceded (*i.e.*, net premiums earned) and income from investments. The following table shows net premiums written, net premiums earned, net investment income, realized net capital gains (losses), (loss) gain on early extinguishment of debt and total revenues of TRH for the periods indicated:

	Years Ended December 31,				
	2011		2010		2009
	Amount	Change From Prior Year	Amount	Change From Prior Year	Amount
	(dollars in millions)				
Net premiums written	$3,859.6	(0.6)%	$3,881.7	(2.6)%	$3,986.1
Net premiums earned	3,819.5	(1.0)	3,858.6	(4.5)	4,039.1
Net investment income	457.6	(3.4)	473.5	1.3	467.4
Realized net capital gains (losses)	88.6	194.3	30.1	142.6	(70.6)
(Loss) gain on early extinguishment of debt	(1.2)	(925.2)	(0.1)	(101.2)	9.9
Total revenues	4,364.4	0.1	4,362.2	(1.9)	4,445.7

The decrease in net premiums written in 2011 compared to 2010 is due to a decrease in Domestic net premiums written, partially offset by an increase in International net premiums written. The decrease in net premiums written was partially mitigated by an increase in net assumed reinstatement premiums relating to catastrophe losses incurred and the impact of changes in foreign currency exchange rates. The decrease in Domestic net premiums written includes a $19 million decrease in mortgage guaranty net premiums written resulting from the negotiated settlement of an arbitration proceeding. (See Note 18.)

The decrease in net premiums written in 2010 compared to 2009 is due principally to a decrease in Domestic net premiums written. The decrease in net premiums written reflects increased ceding company retentions and competitive market conditions which led TRH not to renew certain business that did not meet TRH's underwriting standards.

In general, premium fluctuations reflect prevailing market conditions in recent periods, as discussed earlier in MD&A, and strategic decisions by TRH's management.

A breakdown of total net premiums written in 2011, 2010 and 2009 is as follows:

	Years Ended December 31,		
	2011	2010	2009
Casualty	70.4%	70.7%	71.3%
Property	29.6	29.3	28.7
Total	100.0%	100.0%	100.0%
Domestic	48.5%	50.2%	51.5%
International	51.5	49.8	48.5
Total	100.0%	100.0%	100.0%

The following table summarizes the net effect of changes in foreign currency exchange rates compared to the U.S. dollar on the percentage change in net premiums written in 2011 and 2010 compared to the respective immediately prior year.

	2011	2010
Change excluding foreign exchange	(2.5)%	(2.5)%
Foreign exchange effect	1.9	(0.1)
Change as reported in U.S. dollars	(0.6)%	(2.6)%

Domestic net premiums written in 2011 totaled $1.87 billion, a decrease of $76.2 million, or 3.9%, from 2010. Significant decreases in Domestic net premiums written in the other liability ($67.8 million) and mortgage guaranty ($14.9 million) lines were partially offset by a significant increase in the ocean marine ($13.2 million) line. The decrease in mortgage guaranty net premiums written includes a $19 million decrease resulting from the negotiated settlement of an arbitration proceeding. (See Note 18.)

International net premiums written in 2011 totaled $1.99 billion, an increase of $54.1 million, or 2.8%, from 2010. The most significant increases in net premiums written occurred in the London ($107.9 million), Hong Kong ($23.5 million) and Paris ($13.4 million) branches, partially offset by significant decreases in TRZ ($74.9 million) and the Miami ($17.3 million) branch. The most significant increases in International net premiums written were recorded in the auto liability ($85.6 million), ocean marine ($37.8 million), medical malpractice ($20.3 million) and credit ($15.9 million) lines along with relatively small increases spread across several lines, partially offset by significant decreases in the A&H ($62.6 million), other liability ($40.2 million) and fidelity ($25.6 million) lines. The increase in International net premiums written was partially due to an increase in net assumed reinstatement premiums related to catastrophe losses incurred and includes the impact of changes in foreign currency exchange rates. Changes in foreign currency exchange rates increased net premiums written in 2011 by $72.6 million compared to 2010. Excluding the impact of changes in foreign currency exchange rates, International net premiums written would have decreased 1.0% in 2011 compared to 2010.

Domestic net premiums written decreased in 2010 by $101.5 million, or 5.0%, from 2009 to $1.95 billion. Significant decreases in Domestic net premiums written were recorded in the A&H ($28.5 million), auto liability ($25.7 million), medical malpractice ($24.3 million) and other liability ($20.2 million) lines.

International net premiums written in 2010 totaled $1.93 billion and remained level with 2009. Significant decreases in net premiums written occurred in the Miami ($36.5 million) and Paris ($35.7 million) branches, largely offset by significant increases in TRZ ($24.5 million) and the Hong Kong ($17.3 million), Sydney ($17.0 million) and Tokyo ($13.3 million) branches. Significant decreases in International net premiums written were recorded in the ocean marine ($26.9 million) and credit ($24.9 million) lines. These decreases were largely offset by significant increases in the A&H ($35.1 million) and auto liability ($22.2 million) lines. Changes in foreign currency exchange rates decreased 2010 International net premiums written by $4.6 million compared to 2009. Excluding the impact of changes in foreign currency exchange rates, International net premiums written would have increased 0.1% in 2010 compared to 2009.

Generally, reasons for changes in gross premiums written between years are similar to those for net premiums written, except for changes in ceded premiums, including premiums assumed from a subsidiary of AIG that, by prearrangement, were ceded in an equal amount to other subsidiaries of AIG. See Note 16 of Notes to Consolidated Financial Statements ("Note 16"). As further discussed in Note 14 of Notes to Consolidated Financial Statements, certain business assumed by TRH from the AIG Group were related party transactions as a result of the AIG Group's ownership interest through March 15, 2010. TRH either accepted or rejected business with such companies based on its assessment of risk selection, pricing, terms and conditions, among other factors.

The decreases in gross premiums written and ceded premiums written in 2011 compared to 2010 are largely due to a decrease in premiums assumed from a subsidiary of AIG that, by prearrangement with TRH, were then ceded in an equal amount to other subsidiaries of AIG. In the fourth quarter of 2011, TRH terminated such agreements with the subsidiaries of AIG. Upon termination, gross premiums written were decreased by $86.4 million for the settlement of all remaining unearned premiums and ceded premiums written were decreased by an equal amount for the settlement of related prepaid reinsurance premiums, with no impact on net premiums written. The majority of the increase in premiums ceded in 2010 compared to 2009 is due to an increase in premiums assumed from a subsidiary of AIG that, by prearrangement with TRH, were then ceded in an equal amount to other subsidiaries of AIG.

As premiums written are primarily earned ratably over the terms of the related coverage, the reasons for changes in net premiums earned are generally similar to the reasons for changes in net premiums written over time.

Net investment income in 2011 totaled $457.6 million, a decrease of $16.0 million, or 3.4%, from 2010 due largely to a decrease in investment income from other invested assets, partially offset by increased investment income from equities. The decrease in investment income from other invested assets is due mainly to losses from an insurance-related alternative investment and a decrease in equity method income from TRH's 40% interest in Kuwait Re. The increase in net investment income from equities is due in part to the rebalancing of TRH's equity portfolio to place a greater emphasis on dividend generation. The decrease in net investment income was partially mitigated by changes in foreign currency exchange rates in 2011 which increased net investment income by approximately $4.0 million, or 0.8%, compared to 2010. Net investment income from other invested assets can display greater volatility than other classes of investments. Net investment income in 2010 totaled $473.5 million, an increase of $6.1 million, or 1.3%, compared to 2009 due largely to an increase in investment income from fixed maturities of $25.1 million, offset by decreases in investment income from equities of $3.8 million and other investment income of $12.1 million. Excluding the impact of foreign currency exchange rate changes, net investment income in 2010 would have increased by 1.5% compared to 2009. The increase in investment income from fixed maturities is due in part to the investment of net operating cash inflows in recent periods. (See Note 5(d) of Notes to Consolidated Financial Statements for a breakdown of the components of net investment income and the cash flow discussion under **Financial Condition and Liquidity**.)

For 2011, 2010 and 2009, the pre-tax effective yields on investments were 3.4%, 3.7% and 4.1%, respectively. The pre-tax effective yield on investments represents net investment income divided by the average balance sheet carrying value of investments and interest-bearing cash. The decrease in pre-tax yield on investments in 2011 compared to 2010 is due in part to a lower pre-tax yield on the fixed maturity portfolio and a decrease in investment income from other invested assets, partially offset by increased investment income from equities. The decrease in the pre-tax effective yield on investments for 2010 compared to 2009 is due primarily to a lower pre-tax effective yield on the fixed maturity portfolio.

Realized net capital gains (losses) totaled $88.6 million, $30.1 million and ($70.6) million in 2011, 2010 and 2009, respectively. The increase in realized net capital gains in 2011 compared to 2010 was due in large part to an increase in realized net capital gains on equities available for sale, resulting largely from the rebalancing of TRH's equities available for sale portfolio, and net foreign currency transaction gains in 2011 compared to net foreign currency transaction losses in 2010. The realized net capital gain in 2010 compared to the realized net capital loss in 2009 is due largely to a decrease in OTTI write-downs in 2010 compared to 2009. Realized net capital gains (losses) generally result from (a) investment dispositions, which reflect TRH's investment and tax planning strategies to optimize after-tax income; (b) OTTI of investments; and (c) foreign currency transaction gains (losses). (See Note 5(e) for a breakdown of realized net capital gains (losses).)

Realized net capital losses in 2011 included ($4.2) million of OTTI write-downs charged to earnings, largely related to equities in an unrealized loss position for 12 or more consecutive months. Realized net capital losses in 2010 included ($8.0) million of OTTI write-downs charged to earnings, largely related to issuer-specific credit losses on fixed maturities. OTTI decreased in 2010 compared to 2009 due in large part to improvements in the financial and credit markets. Realized net capital losses in 2009 included ($83.1) million of OTTI write-downs charged to earnings, due in large part to the depressed fair values of certain securities and issuer specific credit events in 2009.

Upon the ultimate disposition of securities for which write-downs have been recorded, a portion of the write-downs may be recoverable depending on market conditions at the time of disposition. (See Note 5(g) for the criteria used in the determination of such write-downs.)

OTTI write-downs by balance sheet category and type of impairment recorded for the years indicated are presented in the table below:

	Severity and/or Duration	Lack of Intent to Hold to Recovery	Issuer-Specific Credit Events	Total
		(in millions)		
Year Ended December 31, 2011:				
Fixed maturities	$ —	$ (1.0)	$ —	$ (1.0)
Equities	(3.1)	—	(0.1)	(3.2)
Total included in the statement of operations	$ (3.1)	$ (1.0)	$ (0.1)	(4.2)
Fixed maturities—included in the statement of comprehensive income				—
Total				$ (4.2)
Year Ended December 31, 2010:				
Fixed maturities	$ —	$ —	$ (6.3)	$ (6.3)
Equities	(1.1)	—	—	(1.1)
Other invested assets	—	—	(0.6)	(0.6)
Total included in the statement of operations	$ (1.1)	$ —	$ (6.9)	(8.0)
Fixed maturities—included in the statement of comprehensive income				(6.7)
Total				$(14.7)
Year Ended December 31, 2009:				
Fixed maturities	$(14.7)	$ (6.0)	$(19.1)	$(39.8)
Equities	(35.4)	(4.4)	(3.5)	(43.3)
Total included in the statement of operations	$(50.1)	$(10.4)	$(22.6)	(83.1)
Fixed maturities—included in the statement of comprehensive income				(13.4)
Total				$(96.5)

In 2011, 2010 and 2009, TRH repurchased portions of its 5.75% senior notes due in 2015 (the "2015 Notes" and together with the 2039 Notes, the "Senior Notes"). There were no repurchases of the 2039 Notes in 2011, 2010 and 2009. (See Note 8 of Notes to Consolidated Financial Statements ("Note 8") for the impact of the repurchases.)

The property and casualty insurance and reinsurance industries use the combined ratio as a measure of underwriting profitability. The combined ratio reflects only underwriting results and does not include income from investments. Generally, a combined ratio under 100% indicates an underwriting profit and a combined ratio exceeding 100% indicates an underwriting loss. Underwriting profitability is subject to significant fluctuations due to competition, natural and man-made catastrophic events, economic and social conditions, foreign currency exchange rate fluctuations, interest rates and other factors. TRH's combined ratio and its components are presented in accordance with the methodology commonly used by insurance industry analysts and TRH's peers. The combined ratio represents the sum of the loss ratio and the underwriting expense ratio. The loss ratio represents net losses and LAE incurred expressed as a percentage of net premiums earned. The underwriting expense ratio represents the sum of the commission ratio and the other underwriting expense ratio. The commission ratio represents the sum of net commissions and the decrease (increase) in deferred policy acquisition costs expressed as a percentage of net premiums earned. The other underwriting expense ratio represents other underwriting expenses expressed as a percentage of net premiums earned.

The following table presents loss ratios, underwriting expense ratios and combined ratios for consolidated TRH and each of TRH's reporting segments, for the years indicated:

	Years Ended December 31,		
	2011	2010	2009
Consolidated:			
Loss ratio	85.3%	69.5%	66.3%
Commission ratio	24.1	24.1	23.3
Other underwriting expense ratio	4.5	4.6	3.9
Underwriting expense ratio	28.6	28.7	27.2
Combined ratio	113.9%	98.2%	93.5%
Domestic:			
Loss ratio	66.6%	67.1%	66.0%
Commission ratio	23.1	23.7	23.2
Other underwriting expense ratio	5.0	5.0	4.2
Underwriting expense ratio	28.1	28.7	27.4
Combined ratio	94.7%	95.8%	93.4%
International-Europe:			
Loss ratio	84.3%	73.5%	74.3%
Commission ratio	23.2	21.7	22.0
Other underwriting expense ratio	3.9	3.9	3.3
Underwriting expense ratio	27.1	25.6	25.3
Combined ratio	111.4%	99.1%	99.6%
International-Other:			
Loss ratio	143.2%	68.5%	46.8%
Commission ratio	29.1	31.5	27.1
Other underwriting expense ratio	4.4	4.6	4.3
Underwriting expense ratio	33.5	36.1	31.4
Combined ratio	176.7%	104.6%	78.2%

The higher loss ratio for consolidated TRH in 2011 compared to 2010 is due principally to the net impact of higher net catastrophe costs, partially offset by increased estimated net favorable development and the negotiated settlement of an arbitration proceeding in 2011. (See Note 7 of Notes to Consolidated Financial Statements ("Note 7"), Note 11 and Note 18.) The higher loss ratio for consolidated TRH in 2010 compared to 2009 is due principally to increased catastrophe costs, partially offset by increased favorable net loss reserve development. In the aggregate, catastrophe costs, net loss reserve development and, for 2011 only, the negotiated settlement of an arbitration proceeding added (decreased) 19.5%, 3.9% and (0.9)% to (from) the consolidated TRH combined ratio in 2011, 2010 and 2009, respectively.

2011 includes pre-tax net catastrophe costs of $851.8 million principally relating to the March 2011 Tohoku earthquake and resulting tsunami in Japan; the February 2011 earthquake in New Zealand; fourth quarter 2011 flooding in Thailand; first quarter 2011 flooding in Australia and Cyclone Yasi; and second quarter 2011 tornado activity in the United States. Net catastrophe costs in the aggregate added 22.4%, 4.6%, 14.1% and 93.6% to the 2011 combined ratios for consolidated, Domestic, International-Europe and International-Other, respectively. (See Note 11 for the amounts of net catastrophe costs by segment and the amounts of consolidated gross and ceded catastrophe losses incurred and reinstatement premiums. See discussion in **Catastrophe Exposure** of the magnitude of TRH's catastrophe exposures.)

While TRH believes that it has taken appropriate steps to manage its exposure to possible future catastrophe losses, the occurrence of one or more natural or man-made catastrophic events of unanticipated frequency or severity, such as a terrorist attack, earthquake or hurricane, that causes insured losses could have a material adverse effect on TRH's results of operations, liquidity or financial condition. Current techniques and models may not accurately predict the probability of catastrophic events in the future and the extent of the resulting losses. Moreover, one or more catastrophe losses could weaken TRH's retrocessionnaires and result in an inability of TRH to collect reinsurance recoverables.

In addition, in 2011, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2010 and prior years by $122.0 million. This net favorable development was comprised of net favorable development of $224.7 million for losses occurring in 2002 to 2010, partially offset by net adverse development of $102.7 million relating to losses occurring in 2001 and prior. The detail of the $122.0 million net favorable development by line of business relating to all prior years is presented in the table below:

Line of Business	Net Loss Reserve at December 31, 2010	Year-end 2010 Net Reestimated Liability at Year-end 2011	Amount of Reestimation (Deficiency) Redundancy[1]
		(in thousands)	
Other liability	$3,911,374	$3,994,327	$ (82,953)
Allied lines	174,461	109,357	65,104
Mortgage guaranty[2]	58,232	(2,597)	60,829
Fire	514,575	473,487	41,088
Credit	106,984	81,780	25,204
Other, net	3,449,147	3,436,415	12,732
Total	$8,214,773	$8,092,769	$122,004

(1) Amount of reestimation represents the (increase) decrease in net losses and LAE incurred in 2011 relating to losses occurring in 2010 and prior years.

(2) The year-end 2010 net reestimated liability at year-end 2011 includes the impact of a negotiated settlement of an arbitration proceeding on amounts recorded as paid and unpaid losses in prior years. (See Note 18.)

Net favorable development was recorded for losses occurring in the allied lines, fire and credit lines, each arising principally from losses occurring in 2009 to 2010, and in the mortgage guaranty line, arising principally from losses occurring in 2007 to 2008. Net adverse development was recorded in 2011 in the other liability line, arising principally from losses occurring in 2001 and prior, partially offset by favorable development from losses occurring between 2004 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes. (See Note 11 for amounts included in net favorable development that relate to catastrophe losses.)

TRH writes a significant amount of non-proportional assumed casualty reinsurance as well as proportional assumed reinsurance of excess liability business for such volatile classes as medical malpractice, D&O, E&O and general casualty. At the primary level, there are significant risk factors which contribute to the variability and unpredictability of the loss trend factor for this business such as jury awards, social inflation, medical inflation, tort reforms and court interpretations of coverage. In addition, as a reinsurer, TRH is also highly dependent upon the claims reserving and reporting practices of its cedants, which vary greatly by size, specialization and country of origin and whose practices can be subject to change without notice.

Based on information presently available, TRH's current loss reserves represent management's best estimate of ultimate losses, but there can be no assurance that TRH's loss reserves will not develop adversely due to, for example, the inherent volatility in loss trend factors and variability of reporting practices for those classes, among other factors, and materially exceed the carried loss reserves as of December 31, 2011 and thus, have a material adverse effect on future results of operations, financial condition and cash flows.

For 2011 compared to 2010, the changes in gross and ceded losses and LAE incurred each include amounts relating to business assumed from an AIG subsidiary which, by prearrangement with TRH, was then ceded in an equal amount to other AIG subsidiaries. In the fourth quarter of 2011, TRH terminated such agreements with the subsidiaries of AIG. Upon termination, gross losses and LAE incurred were decreased by $250.9 million for the settlement of all remaining gross loss reserves related to these agreements and ceded losses and LAE incurred were decreased by an equal amount for the settlement of all remaining reinsurance recoverables, with no net impact on net losses and LAE incurred. In addition, the change in gross and ceded losses and LAE incurred includes the changes in gross and ceded catastrophe losses as discussed in Note 11.

2010 includes pre-tax net catastrophe costs of $202.4 million, principally relating to the February 2010 earthquake in Chile; the September 2010 earthquake in New Zealand; first quarter 2010 storms in Australia and fourth quarter 2010 flooding in Australia; and the April 2010 Deepwater Horizon explosion. Net catastrophe costs in the aggregate added (decreased) 5.2%, (0.1)%, 5.8% and 22.7% to the 2010 combined ratios for consolidated, Domestic, International-Europe and International-Other, respectively.

In addition, in 2010, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2009 and prior years by $57.0 million. This net favorable development was comprised of net favorable development of $216.9 million for losses occurring in 2002 to 2009, partially offset by net adverse development of $159.9 million relating to losses occurring in 2001 and prior. The detail of the $57.0 million net favorable development by line of business relating to all prior years is presented in the table below:

Line of Business	Net Loss Reserve at December 31, 2009	Year-end 2009 Net Reestimated Liability at Year-end 2010	Amount of Reestimation (Deficiency) Redundancy[1]
		(in thousands)	
Other liability	$3,586,268	$3,702,923	$(116,655)
Fire	509,749	439,679	70,070
Surety and credit	275,241	220,481	54,760
Ocean marine	428,058	382,260	45,798
Fidelity	316,555	348,612	(32,057)
Other, net	2,755,954	2,720,911	35,043
Total	$7,871,825	$7,814,866	$ 56,959

(1) Amount of reestimation represents the (increase) decrease in net losses and LAE incurred in 2010 relating to losses occurring in 2009 and prior years.

Net favorable development was recorded for losses occurring in the fire, surety and credit and ocean marine lines, arising principally from losses occurring in 2005 to 2009. Significant net adverse development was recorded in 2010 in the other liability line, arising principally from losses occurring in 2002 and prior, partially offset by favorable development from losses occurring between 2003 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes. In addition, net adverse development was recorded in 2010 for losses occurring in the fidelity line, arising principally from losses occurring in 2006 to 2009. (See Note 11 for amounts included in net favorable development that relate to catastrophe losses.)

The favorable development in 2005 through 2009 results generally from favorable loss trends. The net adverse development arising from losses occurring in 2001 and prior generally relates to various excess casualty lines such as general liability and excess umbrella liability which were impacted by late reported excess claims.

For 2010 compared to 2009, the change in gross and ceded losses and LAE incurred includes the changes in gross and ceded catastrophe losses as discussed in Note 11.

While there were no significant net catastrophe costs for events occurring during 2009, 2009 includes estimated net catastrophe costs incurred of ($5.6) million relating to events occurring in prior years. Net catastrophe costs in the aggregate (decreased) added (0.1)%, 0.0%, (0.4)% and (0.1)% to the 2009 combined ratios for consolidated, Domestic, International-Europe and International-Other, respectively.

In addition, in 2009, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2008 and prior years by $38.9 million. This net favorable development was comprised of net favorable development of $219.1 million for losses occurring in 2002 to 2008, partially offset by net adverse development of $180.2 million relating to losses occurring in 2001 and prior. The detail of the $38.9 million net favorable development by line of business relating to all prior years is presented in the table below:

Line of Business	Net Loss Reserve at December 31, 2008	Year-end 2008 Net Reestimated Liability at Year-end 2009	Amount of Reestimation (Deficiency) Redundancy[1]
		(in thousands)	
Other liability	$3,220,712	$3,341,142	$(120,430)
Fire	546,050	441,940	104,110
Allied lines	157,194	114,785	42,409
Fidelity	255,808	285,829	(30,021)
Surety and credit	242,205	216,909	25,296
Other, net	2,927,109	2,909,525	17,584
Total	$7,349,078	$7,310,130	$ 38,948

(1) Amount of reestimation represents the (increase) decrease in net losses and LAE incurred in 2009 relating to losses occurring in 2008 and prior years.

Significant net favorable development was recorded for losses occurring in the fire and allied lines, arising principally from losses occurring in 2007 to 2008, and the surety and credit line, arising principally from losses occurring in 2004 to 2008. The line of business with the most significant net adverse development recorded in 2009 was the other liability line, arising principally from losses occurring in 2001 and prior, partially offset by favorable development from losses occurring between 2004 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes. In addition, significant net adverse development was recorded in 2009 for losses occurring in the fidelity line, arising principally from losses occurring in 2007 to 2008, related to the global credit crisis. (See Note 11 for amounts included in net favorable development that relate to catastrophe losses.)

The favorable development in 2004 through 2008 results generally from favorable loss trends. The net adverse development arising from losses occurring in 2001 and prior generally relates to various excess casualty lines such as general liability and excess umbrella liability which were impacted by late reported high layer excess claims. In 2009, ceding companies and their reinsurers continued to experience increased loss costs relative to expectations as loss emergence patterns continue to lengthen as regards the soft market years of 1997 through 2001.

The underwriting expense ratio for consolidated TRH in 2011 remained level with 2010. The underwriting expense ratio for consolidated TRH in 2010 increased 1.5% compared to 2009 due to increases of 0.8% in the commission ratio and of 0.7% in the other underwriting expense ratio. The increase in the commission ratio in 2010 compared to 2009 occurred in International-Other and Domestic. The increase in the other underwriting expense ratio in 2010 compared to 2009 is related largely to increased employee compensation and benefits expenses, including stock compensation.

In June 2011, TRH offered retention agreements to key officers and employees (the "2011 Retention Plan"). Approximately $29 million of compensation offered consisted of stock-based compensation, which will vest equally on September 30, 2012 and December 31, 2013, subject to the recipients' continued employment with TRH on those dates, among other things. As of December 31, 2011, the stock-based compensation has not yet been granted and therefore no expense has been recorded related to these agreements. The remainder of the program provides for cash awards aggregating $11 million payable on December 31, 2012, subject to the recipients' continued employment with TRH through December 31, 2012, among other things. Retention agreements with Alleghany will replace the 2011 Retention Plan related to the stock-based retention agreements with substantially similar values and vesting terms and will generally become effective after the completion of the Alleghany Merger. (See Note 19 of Notes to Consolidated Financial Statements ("Note 19").)

$2 million of expenses related to cash awards under the 2011 Retention Plan were incurred in 2011 and are included mainly in other underwriting expenses. Expenses related to the 2011 Retention Plan will be incurred ratably through the vesting periods, with the majority of the remaining expenses expected to be recorded in 2012 and the balance recorded in 2013.

On October 3, 2008, TRH adopted a retention plan (the "2008 Retention Plan") covering a significant number of its employees, including its senior-most management. Salary expense incurred related to the 2008 Retention Plan totaled nil in 2011 and 2010 and $20 million in 2009.

Deferred policy acquisition costs vary as the components of net unearned premiums change and the deferral rate changes. Policy acquisition costs, consisting primarily of commissions incurred, are charged to earnings over the period in which the related premiums are earned.

$667 million and $692 million principal amount of the 2015 Notes were outstanding at December 31, 2011 and 2010, respectively. In November 2009, the Company issued $350 million principal amount of the 2039 Notes, all of which remains outstanding as of December 31, 2011. Interest expense incurred and interest paid in connection with the Senior Notes is shown below:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Interest expense incurred	$66,769	$68,272	$43,454
Interest paid	66,572	68,439	40,394

The interest expense incurred and paid in 2011 and 2010 is significantly greater than the interest expense incurred and paid in 2009 due principally to the 2039 Notes.

General corporate expenses, certain stock-based compensation costs and expenses relating to Professional Risk Management Services, Inc. ("PRMS") are the primary components of "other expenses, net" on the Consolidated Statement of Operations. PRMS, a wholly-owned subsidiary of the Company, is an insurance program manager specializing in professional liability insurance services. "Other expenses, net" for 2011 includes merger-related costs, including the $115.0 million of termination fees and expenses paid to Allied World related to the termination of the Allied World Merger Agreement. (See Note 3.)

(Loss) income before income taxes was ($214.7) million in 2011, $472.8 million in 2010 and $596.0 million in 2009. The loss before income taxes in 2011 compared to the income before income taxes in 2010 is primarily the result of an underwriting loss of ($529.9) million in 2011 compared to an underwriting profit of $69.3 million in 2010 and $138.4 million of merger-related costs, partially offset by an increase in realized net capital gains. The decrease in underwriting profit (loss) in 2011 was due largely to increased net catastrophe costs, partially offset by increased estimated net favorable development and the net benefit from the negotiated settlement of an arbitration proceeding. (See Notes 7, 11 and 18.) In the aggregate, net catastrophe costs, net favorable development and the negotiated settlement of an arbitration proceeding decreased 2011 underwriting profit (loss) by $594.6 million compared to 2010.

The decrease in income before income taxes in 2010 compared to 2009 principally resulted from a decrease in underwriting profit, partially offset by realized net capital gains in 2010 compared to realized net capital losses in 2009. The decrease in underwriting profit is due principally to increased catastrophe costs, partially offset by increased favorable net loss reserve development. The net impact of increased catastrophe costs and increased favorable net loss reserve development was to decrease pre-tax underwriting profit in 2010 by $185.5 million compared to 2009.

Federal and foreign income tax (benefits) expenses of ($115.4) million, $70.6 million and $118.4 million were recorded in 2011, 2010 and 2009, respectively.

Income tax benefits in 2011 include $78.3 million of deferred tax benefits from minimum tax credit carryforwards, which primarily resulted from alternative minimum tax generated in prior years as a result of the carryback of the 2011 tax-basis net operating loss. Income tax expenses in 2010 include $5.5 million of deferred tax benefits from minimum tax credit carryforwards. Income tax expenses in 2009 include $56.7 million of deferred tax benefits from minimum tax credit carryforwards.

The effective tax rates, which represent the sum of current and deferred income taxes (benefits) divided by (loss) income before income taxes, were 53.8% in 2011, 14.9% in 2010 and 19.9% in 2009. The difference in effective tax rates in 2011 compared to 2010 was due primarily to the significant catastrophe costs and merger-related costs in 2011. The decrease in effective tax rates in 2010 compared to 2009 was due in part to tax exempt income representing a larger percentage of pretax income in 2010 compared to 2009, largely as a result of significant net catastrophe costs in 2010, and a tax benefit of $8.4 million (net of interest on taxes) related to the resolution of certain prior year tax matters. (See Note 6 of Notes to Consolidated Financial Statements ("Note 6").)

TRH recognized income tax (benefits) expenses relating to catastrophe costs of ($298.1) million, ($70.9) million and $2.0 million in 2011, 2010 and 2009, respectively, and, in 2011, recognized income tax benefits of ($6.1) million associated with merger-related costs.

Net (loss) income and net (loss) income per common share on a diluted basis are summarized below for the years indicated:

	Years Ended December 31,					
	2011		2010		2009	
	Amount	Per Common Share (Diluted)	Amount	Per Common Share (Diluted)	Amount	Per Common Share (Diluted)
	(in millions, except per share amounts)					
Net (loss) income	$(99.2)	$(1.62)	$402.2	$6.19	$477.7	$7.15

Reasons for the changes between years are as discussed earlier. (See Note 10 of Notes to Consolidated Financial Statements for the calculation of net (loss) income per common share.)

Non-GAAP Measures

The performance of TRH is commonly assessed by analysts and others based on performance measures which are not defined under GAAP. Those measures include net operating income (loss) ("NOI"), NOI Per Common Share (diluted) and operating return on equity ("Operating ROE"). NOI is defined as GAAP net income (loss) excluding realized net capital gains (losses) and the gain (loss) on early extinguishment of debt, each net of taxes. NOI Per Common Share (diluted) represents NOI divided by average common shares outstanding on a diluted basis. Operating ROE is defined as NOI divided by the average of beginning and ending stockholders' equity. In addition, GAAP return on equity ("GAAP ROE") is defined as GAAP net income (loss) divided by the average of beginning and ending stockholders' equity. TRH uses these measures in analyzing its performance as these measures focus on the core fundamentals of TRH's operations. While TRH considers realized net capital gains (losses) and the gain (loss) on early extinguishment of debt as integral parts of its business and results, such items are not indicative of the core fundamentals of TRH's operations. TRH believes these measures are of interest to the investment community because they provide additional meaningful methods of evaluating certain aspects of TRH's operating performance from period to period on bases that are not otherwise apparent under GAAP. These non-GAAP measures, namely, NOI, NOI Per Common Share (diluted) and Operating ROE should not be viewed as substitutes for GAAP net income (loss), GAAP net income (loss) per common share on a diluted basis and GAAP ROE, respectively. Reconciliations of NOI, NOI Per Common Share (diluted) and Operating ROE to GAAP net income (loss), GAAP net income (loss) per common share on a diluted basis and GAAP ROE, respectively, the most directly comparable GAAP measures, are included below:

	Years Ended December 31,					
	2011		2010		2009	
	Amount	Per Common Share (Diluted)	Amount	Per Common Share (Diluted)	Amount	Per Common Share (Diluted)
	(in millions, except per share amounts)					
Net (loss) income	**$ (99.2)**	**$(1.62)**	**$402.2**	**$ 6.19**	**$477.7**	**$ 7.15**
Realized net capital (gains) losses, net of tax(1)	(57.6)	(0.93)	(19.6)	(0.30)	45.9	0.69
Loss (gain) on early extinguishment of debt, net of tax(1)	0.8	0.01	0.1	0.00	(6.4)	(0.10)
Net operating (loss) income	$(156.0)	$(2.54)	$382.7	$ 5.89	$517.2	$ 7.74

	Years Ended December 31,		
	2011	2010	2009
GAAP return on equity	**(2.4)%**	**9.7%**	**13.2%**
Realized net capital (gains) losses, net of tax(1)	(1.3)	(0.5)	1.3
Loss (gain) on early extinguishment of debt, net of tax(1)	—	0.0	(0.2)
Operating return on equity	(3.7)%	9.2%	14.3%

(1) Assumes a 35% tax rate.

The decreases in NOI, NOI per Common Share (diluted) and Operating ROE in 2011 compared to 2010 is due largely to an increase in catastrophe costs and merger-related costs in 2011, partially offset by increased net favorable loss reserve development and the net benefit from the negotiated settlement of an arbitration proceeding. The decreases in NOI, NOI per Common Share (diluted) and Operating ROE in 2010 compared to 2009 is due largely to an increase in catastrophe costs in 2010.

Segment Results

(a) Domestic:

2011 compared to 2010

Revenues decreased in 2011 due principally to decreases in net premiums earned and net investment income, partially offset by an increase in realized net capital gains. The decrease in net premiums earned occurred principally in the other liability and mortgage guaranty lines, partially offset by an increase in the ocean marine line. The decrease in net investment income is due in part to a decrease in investment income from other invested assets due mainly to losses from an insurance-related alternative investment and a decrease in equity method income from TRH's 40% interest in Kuwait Re. The increase in realized net capital gains (losses) is due in large part to an increase to realized net capital gains on equities available for sale, resulting largely from the rebalancing of TRH's equities available for sale portfolio.

Income before income taxes decreased in 2011 due principally to merger-related costs and a decrease in net investment income, partially offset by increases in underwriting profit and realized net capital gains. The increase in underwriting profit reflects a lower loss ratio excluding net catastrophe costs and a lower commission ratio, partially offset by an increase in net catastrophe costs. The net benefit from the negotiated settlement of an arbitration proceeding is reflected in the loss ratio excluding net catastrophe costs.

2011 includes net catastrophe costs of $85.3 million, principally related to second quarter 2011 tornado activity in the U.S.; the February 2011 earthquake in New Zealand; the March 2011 Tohoku earthquake and resulting tsunami in Japan; Hurricane Irene which occurred in August 2011; and fourth quarter 2011 flooding in Thailand. Net catastrophe costs in 2010 were insignificant.

Assets increased by $86 million in 2011 due principally to increases of $110 million in investments and $55 million in premium balances receivable, partially offset by a $77 million decrease in reinsurance recoverable. The increase in investments is due largely to an increase of $161 million in fixed maturities, partially offset by a $57 million decrease in short-term investments.

2010 compared to 2009

Revenues increased slightly in 2010 due principally to realized net capital gains in 2010 compared to realized net capital losses in 2009, largely offset by a decrease in net premiums earned. The increase in realized net capital gains (losses) is due in part to a reduction in OTTI in 2010. The decrease in net premiums earned occurred principally in the medical malpractice, auto liability, A&H and property lines, partially offset by an increase in the other liability line.

Income before income taxes increased due principally to realized net capital gains in 2010 compared to realized net capital losses in 2009, partially offset by a decrease in underwriting profit and an increase in interest expense on the Senior Notes. The decrease in underwriting profit reflected increases in the expense ratio and the loss ratio. The increase in interest expense was due to increased interest expense on the 2039 Notes in 2010. Interest expense on the 2039 Notes was minimal in 2009.

Net catastrophe costs in 2010 and 2009 were insignificant.

Assets increased by $337 million in 2010 due principally to a $356 million increase in investments. The increase in investments is due largely to an increase of $753 million in fixed maturities available for sale, partially offset by a decrease of $456 million in short-term investments. The increase in fixed maturities available for sale and the decrease in short-term investments are due in part to the reallocation of some short-term investments to fixed maturities. The increase in fixed maturities is also due in part to the investment of net operating cash inflows. The decrease in short-term investments is also due in part to the use of some proceeds from the sales or redemptions of short-term investments to repurchase shares of the Company's common stock pursuant to the Company's share repurchase program in 2010.

(b) International-Europe (London and Paris branches and TRZ):

2011 compared to 2010

Revenues increased in 2011 due to realized net capital gains in 2011 compared to realized net capital losses in 2010 and an increase in net investment income. The increase in realized net capital gains (losses) is due in large part to net foreign currency transaction gains in 2011 compared to net foreign currency transaction losses in 2010. The increase in net investment income is due largely to an increase in investment income on fixed maturities. Revenues increased in the London and Paris branches, partially offset by a decrease in TRZ.

Income before income taxes decreased due primarily to an underwriting loss in 2011 compared to an underwriting gain in 2010. The decrease in underwriting profit (loss) is due largely to an increase in net catastrophe costs.

2011 includes net catastrophe costs of $189.1 million, the great majority of which is related to the March 2011 Tohoku earthquake and resulting tsunami in Japan; the February 2011 earthquake in New Zealand; fourth quarter 2011 flooding in Thailand; and third quarter 2011 floods in Denmark. 2010 includes net catastrophe costs of $76.5 million, principally related to the February 2010 earthquake in Chile; the April 2010 Deepwater Horizon explosion; and first quarter 2010 flooding in Australia.

In addition, net premiums written increased in 2011 with the most significant increases occurring in the auto liability, ocean marine, property, medical malpractice and credit lines, partially offset by significant decreases in the A&H, other liability and fidelity lines. Net premiums written increased in the London and Paris branches and decreased in TRZ. Changes in foreign currency exchange rates between the U.S. dollar and the currencies in which premiums are written in 2011 as compared to 2010 increased net premiums written by $49.7 million. Excluding the impact of changes in foreign currency exchange rates, net premiums written would have decreased 0.2% in 2011 compared to 2010.

Assets increased by $374 million in 2011 due principally to increases of $272 million in investments and $34 million in premiums balances receivable. The increase in investments is due principally to a $266 million increase in fixed maturities available for sale resulting largely from the investment of operating cash inflows and an increase in net unrealized appreciation.

2010 compared to 2009

Revenues decreased due primarily to a decrease in net premiums earned. Revenues decreased in the London and Paris branches, partially offset by an increase in TRZ. The decrease in net premiums earned occurred principally in the property, ocean marine, boiler and machinery and credit lines, partially offset by significant increases in the A&H and other liability lines. Income before income taxes in 2010 remained level with 2009 as a small increase in underwriting profit was largely offset by a small decrease in net investment income. The increase in underwriting profit reflects a lower combined ratio excluding catastrophe costs partially offset by an increase in catastrophe costs.

2010 includes net catastrophe costs of $76.5 million, principally related to the February 2010 earthquake in Chile; the April 2010 Deepwater Horizon explosion; and first quarter 2010 flooding in Australia. Net catastrophe costs in 2009 were insignificant.

In addition, net premiums written decreased in 2010, due largely to changes in foreign currency exchange rates between the U.S. dollar and the currencies in which premiums are written, which decreased net premiums written by $39.5 million in 2010 as compared to 2009. Excluding the impact of changes in foreign currency exchange rates, net premiums written would have increased 1.4% in 2010 compared to 2009. Significant decreases in the ocean marine, credit, boiler and machinery and property lines were partially offset by significant increases in the auto liability and A&H lines.

Assets increased by $162 million in 2010 due principally to a $123 million increase in investments. The increase in investments is due principally to a $421 million increase in fixed maturities available for sale, partially offset by a decrease of $293 million in short term-investments. The increase in fixed maturities available for sale and the decrease in short-term investments are due in part to the reallocation of some short-term investments to fixed maturities. The increase in fixed maturities is also due in part to the investment of net operating cash inflows.

(c) International-Other (Miami (serving Latin America and the Caribbean), Toronto, Hong Kong, Tokyo and Sydney branches):

2011 compared to 2010

Revenues increased in 2011 due largely to an increase in net premiums earned. Revenues increased in all branches except the Toronto branch which remained level with 2010. The increase in net premiums earned occurred principally in the auto liability, property and A&H lines. The increase in net premiums earned was partially due to an increase of $19.9 million in net assumed reinstatement premiums related to catastrophe losses.

The loss before income taxes in 2011 compared to the income before income taxes in 2010 is due principally to an increase in underwriting loss, resulting primarily from an increase in net catastrophe costs.

2011 includes net catastrophe costs of $577.4 million, principally related to the March 2011 Tohoku earthquake and resulting tsunami in Japan; the February 2011 earthquake in New Zealand; fourth quarter 2011 flooding in Thailand; and the first quarter 2011 flooding in Australia and Cyclone Yasi. 2010 includes net catastrophe costs of $127.3 million, principally related to the February 2010 earthquake in Chile; the September 2010 earthquake in New Zealand; and third quarter 2010 hailstorms in Canada.

In addition, net premiums written increased in 2011 with the most significant increases occurring in the auto liability and A&H lines, partially offset by a significant decrease in the property line. Net premiums written increased in the Hong Kong, Sydney and Tokyo branches and decreased in the Miami and Toronto branches. The increase in net premiums written includes an increase of $19.9 million in net assumed reinstatement premiums related to catastrophe losses. Changes in foreign currency exchange rates between the U.S. dollar and the currencies in which premiums are written in 2011 as compared to 2010 increased net premiums written by $22.9 million. Excluding the impact of changes in foreign currency exchange rates, net premiums written would have decreased 2.7% in 2011 compared to 2010.

Assets decreased by $230 million in 2011 due principally to decreases of $214 million in reinsurance recoverable and $64 million in prepaid reinsurance premiums, partially offset by an $82 million increase in cash and cash equivalents. The decreases in reinsurance recoverable and prepaid reinsurance premiums are due in large part to the termination of agreements with certain subsidiaries of AIG that had provided for TRH to assume premiums from a subsidiary of AIG and, by prearrangement, cede all such premiums to other subsidiaries of AIG. Upon termination, reinsurance recoverable and prepaid reinsurance premiums were reduced for the settlement of all remaining balances.

2010 compared to 2009

Revenues decreased slightly in 2010 due largely to an increase in realized net capital losses. Revenues decreased in the Miami and Hong Kong branches, partially offset by increases in the Sydney, Toronto and Tokyo branches. Income before income taxes decreased due principally to a decrease in underwriting profit. The decrease in underwriting profit reflects increased catastrophe costs and an increase in the commission ratio.

2010 includes net catastrophe costs of $127.3 million, principally related to the February 2010 earthquake in Chile; the September 2010 earthquake in New Zealand; and third quarter 2010 hailstorms in Canada. Net catastrophe costs in 2009 were insignificant.

In addition, net premiums written increased in 2010 with the most significant increases occurring in the property and A&H lines, partially offset by a significant decrease in the auto liability line. Net premiums written increased in the Hong Kong, Sydney, Tokyo and Toronto branches and decreased in the Miami branch. Changes in foreign currency exchange rates between the U.S. dollar and the currencies in which premiums are written increased net premiums written by $34.8 million in 2010 as compared to 2009. Excluding the impact of changes in foreign currency exchange rates, net premiums written would have decreased 3.1% in 2010 compared to 2009.

Assets increased by $263 million in 2010 due principally to a $179 million increase in investments and a $51 million increase in reinsurance recoverable on paid and unpaid losses and LAE. The increase in investments is due principally to a $194 million increase in fixed maturities. The increase in reinsurance recoverable on paid and unpaid losses and LAE is due in part to increases in reinsurance recoverables relating to catastrophe events occurring in 2010.

Financial Condition and Liquidity

As a holding company, the Company's assets consist primarily of the stock of its subsidiaries. The Company's liabilities consist primarily of the Senior Notes and related interest payable. The Company's cash inflows depend on the availability of dividends or other statutorily permissible payments from TRC and its wholly-owned operating subsidiaries, TRZ and Fair American. (See Note 15 of Notes to Consolidated Financial Statements for a discussion of restrictions on dividend payment and Schedule II — Condensed Financial Information of Registrant As of December 31, 2011 and 2010 and For the Years Ended December 31, 2011, 2010 and 2009 for the condensed financial statements of the Company.) In 2009, cash inflows also included the proceeds from the issuance of the 2039 Notes. TRH considers TRC's ability to pay dividends to the Company to be adequate for the Company's liquidity needs through the end of 2012 and thereafter for a period the length of which is difficult to predict, but which TRH believes will be at least one year. In 2011, 2010 and 2009, the Company received cash dividends from its operating subsidiaries of $500.0 million, $231.5 million and $121.5 million, respectively. Cash dividends received include amounts declared in prior years, as applicable. Ordinarily, based on TRC's statutory surplus at year-end 2011, TRC could pay dividends of approximately $384 million annually to the Company during 2012 without regulatory approval. For 24 months following the closing of the Alleghany Merger, TRC can pay $200 million of dividends annually to the Company without regulatory approval, and will need the prior approval of the New York State Department of Financial Services in order to declare dividends to the Company in excess of $200 million. The Company uses cash primarily to pay interest to the holders of the Senior Notes, dividends to its common stockholders and, to a lesser extent, operating expenses. The Company also uses cash to repurchase portions of the Senior Notes or its common shares when TRH believes it is advantageous to do so. Under the terms of the Alleghany Merger Agreement, the Company is prohibited from repurchasing its common shares during the pendency of the merger. In 2011, the Company also used cash for merger-related costs.

Sources of funds for the operating subsidiaries consisted primarily of premiums, reinsurance recoveries, investment income and proceeds from sales, redemptions and the maturing of investments. Funds are applied by the operating subsidiaries primarily to the purchase of investments and the payments of claims, commissions, ceded reinsurance premiums, operating expenses and income taxes. Premiums are generally received substantially in advance of related claims payments. Cash and cash equivalents are maintained for the payment of claims and expenses as they become due. TRH does not anticipate any material capital expenditures in the foreseeable future.

While the expected payout pattern of liabilities (see the contractual obligations table later in this section) is considered in the investment management process, it is not the only factor considered as TRH has historically funded its claims payments from current operating cash flows. As a result of such funding history, TRH did not maintain a credit facility as of December 31, 2011. TRH's primary investment goal is to optimize after-tax income through a high quality diversified taxable fixed maturity and tax-exempt municipal fixed maturity portfolio, while maintaining an adequate level of liquidity. (See discussion later in this section of the potential liquidity strain that could arise as a result of significant acceleration of paid losses beyond TRH's ability to fund such cash needs.)

At December 31, 2011, total investments were $13.42 billion compared to $12.97 billion at December 31, 2010, an increase of $447.0 million. The change in investments reflects $173.2 million of net purchases of investments and a $298.6 million increase in net unrealized appreciation of investments. In addition, the impact on the carrying value of investments of foreign currency exchange rate changes between the U.S. dollar and certain currencies in which investments are denominated decreased total investments as of 2011 compared to 2010 by approximately $48 million.

On September 30, 2011, TRH reclassified its entire portfolio of fixed maturities held to maturity, which consisted solely of state, municipality and political subdivision fixed maturities (collectively "municipal bonds"), to the fixed maturities available for sale category. In 2011, financial markets were disrupted by several issues, including the European debt crisis, the August 2011 downgrade of U.S. Government debt by Standard & Poor's ("S&P"), and the downgrade of certain pre-refunded municipal bonds. Due to these disruptions and the desire to maintain greater flexibility in managing its entire investment portfolio in an uncertain economy, TRH changed its intent to hold these securities to maturity and transferred such securities to the available for sale category.

The fair value and amortized cost of these fixed maturities at the time of this reclassification were $1.26 billion and $1.19 billion, respectively. As a result, as of September 30, 2011, net unrealized appreciation of investments, net of tax, (a component of accumulated other comprehensive income and stockholders' equity) increased by $48.2 million in 2011, as did other comprehensive income for 2011.

The following table summarizes the investments of TRH (on the basis of carrying value) as of December 31, 2011 and 2010:

	December 31, 2011		December 31, 2010	
	Amount	Percent	Amount	Percent
	(dollars in thousands)			
Fixed maturities:				
Held to maturity (at amortized cost):				
Municipal bonds	$ —	—%	$ 1,189,801	9.2%
Available for sale (at fair value):				
U.S. Government	28,454	0.2	25,626	0.2
U.S. Government agencies	1,135,984	8.5	864,599	6.6
Municipal bonds	5,784,488	43.1	4,841,639	37.3
Foreign government	866,438	6.5	801,308	6.2
U.S. corporate	2,313,719	17.2	1,963,724	15.1
Foreign corporate	1,876,377	14.0	1,731,628	13.4
Asset-backed:				
RMBS	197,907	1.5	244,540	1.9
CMBS	235,573	1.7	249,991	1.9
Other asset-backed	64,589	0.5	99,281	0.8
Total available for sale	12,503,529	93.2	10,822,336	83.4
Total fixed maturities	12,503,529	93.2	12,012,137	92.6
Equities available for sale	586,324	4.3	564,530	4.4
Other invested assets (including alternative investments)	266,185	2.0	275,977	2.1
Short-term investments	63,661	0.5	120,095	0.9
Total investments	$13,419,699	100.0%	$12,972,739	100.0%

TRH's fixed maturities classified as held to maturity and available for sale are predominantly investment grade, liquid securities. Approximately 66.3% and 60.5% of fixed maturities, excluding asset-backed and U.S. Government agency fixed maturities, will mature in less than 10 years as of December 31, 2011 and 2010, respectively. By their nature, asset-backed and U.S. Government agency fixed maturities do not generally have single maturity dates. Activity within the fixed maturities available for sale portfolio for the periods under discussion includes strategic portfolio realignments to optimize after-tax returns. TRH adjusts its mix of taxable and tax-exempt investments, as appropriate, generally as a result of strategic investment and tax planning considerations. The average duration of TRH's entire fixed income portfolio was 3.0 years as of December 31, 2011 and 3.6 years as of December 31, 2010.

TRH primarily sources credit ratings from S&P. If a security is not rated by S&P, TRH looks to Moody's Investors Service ("Moody's") for a credit rating. The following table summarizes the credit ratings of fixed maturities available for sale:

	Ratings as of December 31, 2011[1]					
	AAA[2]	AA[3]	A[4]	BBB[5]	Below BBB or Not-Rated[6]	Total
	(dollars in millions)					
Fixed maturities available for sale:						
U.S. Government	$ —	$ 28	$ —	$ —	$ —	$ 28
U.S. Government agencies	—	1,136	—	—	—	1,136
Municipal bonds	1,598	3,456	638	43	50	5,785
Foreign government	618	231	11	—	6	866
U.S. corporate	68	447	1,470	329	—	2,314
Foreign corporate	235	670	810	155	6	1,876
Asset-backed:						
RMBS	89	51	6	—	52	198
CMBS	179	11	19	10	17	236
Other asset-backed	59	6	—	—	—	65
Total	$2,846	$6,036	$2,954	$537	$131	$12,504
Percent of total fixed maturities	22.8%	48.3%	23.6%	4.3%	1.0%	100.0%

(1) Standard & Poor's ratings, except as otherwise noted.
(2) Includes $454 million of securities rated Aaa by Moody's.
(3) Includes $291 million of securities rated Aa by Moody's.
(4) Includes $27 million of securities rated A by Moody's.
(5) Includes $8 million of securities rated Baa by Moody's.
(6) Consists of $3 million of securities rated Ba by Moody's, $3 million of BB rated securities, $42 million of CCC rated securities, $10 million of CC rated securities and $73 million of not-rated securities.

Municipal bonds represent approximately 43.1% of TRH's total investments at December 31, 2011. These securities include the general obligations of state and local governments, revenue bonds and pre-refunded bonds.

At December 31, 2011, TRH's municipal bonds with fair values of $3.10 billion, or 23% of TRH's total investments, comprise revenue bonds for which the payment of principal and interest is available solely from the cash flows of the related projects. As issuers of revenue bonds do not have the ability to draw from tax revenues, or levy taxes to fund obligations, revenue bonds may carry a greater risk of default than general obligation bonds.

The following tables provide the fair value and amortized cost of TRH's revenue bonds at December 31, 2011, categorized by state and revenue source:

	Fair Value by Revenue Source								
State	Education	Hospital	Housing	Lease Revenue	Special Tax	Transit	Utilities	All Other Revenue Sources	Total Fair Value
					(in millions)				
New York	$ 20	$ —	$ 7	$ —	$ 58	$195	$130	$ 9	$ 419
California	44	—	—	51	—	35	121	—	251
Texas	31	3	6	—	—	86	114	—	240
Arizona	—	11	—	7	43	27	113	—	201
Missouri	—	51	8	—	—	34	33	38	164
Florida	—	—	2	60	—	55	15	4	136
Illinois	—	28	—	—	2	61	13	11	115
Washington D.C.	—	—	—	—	58	56	—	—	114
New Jersey	13	—	—	3	—	95	—	—	111
Michigan	—	—	—	19	—	—	89	—	108
South Carolina	33	—	—	6	—	22	47	—	108
Virginia	16	—	10	32	—	7	31	4	100
Washington	—	—	—	—	—	—	99	—	99
Massachusetts	—	25	6	—	18	38	2	—	89
Connecticut	—	—	23	—	51	7	—	—	81
Oregon	—	—	4	12	—	62	2	—	80
Indiana	—	—	10	6	—	19	20	14	69
Ohio	—	26	6	5	—	—	29	—	66
North Carolina	10	13	7	—	—	—	26	—	56
Minnesota	—	—	32	—	21	—	—	—	53
All other states	46	11	148	43	13	114	37	25	437
Total revenue bonds	$213	$168	$269	$244	$264	$913	$921	$105	3,097
Total general obligations and pre-refunded fixed maturities									2,687
Total municipal bonds									$5,784

	Amortized Cost by Revenue Source								
State	Education	Hospital	Housing	Lease Revenue	Special Tax	Transit	Utilities	All Other Revenue Sources	Total Amortized Cost
					(in millions)				
New York	$ 18	$ —	$ 7	$ —	$ 53	$183	$121	$ 9	$ 391
California	42	—	—	49	—	34	115	—	240
Texas	29	3	6	—	—	80	108	—	226
Arizona	—	10	—	7	40	26	105	—	188
Missouri	—	47	8	—	—	31	31	36	153
Florida	—	—	2	58	—	51	14	4	129
Illinois	—	25	—	—	2	58	13	10	108
Washington D.C.	—	—	—	—	52	55	—	—	107
New Jersey	13	—	—	3	—	89	—	—	105
Michigan	—	—	—	17	—	—	91	—	108
South Carolina	28	—	—	6	—	22	44	—	100
Virginia	15	—	10	28	—	7	30	3	93
Washington	—	—	—	—	—	—	89	—	89
Massachusetts	—	22	5	—	16	35	3	—	81
Connecticut	—	—	22	—	46	7	—	—	75
Oregon	—	—	4	12	—	56	2	—	74
Indiana	—	—	10	6	—	19	18	13	66
Ohio	—	26	6	5	—	—	27	—	64
North Carolina	9	13	8	—	—	—	23	—	53
Minnesota	—	—	31	—	20	—	—	—	51
All other states	42	10	146	38	12	106	35	22	411
Total revenue bonds	$196	$156	$265	$229	$241	$859	$869	$97	2,912
Total general obligations and pre-refunded fixed maturities									2,532
Total municipal bonds									$5,444

As of December 31, 2011, TRH's equities available for sale includes $95.2 million of government bond funds in France with net unrealized gains of $6.0 million. The following table provides a breakdown of the fair value, net unrealized gains (losses) and the average rating of TRH's fixed maturities available for sale from governments and companies in Europe as of December 31, 2011:

Country of Exposure and Type of Fixed Maturity	Fair Value	Net Unrealized Gains (Losses)	Average Rating[1]
	(in thousands)		
United Kingdom:			
Foreign government	$119,825	$ 8,002	AAA
Foreign corporate – financial	137,715	(1,834)	A
Foreign corporate – non-financial	148,636	4,166	A
Asset-backed	162,280	(20,324)	AA
Total United Kingdom	$568,456	$ (9,990)	
France			
Foreign government	$ 62,796	$ 1,783	AAA
Foreign corporate – financial	96,509	(1,390)	A
Foreign corporate – non-financial	123,353	4,634	A
Total France	$282,658	$ 5,027	
Netherlands			
Foreign government	$ 31,665	$ 1,734	AAA
Foreign corporate – financial	146,153	1,751	AA
Foreign corporate – non-financial	182,688	9,199	A
Asset-backed	6,246	(507)	AA
Total Netherlands	$366,752	$ 12,177	
Germany			
Foreign government	$117,134	$ 4,345	AAA
Foreign corporate – financial	94,478	3,059	AA
Foreign corporate – non-financial	5,665	108	A
Total Germany	$217,277	$ 7,512	
Spain			
Foreign corporate – financial	$ 15,128	$ (257)	AA
Foreign corporate – non-financial	9,104	(310)	BBB
Total Spain	$ 24,232	$ (567)	
Italy			
Foreign corporate – financial	$ 9,565	$ (502)	A
Foreign corporate – non-financial	3,696	(10)	A
Total Italy	$ 13,261	$ (512)	
Ireland			
Foreign corporate – non-financial	$ 5,323	$ 135	A
Other[2]			
Supranational	$ 89,441	$ 4,907	AAA
Foreign government	13,392	279	AA
Foreign corporate – financial	111,830	(2,240)	A
Foreign corporate – non-financial	107,055	2,044	A
Total Other	$321,718	$ 4,990	

(1) Principally S&P ratings.
(2) Includes Belgium, the Czech Republic, Denmark, Luxembourg, Norway, Poland, Sweden and Switzerland.

Gross unrealized gains and losses and net unrealized gains (losses) on all fixed maturities and equities at December 31, 2011 and 2010 were as follows:

	Gross Unrealized Gains	Gross Unrealized Losses	Net Unrealized Gains (Losses)
		(in millions)	
As of December 31, 2011:			
Fixed maturities available for sale[(1)]	$542.0	$ (83.1)	$458.9
Equities available for sale	56.0	(32.6)	23.4
As of December 31, 2010:			
Fixed maturities (including held to maturity and carried at amortized cost)[(1)]	$291.0	$(145.5)	$145.5
Equities available for sale	92.5	(4.5)	88.0

(1) As of December 31, 2011, includes gross unrealized gains of $0.6 million and gross unrealized losses of ($31.6) million on fixed maturities rated below BBB and gross unrealized gains of $3.8 million and gross unrealized losses of ($0.2) million on fixed maturities which are not-rated. As of December 31, 2010, includes gross unrealized gains of $0.4 million and gross unrealized losses of ($22.9) million on fixed maturities rated below BBB and gross unrealized gains of $0.5 million and insignificant gross unrealized losses on fixed maturities which are not-rated.

The increase in net unrealized gains on all fixed maturities as of December 31, 2011 compared to December 31, 2010 largely related to municipal bonds. The increase in net unrealized appreciation on all fixed maturities in 2011 reflects a generally lower interest rate environment. The decrease in net unrealized gains on equities available for sale as of December 31, 2011 compared to December 31, 2010 is due largely to increased equity market uncertainty related to concerns about U.S. and European governmental debt and fiscal-policy. This uncertainty was due in part to the assignment of negative outlooks and/or the downgrading of U.S. and certain European government debt by certain rating agencies. Increases in actual or perceived default risks by governments could disrupt financial markets both within and outside of the subject country and could adversely impact the fair value and liquidity of TRH's investment portfolio. (See Note 5 of Notes to Consolidated Financial Statements ("Note 5") for additional details about gross unrealized gains and losses on fixed maturities and equities.)

Generally, reserve changes result from the setting of reserves on current accident year business, the adjustment of prior accident year reserves based on new information (*i.e.*, reserve development), payments of losses and LAE for which reserves were previously established and the impact of changes in foreign currency exchange rates.

At December 31, 2011, gross loss reserves totaled $9.53 billion, an increase of $508.4 million, or 5.6% over December 31, 2010. The increase in gross loss reserves includes the impact of catastrophe losses in 2011, changes in foreign currency exchange rates since the end of 2010 and gross loss reserve development. In addition, in the fourth quarter of 2011, TRH terminated agreements with certain subsidiaries of AIG that had provided for TRH to assume premiums from a subsidiary of AIG and, by prearrangement, cede all such premiums to other AIG subsidiaries. Upon termination, gross loss reserves were decreased by $250.9 million for the settlement of all remaining balances related to these agreements and reinsurance recoverable was decreased by an equal amount for the settlement of all remaining balances, with no impact on net loss reserves.

The components of gross loss reserves as of December 31, 2011 and 2010 by major class of business, split between the case portion and the IBNR portion is presented below:

2011

	Gross Loss Reserves		
	Case	IBNR	Total
		(in millions)	
Casualty:			
Other liability[1]	$1,194.6	$3,049.6	$4,244.2
Accident and health	141.0	130.4	271.4
Medical malpractice	585.0	854.1	1,439.1
Auto liability	267.0	216.9	483.9
Ocean marine and aviation	411.3	193.1	604.4
Surety and credit	128.0	136.6	264.6
Other	423.9	404.7	828.6
Total casualty	3,150.8	4,985.4	8,136.2
Property:			
Fire	597.1	414.8	1,011.9
Allied lines	91.6	78.5	170.1
Homeowners multiple peril	16.3	15.9	32.2
Earthquake	93.3	10.1	103.4
Auto physical damage	14.8	20.2	35.0
Other	30.0	10.2	40.2
Total property	843.1	549.7	1,392.8
Total	$3,993.9	$5,535.1	$9,529.0

2010

	Gross Loss Reserves		
	Case	IBNR	Total
		(in millions)	
Casualty:			
Other liability[1]	$1,193.5	$2,955.8	$4,149.3
Accident and health	242.9	134.5	377.4
Medical malpractice	532.2	828.4	1,360.6
Auto liability	256.6	214.8	471.4
Ocean marine and aviation	401.6	172.1	573.7
Surety and credit	112.0	130.4	242.4
Other	464.8	398.4	863.2
Total casualty	3,203.6	4,834.4	8,038.0
Property:			
Fire	460.1	180.0	640.1
Allied lines	70.3	108.9	179.2
Homeowners multiple peril	12.6	7.6	20.2
Earthquake	46.2	2.4	48.6
Auto physical damage	22.3	31.2	53.5
Other	31.0	10.0	41.0
Total property	642.5	340.1	982.6
Total	$3,846.1	$5,174.5	$9,020.6

(1) A large majority of the amounts within the other liability line relates to complex risks such as E&O and D&O, to general casualty risks and, to a much lesser extent, environmental impairment liability.

Gross loss reserves represent the accumulation of estimates for losses occurring on or prior to the balance sheet date. Gross case reserves are principally based on reports and individual case estimates received from ceding companies. The IBNR portion of gross loss reserves is based on past experience and other factors. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments are reflected in income currently.

At December 31, 2011, reinsurance recoverable on gross loss reserves totaled $487.9 million (a component of reinsurance recoverable on paid and unpaid losses on the Consolidated Balance Sheet, which is net of an allowance for uncollectible reinsurance recoverable of $12 million), a decrease of $305.9 million, or 38.5%, from the prior year-end. The decrease in reinsurance recoverable is due largely to a reduction in reinsurance recoverables related to business assumed from an AIG subsidiary which, by prearrangement with TRH, was then ceded in an equal amount to other AIG subsidiaries. In the fourth quarter of 2011, TRH terminated such agreements with the subsidiaries of AIG. Upon termination, reinsurance recoverable was decreased by $250.9 million for the settlement of all remaining balances related to these agreements and gross loss reserves were decreased by an equal amount for the settlement of all remaining balances, with no impact on net loss reserves. Of the amount of reinsurance recoverable on paid and unpaid losses and LAE, which totaled $531.3 million as of December 31, 2011, $436.1 million represented balances that were unsecured. Of such unsecured balances, 99% was due from companies rated A− or better. (See Note 16.)

Net loss reserves totaled $9.03 billion at December 31, 2011, an increase of $814.3 million, or 9.9%, from the prior year-end. The increase in net loss reserves includes the impact of changes in foreign currency exchange rates against the U.S. dollar since the end of 2010 which served to decrease net loss reserves by $16.5 million. An analysis of the change in net loss reserves from year-end 2010 to year-end 2011 is included in Note 7.

Net loss reserves include amounts for risks relating to environmental impairment and asbestos-related illnesses totaling $351 million and $212 million at December 31, 2011 and 2010, respectively, including $227 million and $71 million at the aforementioned dates, respectively, relating to such losses occurring in 1985 and prior. Reserves for losses occurring in 1985 and prior relate to standard general liability coverages, where the environmental or asbestos-related liabilities were neither clearly defined nor specifically excluded. Reserves for losses occurring after 1985 were underwritten specifically as environmental and asbestos-related coverages. The reserves carried for these claims, including the IBNR portion, are based upon known facts and current law. However, significant uncertainty exists in determining the amount of ultimate liability for environmental impairment and asbestos-related losses, particularly for those occurring in 1985 and prior. This uncertainty is due to inconsistent court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages, among other things.

Because the reserving process is inherently difficult and subjective, actual losses may materially differ from reserves and related reinsurance recoverables reflected in TRH's consolidated financial statements, and, accordingly, may have a material effect on future results of operations, financial condition and cash flows. And while there is also the possibility of changes in statutes, laws, regulations and other factors that could have a material effect on these liabilities and, accordingly, the financial statement elements cited immediately above, TRH believes that its loss reserves carried at December 31, 2011 are adequate.

See **Critical Accounting Estimates** for a discussion of the significant assumptions and factors considered in the reserve setting process.

In the ordinary course of business, TRH is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine TRH's rights and obligations under reinsurance agreements and other more general contracts. In some disputes, TRH seeks to enforce its rights under an agreement or to collect funds due to TRH. In other matters, TRH is resisting attempts by others to enforce alleged rights. Such disputes are resolved through formal and informal means, including litigation, arbitration and mediation. (See **Item 3.** *Legal Proceedings* and Note 18.)

In all such matters, TRH believes that its positions are legally and commercially reasonable. TRH also regularly evaluates those positions, and where appropriate, establishes or adjusts loss reserves to reflect its evaluation. TRH's aggregate loss reserves take into account the possibility that TRH may not ultimately prevail in each and every disputed matter. TRH takes into consideration changes in judicial interpretation of legal liability and policy coverages, changes in claims handling practices and inflation. TRH considers not only monetary increases in the cost of what it reinsures, but also changes in societal factors that influence jury verdicts and case law, TRH's approach to claim resolution, and, in turn, claim costs. TRH believes its aggregate loss reserves reduce the potential that an adverse resolution of one or more of these matters, at any point in time, would have a material impact on TRH's financial condition, results of operations or cashflows. However, there can be no assurance that adverse resolutions of such matters in any one period or in the aggregate will not result in a material adverse effect on TRH's results of operations, financial condition or cashflows.

For 2011, TRH's net operating cash inflows were $596.5 million, a decrease of $464.5 million from 2010. The decrease results, in large part, from decreases in net cash received from underwriting activities, due in part to an increase in catastrophe losses paid, the payment of merger-related costs and net income taxes paid in 2011 compared to net recoveries of income taxes in 2010. The decrease was partially offset by increased investment income received.

For 2010, TRH's net operating cash inflows were $1.06 billion, an increase of $109.5 million from 2009. The increase results, in large part, from net recoveries of income taxes in 2010 compared to net payments of income taxes in 2009 and increased cash received from underwriting activities, partially offset by an increase in interest paid on the Senior Notes. The total income taxes recovered in 2010 of $131.1 million consisted of a $109.0 million refund of federal income taxes related to amended tax returns for prior tax years and $22.1 million of refund claims related to capital loss carrybacks to certain other prior tax years. (See Note 6.)

If paid losses accelerated significantly beyond TRH's ability to fund such paid losses from current operating cash flows, TRH would be compelled to liquidate a portion of its investment portfolio and/or arrange for financing. Such events that may cause such a liquidity strain could be the result of several catastrophic events occurring in a relatively short period of time. Additional strain on liquidity could occur if the investments sold to fund such cash needs were sold in a depressed marketplace and/or reinsurance recoverable on paid losses became uncollectible.

Based on its history of consistently strong operating cash flows, the present composition of its investment portfolio (including present levels of cash, cash equivalents, short-term investments and other liquid investment classes) and consideration of its cash needs, TRH considers its liquidity to be adequate through the end of 2012 and thereafter for a period the length of which is difficult to predict, but which TRH believes will be at least one year.

TRH's stockholders' equity totaled $4.08 billion at December 31, 2011, a decrease of $201.5 million from year-end 2010. The net decrease consisted primarily of $261.5 million of repurchases of the Company's common stock, net loss of $99.2 million and cash dividends declared of $39.5 million, partially offset by other comprehensive income ("OCI") of $176.3 million.

The abovementioned OCI principally consisted of net unrealized appreciation of investments, net of income taxes, ("URA, net of tax") of $194.1 million, partially offset by net unrealized foreign currency translation loss from functional currencies, net of income taxes, ("UTA, net of tax") of $16.6 million. The URA, net of tax, is composed principally of an increase of $236.8 million in net unrealized appreciation of fixed maturities available for sale, partially offset by a decrease of $42.0 million in net unrealized appreciation of equities available for sale. The increase in net unrealized appreciation, net of tax, on fixed maturities available for sale reflects a generally lower interest rate environment. $48.2 million of the increase in net unrealized appreciation, net of tax, on fixed maturities available for sale relates to the reclassification of fixed maturities previously classified as fixed maturities held to maturity to fixed maturities available for sale. The decrease in net unrealized appreciation, net of tax, on equities available for sale was due largely to increased equity market uncertainty related to concerns about U.S. and European governmental debt and fiscal-policy. (See Note 5 for details of gross unrealized gains and losses by security type and for additional information about the reclassification of fixed maturities previously classified as held to maturity to available for sale.)

URA, net of tax, is subject to significant volatility resulting from changes in the fair value of fixed maturities available for sale, equities available for sale and other invested assets. Fair values may fluctuate due to changes in general economic and political conditions, market interest rates, prospects of investee companies and other factors.

In December 2009, the Company's Board of Directors (the "Board") authorized the repurchase of up to $200 million of the Company's outstanding common shares from time to time in the open market or via privately negotiated transactions through December 31, 2011 (the "December 2009 Authorization"). In October 2010, the Board approved a new share repurchase program, which authorized the Company to repurchase up to $200 million of the Company's outstanding common shares from time to time in the open market or via negotiated transactions through December 31, 2012 (the "October 2010 Authorization"). The October 2010 Authorization superseded the December 2009 Authorization.

In September 2011, the Board approved a strategic plan for the Company, which provided, among other things, for the repurchase of up to $600 million of the Company's common shares (the "September 2011 Authorization") through open market or negotiated purchases. The September 2011 Authorization superseded the October 2010 Authorization. Pursuant to the terms of the Alleghany Merger Agreement, the Company ceased repurchasing its common shares under the September 2011 Authorization as of November 20, 2011. In 2011, the Company repurchased 5.1 million shares of its common stock at an aggregate cost of $261.5 million. Pursuant to the terms of the Alleghany Merger Agreement, the Company is prohibited from repurchasing its common shares during the pendency of the merger. (See **Item 5.** *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*.)

In 2011 and 2010, TRH repurchased $25 million and $3 million, respectively, principal amount of the 2015 Notes. $667 million and $692 million principal amount of the 2015 Notes were outstanding at December 31, 2011 and 2010, respectively. (See Note 8 for the (losses) gains realized on the early extinguishment of the 2015 Notes.) $350 million principal amount of the 2039 Notes were outstanding at December 31, 2011 and 2010.

As of December 31, 2011, the amounts due and the estimated period between year-end 2011 and the dates of payment, under specified contractual obligations of TRH are as follows:

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
			(in thousands)		
Long-term debt[(1)]	$ 1,954,413	$ 66,353	$ 132,705	$ 761,355	$ 994,000
Operating leases	105,343	13,550	25,224	22,122	44,447
Gross loss reserves	9,529,003	2,262,952	2,744,724	1,579,160	2,942,167
Other[(2)]	43,268	43,268	—	—	—
Total	$11,632,027	$2,386,123	$2,902,653	$2,362,637	$3,980,614

(1) Includes anticipated interest payments.
(2) Represents commitments to purchase preferred stock of a non-U.S. reinsurer (see Note 18), to invest in limited partnerships and cash awards under retention agreements offered in 2011 executed by the recipients (see Note 19).

With respect to commitments and contingent liabilities, see Note 18.

Risk Based Capital ("RBC") standards, promulgated by the National Association of Insurance Commissioners ("NAIC"), relate an individual company's statutory policyholders' surplus to the risk inherent in its overall operations and set thresholds at which certain company and regulatory corrective actions are mandated. At December 31, 2011 the statutory surplus of TRC and Fair American each exceeded the level of surplus required under RBC requirements for regulatory attention.

Catastrophe Exposure

The nature of TRH's business exposes it to losses from various catastrophe events. In a catastrophe event, losses from many insureds across multiple lines of business may result directly or indirectly from such single occurrence. In order to control such exposures, TRH employs a combination of measures, including setting targets for the amount of its exposure in key geographic zones and product lines that are prone to catastrophic events, monitoring and modeling accumulated exposures and purchasing catastrophe reinsurance when deemed cost effective.

Natural disasters such as hurricanes, earthquakes and other catastrophes have the potential to adversely affect TRH's operating results by material amounts. Other risks, such as an outbreak of a pandemic disease, a major terrorist event, the bankruptcy of a major company, or a marine and/or aviation disaster, could also have a materially adverse effect on TRH's business and operating results to an extent that may be only partially offset by reinsurance.

TRH evaluates catastrophic events and assesses the probability of occurrence and magnitude through the use of industry recognized models and other techniques. TRH supplements these models by periodically monitoring the exposure risks of its operations and adjusting such modeled output accordingly.

It is important to recognize that there is no single standard methodology to project the possible losses from catastrophe exposures. Further, there are no industry standard assumptions to be utilized in projecting these losses and the form and quality of the data obtained from ceding companies used in these models are not uniformly compatible with the data requirements of all models. The use of different methodologies and assumptions could materially change the projected losses. Therefore, these modeled losses may not be comparable to estimates made by other companies.

While the analytical tools used to estimate catastrophe exposure are useful in both pricing and monitoring catastrophe risk, the estimates derived by use of these techniques are inherently uncertain and do not reflect TRH's maximum exposures to these events. While the models are frequently updated, these projections are nevertheless inherently imprecise. It is highly likely that TRH's losses will vary, perhaps materially, from these estimates.

Projections of potential catastrophe losses are typically expressed in terms of the probable maximum loss ("PML"). TRH defines PML as its anticipated maximum loss (taking into account contract limits) caused by a single catastrophic event affecting a broad contiguous area. These modeled losses are estimated based upon contracts in force at January 1, 2012.

The following is an overview of such modeled PMLs from property, engineering, marine and energy exposures and the associated natural perils that TRH deems most significant. The estimated amount of these modeled losses are presented in three ways: (a) gross losses; (b) pre-tax net catastrophe costs (*i.e.*, gross losses, net of reinsurance and the impact of net reinstatement premiums); and (c) after-tax net catastrophe costs (*i.e.*, the net cost to TRH). The reduction for reinsurance assumes that all reinsurers fulfill their obligations to TRH in accordance with contract terms. The values provided have a likelihood of being exceeded in any single year of 1.0% or 0.4%.

	1.0%			0.4%		
	Gross Losses	Pre-Tax Net Catastrophe Costs	After-Tax Net Catastrophe Costs	Gross Losses	Pre-Tax Net Catastrophe Costs	After-Tax Net Catastrophe Costs
	(in millions)					
Florida, Wind	$659	$577	$375	$1,099	$953	$619
California, Earthquake	602	559	363	1,078	916	595
Japan, Earthquake	626	525	341	788	669	435
Japan, Wind	553	449	292	616	511	332
Northeast U.S., Wind	494	446	290	1,065	906	589
Europe, Wind	421	327	212	575	456	296

"Florida, Wind" has the highest modeled after-tax net catastrophe costs arising out of events with a 1.0% probability of being exceeded and would represent 9.2% of TRH's stockholders' equity at December 31, 2011. "Florida, Wind" has the highest modeled after-tax net catastrophe costs arising out of events with a 0.4% probability of being exceeded and would represent 15.2% of TRH's stockholders' equity at December 31, 2011. If multiple severe catastrophic events occur in any one year, the potential economic cost to the company could be materially higher than any one of the amounts shown above.

There is much uncertainty and imprecision in the compilation of these estimates at many stages in the process. Moreover, the makeup of TRH's in-force business is constantly changing as new business is added and existing contracts terminate or expire, including contracts for reinsurance coverage purchased by TRH. In addition, these estimates take into account what TRH believes to be the most likely accumulation of territories and/or lines of business in a catastrophic natural peril event, but there can be no assurance that TRH has captured every possible scenario in its analysis. As a result of these factors, among others, there can be no assurance that TRH will not experience after-tax net catastrophe costs from individual events that will exceed these estimates by a material amount. There also can be no assurance that TRH will not experience catastrophe events more frequently than the modeled probabilities would suggest. In any given year, catastrophe events could have a material adverse effect on TRH's financial condition, results of operations, cash flows and liquidity.

See Note 11 for catastrophe costs incurred in 2011, 2010 and 2009.

Recent Accounting Standards

See Note 2(l) of Notes to Consolidated Financial Statements for a discussion of recent accounting standards and their application to TRH.

Item 7A.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

TRH's operations are exposed to market risk. Market risk is the risk of loss of fair value resulting from adverse fluctuations in interest rates, equity prices and foreign currency exchange rates. TRH's market risk exposures arise from the following:

- TRH is a globally diversified enterprise with capital employed in a variety of currencies.
- The large amount of TRH's capital invested in fixed income or equity securities.

TRH analyzes market risk using Value at Risk ("VaR"). VaR is a summary statistical measure that applies the estimated volatility and correlation of market factors of TRH's market position. The output from the VaR calculation is the maximum loss that could occur over a defined period of time given a certain probability. VaR measures not only the size of the individual exposures but also the interaction between different market exposures, thereby providing a portfolio approach to measuring market risk.

While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. TRH believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. Therefore, such models are tools and do not substitute for the experience or judgment of senior management.

TRH has performed VaR analyses to estimate the maximum potential loss of fair value for financial instruments for each type of market risk. In this analysis, financial instrument assets include all investments, cash and accrued investment income. Financial instrument liabilities include unpaid losses and LAE and unearned premiums, each net of reinsurance, and the Senior Notes.

TRH calculated the VaR with respect to net fair values at each quarter end in 2011 and 2010. The VaR number represents the maximum potential loss as of those dates that could be incurred with a 95% confidence (*i.e.*, only 5% of historical scenarios show losses greater than the VaR figures) within a one-month holding period. TRH employed a variance-covariance methodology that entails modeling the linear sensitivities of all the assets and liabilities to a broad set of systematic market risk factors and idiosyncratic risk factors. Risk factor returns are assumed to be joint-normally distributed. The most recent two years of historical changes in these risk factors are utilized.

TRH's market risk analyses do not provide weight to risks relating to market issues such as liquidity and the credit-worthiness of investments.

The following table presents the year-end, average, high and low VaRs on a diversified basis and of each component of market risk for 2011 and 2010. The diversified VaR is usually smaller than the sum of its components due to correlation effects.

	2011				2010			
	Year-End	Average	High	Low	Year-End	Average	High	Low
	(in millions)							
Diversified	$185	$142	$185	$99	$164	$153	$170	$137
Interest rate	59	70	109	42	109	97	140	75
Equity	75	69	99	22	78	77	80	73
Currency	50	43	50	41	42	47	51	42

Item 8.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Transatlantic Holdings, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Transatlantic Holdings, Inc. and its subsidiaries (the "Company") at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedules listed in the accompanying index present fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedules, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements, on the financial statement schedules, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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

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

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
February 27, 2012

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2011 and 2010

	2011	2010
	(in thousands, except share data)	
ASSETS		
Investments:		
Fixed maturities:		
Held to maturity, at amortized cost (fair value: 2010—$1,240,678)	$ —	$ 1,189,801
Available for sale, at fair value (amortized cost: 2011—$12,044,636; 2010—$10,727,717)	12,503,529	10,822,336
Equities, available for sale, at fair value (cost: 2011—$562,913; 2010—$476,516)	586,324	564,530
Other invested assets	266,185	275,977
Short-term investments, at cost (approximates fair value)	63,661	120,095
Total investments	13,419,699	12,972,739
Cash and cash equivalents	367,806	284,491
Accrued investment income receivable	146,494	150,695
Premium balances receivable, net	650,451	605,094
Reinsurance recoverable on paid and unpaid losses and loss adjustment expenses	531,302	819,734
Deferred policy acquisition costs	250,710	238,296
Prepaid reinsurance premiums	10,188	75,291
Deferred tax assets, net	450,559	463,808
Other assets	107,464	95,206
Total assets	$15,934,673	$15,705,354
LIABILITIES AND STOCKHOLDERS' EQUITY		
Unpaid losses and loss adjustment expenses	$ 9,529,003	$ 9,020,610
Unearned premiums	1,177,325	1,212,535
Senior notes	1,005,960	1,030,511
Other liabilities	139,432	157,239
Total liabilities	11,851,720	11,420,895
Commitments and contingent liabilities (see Note 18)		
Preferred stock, $1.00 par value; shares authorized: 10,000,000; none issued	—	—
Common stock, $1.00 par value; shares authorized: 200,000,000; shares issued: 2011—67,854,755; 2010—67,611,341	67,855	67,611
Additional paid-in capital	340,151	318,064
Accumulated other comprehensive income	330,946	154,615
Retained earnings	3,850,218	3,988,891
Treasury stock, at cost: 2011—10,466,671; 2010—5,362,800 shares of common stock	(506,217)	(244,722)
Total stockholders' equity	4,082,953	4,284,459
Total liabilities and stockholders' equity	$15,934,673	$15,705,354

The accompanying notes are an integral part of the consolidated financial statements.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
	(in thousands, except per share data)		
Revenues:			
Net premiums written	$3,859,567	$3,881,693	$3,986,101
(Increase) decrease in net unearned premiums	(40,105)	(23,073)	52,981
Net premiums earned	3,819,462	3,858,620	4,039,082
Net investment income	457,558	473,547	467,402
Realized net capital gains (losses):			
Total other-than-temporary impairments	(4,163)	(14,685)	(96,527)
Less: Total other-than-temporary impairments recognized in other comprehensive income	—	6,713	13,445
Other-than-temporary impairments charged to earnings	(4,163)	(7,972)	(83,082)
Other realized net capital gains	92,763	38,073	12,441
Total realized net capital gains (losses)	88,600	30,101	(70,641)
(Loss) gain on early extinguishment of debt	(1,179)	(115)	9,869
Total revenues	4,364,441	4,362,153	4,445,712
Expenses:			
Net losses and loss adjustment expenses	3,256,401	2,681,774	2,679,171
Net commissions	932,108	932,820	927,918
(Increase) decrease in deferred policy acquisition costs	(11,506)	(2,898)	12,406
Other underwriting expenses	172,332	177,624	158,181
Interest on senior notes	66,769	68,272	43,454
Other expenses, net	163,004	31,773	28,549
Total expenses	4,579,108	3,889,365	3,849,679
(Loss) income before income taxes	(214,667)	472,788	596,033
Income taxes (benefits):			
Current	(35,265)	125,630	96,771
Deferred	(80,183)	(55,043)	21,600
Total income taxes (benefits)	(115,448)	70,587	118,371
Net (loss) income	$ (99,219)	$ 402,201	$ 477,662
Net (loss) income per common share:			
Basic	$ (1.62)	$ 6.28	$ 7.20
Diluted	(1.62)	6.19	7.15
Weighted average common shares outstanding:			
Basic	61,424	64,092	66,381
Diluted	61,424	64,930	66,802

The accompanying notes are an integral part of the consolidated financial statements.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
		(in thousands)	
Net (loss) income	$ (99,219)	$402,201	$ 477,662
Other comprehensive income:			
Net unrealized appreciation (depreciation) of investments, net of tax:			
Net unrealized holding losses of fixed maturities on which other-than-temporary impairments were taken	—	(6,713)	(13,445)
Net unrealized holding gains on all other securities	384,850	4,967	635,091
Reclassification adjustment for (gains) losses included in net income	(86,245)	(53,791)	64,989
Deferred income tax (charge) benefit	(104,513)	19,438	(240,322)
	194,092	(36,099)	446,313
Change in retirement plan liability, net of tax:			
Change in retirement plan liability	(1,859)	696	—
Deferred income tax benefit (charge)	651	(244)	—
	(1,208)	452	—
Net unrealized currency translation (loss) gain, net of tax:			
Net unrealized currency translation (loss) gain	(25,466)	185,479	(72,852)
Deferred income tax benefit (charge)	8,913	(64,918)	25,499
	(16,553)	120,561	(47,353)
Other comprehensive income	176,331	84,914	398,960
Comprehensive income	$ 77,112	$487,115	$ 876,622

The accompanying notes are an integral part of the consolidated financial statements.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
	(in thousands, except per share data)		
Common Stock:			
Balance, beginning of year	$ 67,611	$ 67,431	$ 67,353
Issued under stock compensation plans	244	180	78
Balance, end of year	67,855	67,611	67,431
Additional paid-in capital:			
Balance, beginning of year	318,064	283,036	268,027
Excess of (costs) proceeds over par value of common stock issued under stock compensation plans	(6,264)	883	1,514
Contributed capital	28,351	34,145	13,495
Balance, end of year	340,151	318,064	283,036
Accumulated other comprehensive income:			
Balance, beginning of year	154,615	69,701	(257,690)
Net change for year	271,280	130,638	613,783
Deferred income tax effect on above net change	(94,949)	(45,724)	(214,823)
Cumulative effect of accounting change, net of tax	—	—	(71,569)
Balance, end of year	330,946	154,615	69,701
Retained earnings:			
Balance, beginning of year	3,988,891	3,639,200	3,142,449
Net (loss) income	(99,219)	402,201	477,662
Cash dividends declared (per common share: 2011—$0.65; 2010—$0.83; 2009—$0.79)	(39,454)	(52,510)	(52,480)
Cumulative effect of accounting change, net of tax	—	—	71,569
Balance, end of year	3,850,218	3,988,891	3,639,200
Treasury Stock:			
Balance, beginning of year	(244,722)	(24,988)	(21,919)
Acquisition of treasury stock	(261,495)	(219,734)	(3,069)
Balance, end of year	(506,217)	(244,722)	(24,988)
Total stockholders' equity	$4,082,953	$4,284,459	$4,034,380

The accompanying notes are an integral part of the consolidated financial statements.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
		(in thousands)	
Cash flows from operating activities:			
Net (loss) income	$ (99,219)	$ 402,201	$ 477,662
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Changes in unpaid losses and loss adjustment expenses, unearned premiums and prepaid reinsurance premiums	538,286	421,474	476,003
Changes in premium and reinsurance balances receivable and payable, net	234,168	(70,568)	111,329
Change in deferred policy acquisition costs	(12,414)	(830)	2,144
Change in accrued investment income	4,201	(20,606)	(27,390)
Realized net capital (gains) losses from investments	(87,421)	(32,656)	62,156
Changes in current and deferred income taxes	(132,177)	83,136	48,377
Change in unrealized net foreign exchange losses (gains)	4,252	152,818	(187,288)
Changes in other assets and liabilities, net	31,404	31,596	(49,375)
Other, net	115,391	94,438	37,867
Total adjustments	695,690	658,802	473,823
Net cash provided by operating activities	596,471	1,061,003	951,485
Cash flows from investing activities:			
Proceeds of fixed maturities available for sale sold	1,436,309	1,186,098	1,229,268
Proceeds of fixed maturities available for sale redeemed or matured	966,350	947,819	600,939
Proceeds of fixed maturities held to maturity redeemed	—	20,000	—
Proceeds of equities available for sale sold	356,890	200,953	944,695
Purchase of fixed maturities available for sale	(2,602,692)	(3,573,780)	(2,514,442)
Purchase of equities available for sale	(385,564)	(199,815)	(849,162)
Net sale of other invested assets	950	7,082	14,902
Net sale (purchase) of short-term investments	54,592	725,957	(791,086)
Change in other liabilities for securities in course of settlement	4,975	(6,510)	40,479
Other, net	—	—	(16,456)
Net cash used in investing activities	(168,190)	(692,196)	(1,340,863)
Cash flows from financing activities:			
Dividends to stockholders	(52,652)	(52,611)	(51,780)
Common stock issued	(5,749)	(43)	1,579
Acquisition of treasury stock	(261,495)	(219,734)	(3,069)
Repurchase of senior notes	(26,110)	(3,105)	(19,612)
Net proceeds from issuance of senior notes	—	—	336,929
Other, net	1,902	3,279	1,254
Net cash (used in) provided by financing activities	(344,104)	(272,214)	265,301
Effect of exchange rate changes on cash and cash equivalents	(862)	(7,825)	30,880
Change in cash and cash equivalents	83,315	88,768	(93,197)
Cash and cash equivalents, beginning of year	284,491	195,723	288,920
Cash and cash equivalents, end of year	$ 367,806	$ 284,491	$ 195,723
Supplemental cash flow information:			
Income taxes (paid) recovered, net	$ (21,679)	$ 15,529	$ (108,713)
Interest (paid) on senior notes	(66,572)	(68,439)	(40,394)

The accompanying notes are an integral part of the consolidated financial statements.

1. Organization and Nature of Operations

Transatlantic Holdings, Inc. (the "Company", and collectively with its subsidiaries, "TRH") is a holding company, incorporated in the state of Delaware, which owns all of the common stock of Transatlantic Reinsurance Company® ("TRC"). TRC owns all of the common stock of Trans Re Zurich Reinsurance Company Ltd. ("TRZ") and Fair American Insurance and Reinsurance Company (formerly Putnam Reinsurance Company) ("Fair American").

TRH, through its primary operating subsidiaries TRC, TRZ and Fair American, offers reinsurance capacity for a full range of property and casualty products to insurers and reinsurers on a treaty and facultative basis, with an emphasis on specialty classes. Including domestic as well as international risks, TRH's principal lines of business are other liability (including directors' and officers' liability ("D&O"), errors and omissions liability ("E&O") and general casualty), medical malpractice, ocean marine and aviation, auto liability (including non-standard risks), accident and health and surety and credit in the casualty lines, and fire, allied lines, auto physical damage and homeowners multiple peril lines in the property lines (which include property catastrophe risks). Casualty lines represented 70.4%, 70.7% and 71.3% of net premiums written in 2011, 2010 and 2009, respectively. The balance represented property lines.

Immediately prior to June 10, 2009, American International Group, Inc. ("AIG", and collectively with its subsidiaries, the "AIG Group") beneficially owned approximately 59% of the Company's outstanding shares. On June 10, 2009, AIG and American Home Assurance Company ("AHAC"), a wholly-owned subsidiary of AIG, consummated a secondary public offering (the "June 2009 Offering") of 29.9 million issued and outstanding shares of the common stock of the Company owned by AIG and AHAC. On March 15, 2010, AHAC consummated another secondary public offering (the "March 2010 Offering", and collectively with the June 2009 Offering, the "Secondary Offerings") of 8.5 million issued and outstanding shares of the Company's common stock owned by AHAC. The Company repurchased 2.0 million shares of its common stock from AHAC in the March 2010 Offering pursuant to a stock offering agreement for an aggregate purchase price of approximately $105 million. TRH did not receive any proceeds from the Secondary Offerings. Immediately following the March 2010 Offering, the AIG Group, including AHAC, beneficially owned 0.7 million shares of the Company's common stock (excluding shares held by certain mutual funds that are advised or managed by subsidiaries of AIG), representing approximately 1.1% of the Company's then outstanding shares. As a result of its reduced ownership percentage, the AIG Group was no longer considered a related party after March 15, 2010.

On November 20, 2011, the Company entered into an Agreement and Plan of Merger (the "Alleghany Merger Agreement") with Alleghany Corporation ("Alleghany") and Shoreline Merger Sub, Inc. (formerly, Shoreline Merger Sub, LLC), a wholly-owned subsidiary of Alleghany ("Shoreline"). The Alleghany Merger Agreement provides for the merger of the Company with and into Shoreline (the "Alleghany Merger"), with Shoreline continuing as the surviving company and a wholly-owned subsidiary of Alleghany. On February 6, 2012, the stockholders of the Company and the stockholders of Alleghany each approved the proposed transaction. The Alleghany Merger is expected to close in the first quarter of 2012, subject to regulatory approvals and customary closing conditions. (See Note 3.)

2. Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("GAAP"). All material intercompany accounts and transactions have been eliminated.

2. Summary of Significant Accounting Policies (Continued)

The consolidated financial statements include the accounts of the Company and its majority owned subsidiaries. The Company consolidates subsidiaries in which it holds a controlling financial interest. Entities where the Company holds between 20% to 50% of the voting rights and alternative investments in which TRH holds a 5% or greater interest or where it has more than a minor influence over the operations of the investee are accounted for under the equity method.

Subsequent events through the time of filing of this Form 10-K were evaluated for potential recognition or disclosure in the financial statements.

Certain reclassifications and format changes have been made to prior years' amounts to conform to the 2011 presentation.

Correction of Amortized Cost or Cost of Certain Fixed Maturities and Equities Denominated in Functional Currencies

The below error and related corrections had no impact on the current period and did not have a material effect on any prior period and thus, prior period financial statements have not been restated.

In the first quarter of 2010, it was determined that as of December 31, 2009 the amortized cost of fixed maturities and cost of equities available for sale that were denominated in functional currencies were incorrectly translated into the reporting currency (*i.e.*, U.S. dollars) using historical, rather than period-end, foreign currency exchange rates. This practice, which began in the third quarter of 2009, resulted in an understatement of amortized cost or cost of such investments of $98.1 million ($80.1 million relating to fixed maturities and $18.0 million relating to equities) as of December 31, 2009. Thus, net unrealized appreciation of investments, net of tax, (a component of accumulated other comprehensive income ("AOCI") on the Balance Sheet) was overstated by $63.7 million as of December 31, 2009 with an equal and offsetting overstatement of net unrealized currency translation loss, net of tax (also a component of AOCI). The related components of other comprehensive income (loss) ("OCI") were similarly affected, with no net effect on OCI. The error discussed above had no net effect on AOCI, stockholders' equity, net income, comprehensive income or cash flows for 2009.

For all periods subsequent to December 31, 2009, the amortized cost of fixed maturities and cost of equities available for sale that are denominated in functional currencies were properly translated into the reporting currency using period-end foreign currency exchange rates. However, as the correction of the treatment discussed earlier occurred in 2010, both net unrealized depreciation of investments, net of tax, and net unrealized currency translation gain, net of tax, in the 2010 Statement of Comprehensive Income include $63.7 million related to this correction, with no net effect on OCI. In addition, this correction had no net impact on AOCI and stockholders' equity as of December 31, 2010 nor did it have any net impact on net income, comprehensive income or cash flows for 2010.

(b) Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of estimates and assumptions that affect the reported amounts and related disclosures. TRH relies on historical experience and on various other assumptions that it believes to be reasonable, under the circumstances, to make judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates.

TRH believes its most critical accounting estimates are those with respect to loss reserves, fair value measurements of certain financial assets, other-than-temporary impairments ("OTTI") of investments and

2. Summary of Significant Accounting Policies (Continued)

premium revenues, as they require management's most significant exercise of judgment on both a quantitative and qualitative basis in the preparation of TRH's consolidated financial statements and footnotes. The accounting estimates that result require the use of assumptions about certain matters that are highly uncertain at the time of estimation. To the extent actual experience differs from the assumptions used, TRH's results of operations and financial condition would be affected, possibly materially.

(c) Investments

Fixed maturities are classified as held to maturity and carried at amortized cost if TRH has the positive intent and ability to hold each of these securities to maturity. When TRH does not have the positive intent to hold fixed maturities to maturity, such fixed maturities are classified as available for sale and carried at fair value. Premiums and discounts arising from the purchase of fixed maturities are treated as yield adjustments over their estimated lives, until maturity or call date, if applicable. Equities are carried at fair value. See Note 4 for TRH's methodology for determining the fair value of its investments.

Other invested assets primarily include alternative investments in which TRH holds a 5% or greater interest or where TRH has more than a minor influence over operations of the investee and TRH's 40% interest in Kuwait Reinsurance Company (K.S.C.). Such investments are accounted for on the equity method. In applying the equity method of accounting, TRH consistently uses the most recently available financial information for each of these investments for the period ended one to three months prior to the end of TRH's reporting period. The financial statements of these investees are generally audited on an annual basis. The carrying value of such investments represents TRH's share of the net asset value of these entities. The changes in such net asset values for investments carried on the equity method, other than the portion related to TRH's share of the investees' changes in AOCI, are recorded in net investment income. The fair value option was elected for one other invested asset. This investment is carried at fair value and unrealized gains and losses on this investment are reported in earnings through net investment income.

Short-term investments are carried at cost or amortized cost, which approximates fair value, and principally include money market instruments, treasury bills and commercial paper.

Unrealized gains and losses from fixed maturities available for sale, equities available for sale and most other invested assets, are reported as a separate component of AOCI, net of deferred income taxes, in stockholders' equity. Investments in fixed maturities and equities are recorded on a trade date basis.

Each quarter, TRH evaluates its investments for OTTI. See Note 5(g) for the criteria TRH uses to evaluate if an investment is a candidate for OTTI.

In periods subsequent to the recognition of OTTI on fixed maturity securities, which are not credit related, TRH generally accretes the discount or amortizes the reduced premium resulting from the reduction in cost basis into income over the remaining life of the security.

(d) Cash and Cash Equivalents

Cash and cash equivalents, which are principally interest-bearing, generally include cash deposited in demand deposits at banks and highly liquid investments with original maturities of 90 days or less.

(e) Deferred Acquisition Costs

Acquisition costs, consisting primarily of net commissions incurred on business conducted through reinsurance contracts or certificates, are deferred, and then amortized over the period in which the related

2. Summary of Significant Accounting Policies (Continued)

premiums are earned, generally one year. Anticipated losses and loss adjustment expenses ("LAE") and estimated remaining costs of servicing the contracts are considered in the evaluation of recoverability of acquisition costs to be deferred. Anticipated investment income is not considered in such evaluation.

(f) Deferred Income Taxes

Deferred tax assets and liabilities are recorded for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements. TRH assesses its ability to realize deferred tax assets considering all available evidence including earnings history, the timing, character and amount of future earnings potential, the reversal of taxable temporary differences and the tax planning strategies available to legal entities when recognizing deferred tax assets. See Note 6 for further discussion of income taxes.

(g) Unearned Premiums and Premium Revenues

For pro rata treaty contracts, premiums written and earned are based on reports received from ceding companies. For excess-of-loss treaty contracts, premiums are generally recorded as written based on contract terms. Premiums are earned ratably over the term of the related coverages. Unearned premiums and prepaid reinsurance premiums represent the portion of gross premiums written and ceded premiums written, respectively, relating to the unexpired terms of such coverages. Premiums written and earned, along with related costs, for which data has not been reported by the ceding companies, are estimated based on historical patterns and other relevant information. These estimates can be subject to change when actual data for such estimated items becomes available. In the Consolidated Statements of Operations, premiums written and earned and the change in unearned premiums are presented net of reinsurance ceded.

(h) Net Investment Income

Net investment income consists primarily of:

- Interest income from fixed maturities, as well as amortization and accretion of premiums and discounts on fixed maturities
- Dividend income and distributions from common and preferred stock and other investments when receivable
- Earnings from investments accounted for under the equity method
- Less expenses related to investments

(i) Realized Net Capital Gains and Losses

Realized capital gains and losses principally emanate from the following sources:

- Sales and redemptions of fixed maturities, equities and alternative investments
- Reductions to the cost basis of fixed maturities, equity securities and other invested assets (except for where the fair value option has been elected) for OTTI which are recognized through earnings
- Exchange gains and losses resulting from foreign currency transactions

(j) Losses and Loss Adjustment Expenses ("LAE")

Unpaid losses and LAE ("gross loss reserves") are principally based on reports and individual case estimates received from ceding companies. The incurred but not reported ("IBNR") portion of gross loss

2. Summary of Significant Accounting Policies (Continued)

reserves is based on past experience and other factors. The methods used to determine such estimates and to establish the resulting reserves are continually reviewed and updated. Any adjustments are reflected in income currently. Net losses and LAE incurred consists of the estimated ultimate cost of settling claims incurred within the reporting period (net of related reinsurance recoverable), including IBNR claims, plus changes in estimates of prior period losses.

The estimation of loss reserves is inherently difficult and subjective, especially in view of changing legal and economic environments which impact the development of loss reserves, and therefore quantitative techniques frequently have to be supplemented by subjective considerations and managerial judgment. In addition, trends that have affected development of liabilities in the past may not necessarily occur or affect liability development to the same degree in the future.

While the reserving process is difficult for ceding companies, the inherent uncertainties of estimating loss reserves are even greater for reinsurers, due primarily to the longer-term nature of much reinsurance business, the diversity of development patterns among different types of reinsurance treaties or facultative contracts, the necessary reliance on the ceding companies for information regarding reported claims and differing reserving practices among ceding companies, which can be subject to change without notice. TRH writes a significant amount of non-proportional assumed casualty reinsurance as well as proportional assumed reinsurance of excess liability business for classes such as medical malpractice, D&O, E&O and general casualty. Claims from such classes can exhibit greater volatility over time than most other classes due to their low frequency, high severity nature and loss cost trends that are more difficult to predict.

Losses and loss adjustment expenses net of related reinsurance recoverable (“net loss reserves”) include amounts for risks relating to environmental impairment and asbestos-related illnesses. The reserves carried at December 31, 2011 and 2010 for such claims, including the IBNR portion, are based upon known facts and current law at the respective balance sheet dates. However, significant uncertainty exists in determining the amount of ultimate liability for environment impairment and asbestos-related losses, particularly for those occurring in 1985 and prior. This uncertainty is due to inconsistent court resolutions and judicial interpretations with respect to underlying policy intent and coverage and uncertainties as to the allocation of responsibility for resultant damages, among other things. Further, there is always the possibility of changes in statutes, laws, regulations and other factors that could have a material effect on these liabilities and, accordingly, future earnings.

(k) Currency Translation

Assets and liabilities denominated in foreign currencies are translated into U.S. dollars at period-end exchange rates. Income and expense accounts are translated at average exchange rates for the year. The resulting unrealized currency translation gain (loss) for functional currencies is recorded, net of tax, in AOCI, a component of stockholders’ equity.

Transaction gains and losses on assets and liabilities denominated in foreign currencies are recorded as a component of realized net capital gains (losses) during the period in which they occur.

(l) Recently Adopted Accounting Standards

(1) Adoption of new accounting guidance on OTTI

In April 2009, the Financial Accounting Standards Board (“FASB”) issued new accounting guidance on OTTI. This guidance amended prior OTTI guidance for fixed maturities to make it more

2. Summary of Significant Accounting Policies (Continued)

operational and to improve presentation and disclosure of OTTI on fixed maturity and equity securities in the financial statements. This guidance also requires recognition of OTTI on a fixed maturity in an unrealized loss position if (a) an entity intends to sell the security; (b) it is more likely than not the entity will be required to sell the security prior to an anticipated recovery in fair value in order to meet a liquidity, regulatory or other business need; or (c) an entity determines it will not recover the entire amortized cost basis of the security. If an impaired fixed maturity security is designated for sale, or if it is more likely than not it will have to be sold, the total amount of the unrealized loss position is recognized in earnings as a realized capital loss.

For all other impaired fixed maturities, this guidance requires entities to develop a best estimate of the present value of expected cash flows on a security by security basis. Entities must recognize OTTI equal to the difference between the present value of expected cash flows and the amortized cost basis of the security if the results of the cash flow analysis indicate the entity will not recover the full amount of its amortized cost basis in the investment. This amount is the credit component of the OTTI and is recorded in earnings as a realized capital loss. The difference between the total unrealized loss position on the security and the OTTI amount recognized in earnings is non-credit related and is recorded in OCI as "net unrealized holding losses of fixed maturities on which other-than-temporary impairments were taken".

TRH adopted this guidance effective April 1, 2009. Upon adoption, this guidance required entities to assess the credit versus non-credit components of previously recognized OTTI on fixed maturities still held, and for which the entity did not intend to sell or more likely than not would not be required to sell prior to an anticipated recovery in fair value. The cumulative amount of non-credit related OTTI amounts on these securities, net of income tax effect, was recorded as an increase to retained earnings and an equal and offsetting reduction to AOCI as of April 1, 2009, with no net change to total stockholders' equity. TRH recorded a cumulative effect adjustment ("CEA") of $110.1 million, or $71.6 million, net of tax, related to its adoption of this guidance. The adoption of this guidance did not have a material effect on TRH's consolidated financial condition, results of operations, comprehensive income or cash flows.

(2) Adoption of new accounting guidance on disclosures about fair value measurements (Accounting Standards Update ("ASU") 2010-06)

In January 2010, the FASB issued new accounting guidance on disclosures about fair value measurements. This guidance requires the amounts and reasons for significant transfers in and out of Levels 1 and 2 to be discussed. In addition, a greater level of disaggregation of asset and liability classes is required in fair value measurement disclosures. For fair value measurements that fall in either Level 2 or Level 3, a reporting entity should provide disclosures about the valuation techniques and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. TRH adopted this portion of the guidance in the first quarter of 2010. The adoption of this guidance had no effect on TRH's consolidated financial condition, results of operations or cash flows.

In addition, for activity within Level 3, this guidance requires that purchases, sales, issuances and settlements be presented separately rather than as one net amount. TRH adopted this portion of the guidance prospectively in the first quarter of 2011. The adoption of this guidance had no effect on TRH's consolidated financial condition, results of operations or cash flows.

2. Summary of Significant Accounting Policies (Continued)

(3) Future Application of Accounting Standards

(a) In October 2010, the FASB issued new accounting guidance on accounting for costs associated with acquiring or renewing insurance contracts (ASU 2010-26). This guidance specifies that incremental direct costs of contract acquisition and certain costs directly related to certain acquisition activities performed by the insurer for the contract should be capitalized. All other acquisition-related costs should be charged to expense as incurred.

For TRH, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and shall be applied prospectively. TRH does not currently expect the implementation of this guidance to be material to TRH's consolidated financial condition, results of operations or cash flows.

(b) In May 2011, the FASB issued new accounting guidance to achieve common fair value measurement and disclosure requirements in U.S. GAAP and International Financial Reporting Standards ("IFRS") (ASU 2011-4). These amendments provide guidance on how to measure fair value and improve the comparability of fair value measurements presented and disclosed in financial statements prepared in accordance with U.S. GAAP and IFRS.

For TRH, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and shall be applied prospectively. TRH does not currently expect the implementation of this guidance to be material to TRH's consolidated financial condition, results of operations or cash flows.

(c) In June 2011 and December 2011, the FASB issued new accounting guidance on the presentation of comprehensive income (ASU 2011-05 and ASU 2011-12). This guidance specifies that a reporting entity has the option to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement or in two separate but consecutive statements.

For TRH, this guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2011 and shall be applied retrospectively. TRH does not currently expect the implementation of this guidance to be material to TRH's consolidated financial condition, results of operations or cash flows.

(d) In September 2011, the FASB issued new accounting guidance on the testing of goodwill for impairment (ASU 2011-08). This guidance provides an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit.

For TRH, this guidance is effective for annual and interim periods for fiscal years beginning after December 15, 2011. TRH does not currently expect the implementation of this guidance to be material to TRH's consolidated financial condition, results of operations or cash flows.

3. Merger Agreement with Alleghany and Terminated Merger Agreement with Allied World Assurance Company Holdings, AG ("Allied World")

In 2011, TRH was involved in merger-related activities. Results for 2011 include approximately $138.4 million of merger-related costs as part of "other expenses, net." Of such costs, $115.0 million represent amounts paid to Allied World as discussed below. In addition, approximately $23.5 million of additional merger-related expenses are contingent on the successful closing of the Alleghany Merger and

3. Merger Agreement with Alleghany and Terminated Merger Agreement with Allied World Assurance Company Holdings, AG ("Allied World") (Continued)

are not included in the results for 2011. (See Note 18 for legal proceedings related to merger-related activities.)

(a) Merger Agreement with Alleghany

On November 20, 2011, the Company entered into the Alleghany Merger Agreement with Alleghany and Shoreline. The Alleghany Merger Agreement provides for the merger of the Company with and into Shoreline, with Shoreline continuing as the surviving company and a wholly-owned subsidiary of Alleghany. Upon completion of the Alleghany Merger, Shoreline's name will change to "Transatlantic Holdings, Inc." Pursuant to the terms and conditions of the Alleghany Merger Agreement, upon completion of the Alleghany Merger, stockholders of the Company will be entitled to receive, in exchange for each share of common stock they hold at the effective time of the Alleghany Merger, either stock or cash consideration with a value equal to the sum of (a) 0.145 multiplied by the average of the closing sales prices on the New York Stock Exchange for Alleghany common stock during the five trading days ending the day before the completion of the Alleghany Merger and (b) $14.22.

On February 6, 2012, the stockholders of the Company and the stockholders of Alleghany each approved the Alleghany Merger. The Alleghany Merger is expected to close in the first quarter of 2012, subject to regulatory approvals and customary closing conditions.

(b) Terminated Merger Agreement with Allied World

On June 12, 2011, Allied World and the Company agreed to a "merger of equals" business combination of the two companies pursuant to the terms of an Agreement and Plan of Merger, dated as of June 12, 2011 (the "Allied World Merger Agreement"), between Allied World, the Company and GO Sub, LLC, a wholly-owned subsidiary of Allied World ("GO Sub"). Pursuant to the terms of the Allied World Merger Agreement, GO Sub would have merged with and into the Company (the "Allied World Merger"), with the Company surviving as a wholly-owned subsidiary of Allied World. Pursuant to the terms and conditions of the Allied World Merger Agreement, stockholders of the Company would have been entitled to receive 0.88 common shares of Allied World for each share of the Company's common stock (and cash in lieu of any fractional shares).

On September 15, 2011, the Company, Allied World and GO Sub entered into a termination agreement (the "Termination Agreement") pursuant to which the parties mutually terminated the Allied World Merger Agreement. Pursuant to the Termination Agreement, the Company paid Allied World termination fees and expenses totaling $115.0 million in 2011.

4. Fair Value Measurements

(a) Fair Value Measurements on a Recurring Basis

TRH measures at fair value on a recurring basis financial instruments included principally in its available for sale securities portfolios and short-term investments. The fair value of a financial instrument is the amount that would be received to sell an asset or settle a liability in an orderly transaction between willing, able and knowledgeable market participants at the measurement date.

The degree of judgment used in measuring the fair value of financial instruments generally correlates with the level of pricing observability. Financial instruments with quoted prices in active markets generally have more pricing observability and less judgment is used in measuring fair value. Conversely, financial

4. Fair Value Measurements (Continued)

instruments traded in other-than-active markets or that do not have quoted prices have less observability and are measured at fair value using valuation models or other pricing techniques that require more judgment. An active market is one in which transactions for the asset being valued occurs with sufficient frequency and volume to provide pricing information on an ongoing basis. An other-than-active market is one in which there are few transactions, the prices are not current, price quotations vary substantially either over time or among market makers, or in which little information is released publicly for the asset being valued. Pricing observability is affected by a number of factors, including the type of financial instrument, whether the financial instrument is new to the market and not yet established, the characteristics specific to the transaction and general market conditions.

TRH management is responsible for the determination of the fair value of the financial assets and the supporting methodologies and assumptions. With respect to securities, TRH employs independent third party valuation service providers to gather, analyze and interpret market information and derive fair values based upon relevant methodologies and assumptions for individual instruments. When TRH's valuation service providers are unable to obtain sufficient market observable information upon which to estimate the fair value for a particular security, fair value is determined either by requesting from brokers who are knowledgeable about these securities to provide a quote, which is generally non-binding, or by employing widely accepted internal valuation models.

Valuation service providers typically obtain data about market transactions and other key valuation model inputs from multiple sources and, through the use of widely accepted internal valuation models, provide a single fair value measurement for individual securities for which a fair value has been requested under the terms of service agreements. The inputs used by the valuation service providers include, but are not limited to, market prices from recently completed transactions and transactions of comparable securities, interest rate yield curves, credit spreads, currency rates, and other market observable information, as applicable. The valuation models take into account, among other things, market observable information as of the measurement date as well as the specific attributes of the security being valued including its term, interest rate, credit rating, industry sector, and when applicable, collateral quality and other issue or issuer specific information. When market transactions or other market observable data is limited, the extent to which judgment is applied in determining fair value is greatly increased.

TRH employs specific control processes to determine the reasonableness of the fair values of TRH's financial assets. TRH's processes are designed to ensure that the values received or internally estimated are accurately recorded and that the data inputs and the valuation techniques utilized are appropriate, consistently applied, and that the assumptions are reasonable and consistent with the objective of determining fair value. TRH assesses the reasonableness of individual security values received from valuation service providers through various analytical techniques. In addition, TRH may validate the reasonableness of fair values by comparing information obtained from TRH's valuation service providers to other third party valuation sources for selected securities. TRH also validates prices obtained from brokers for selected securities through reviews by those who have relevant expertise and who are independent of those charged with executing investing transactions.

A further discussion of the most significant categories of investments carried at fair value on a recurring basis follows:

(1) Fixed Maturity and Equity Securities Available for Sale

TRH maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value. Whenever available, TRH obtains quoted prices in active markets for identical

4. Fair Value Measurements (Continued)

assets at the balance sheet date to measure at fair value fixed maturity and marketable equity securities in its available for sale portfolios. Market price data generally are obtained from exchange or dealer markets.

TRH estimates the fair value of fixed maturity securities not traded in active markets by referring to traded securities with similar attributes, using dealer quotations and matrix pricing methodologies, discounted cash flow analyses or internal valuation models. This methodology considers such factors as the issuer's industry, the security's rating and tenor, its coupon rate, its position in the capital structure of the issuer, yield curves, credit curves, prepayment rates and other relevant factors. For fixed maturity securities that are not traded in active markets or that are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments generally are based on available market evidence. In the absence of such evidence, management's best estimate is used.

Fair values for fixed maturity securities based on observable market prices for identical or similar instruments implicitly include the incorporation of counterparty credit risk. Fair values for fixed maturity securities based on internal models would incorporate counterparty credit risk by using discount rates that take into consideration cash issuance spreads for similar instruments or other observable information.

(2) Short-Term Investments

Short-term investments are carried at cost or amortized cost, which approximates fair value, and principally include money market instruments, treasury bills and commercial paper. These instruments are typically not traded in active markets; however, their fair values are based on market observable inputs.

(b) Fair Value Measurements on a Non-Recurring Basis

TRH also measures the fair value of certain assets on a non-recurring basis, generally quarterly, annually, or when events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. These assets primarily included held-to-maturity fixed maturities, which were carried on the balance sheet at amortized cost, and equity method investments. When TRH determines that the carrying value of these assets may not be recoverable, TRH records the assets at fair value with the loss recognized in income as a realized capital loss. In such cases, TRH measures the fair value of these assets using the techniques discussed above for fixed maturity and equity securities.

(c) Fair Value Hierarchy

Assets recorded at fair value in the consolidated balance sheet are measured and classified in a hierarchy for disclosure purposes consisting of three levels based on the observability of inputs available in the marketplace used to measure fair values as discussed below:

- Level 1: Fair value measurements that are quoted prices (unadjusted) in active markets that TRH has the ability to access for identical assets. Market price data generally is obtained from exchange or dealer markets. Assets measured at fair value on a recurring basis and classified as Level 1 consists of actively traded listed common stocks and mutual funds (which are included on the balance sheet in equities available for sale).

4. Fair Value Measurements (Continued)

- Level 2: Fair value measurements based on inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and inputs other than quoted prices that are observable for the asset, such as interest rates and yield curves that are observable at commonly quoted intervals. Assets measured at fair value on a recurring basis and classified as Level 2 generally include most government and government agency securities; state, municipal and political subdivision obligations (collectively, "municipal bonds"); corporate bonds; residential mortgage-backed securities ("RMBS"); commercial mortgage-backed securities ("CMBS"); other asset-backed securities; and short-term investments.

- Level 3: Fair value measurements based on valuation techniques that use significant inputs that are unobservable. These measurements may be made under circumstances in which there is little, if any, market activity for the asset. TRH's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment. In making the assessment, TRH considers factors specific to the asset. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls is determined based on the lowest level input that is significant to the fair value measurement in its entirety. Assets measured at fair value on a recurring basis and classified as Level 3 principally include certain RMBS, CMBS, other-asset backed securities and other invested assets.

4. Fair Value Measurements (Continued)

(d) Assets Measured at Fair Value on a Recurring Basis

The following table presents information about assets measured at fair value on a recurring basis at December 31, 2011 and 2010 and indicates the level of the fair value measurement based on the levels of the inputs used:

	Level 1	Level 2	Level 3	Total
		(in millions)		
As of December 31, 2011				
Assets[1]:				
Fixed maturities available for sale:				
U.S. Government	$ —	$ 28.4	$ —	$ 28.4
U.S. Government agencies	—	1,136.0	—	1,136.0
Municipal bonds	—	5,784.5	—	5,784.5
Foreign governments	—	865.6	0.8	866.4
U.S. corporate	—	2,307.5	6.2	2,313.7
Foreign corporate	—	1,876.4	—	1,876.4
Asset-backed:				
RMBS	—	144.0	53.9	197.9
CMBS	—	192.5	43.1	235.6
Other asset-backed	—	58.4	6.2	64.6
Total fixed maturities available for sale	—	12,393.3	110.2	12,503.5
Equities available for sale	579.3	—	7.0	586.3
Other invested assets[2]	—	—	67.9	67.9
Short-term investments[3]	—	63.7	—	63.7
Total	$579.3	$12,457.0	$185.1	$13,221.4
As of December 31, 2010				
Assets[1]:				
Fixed maturities available for sale:				
U.S. Government	$ —	$ 25.6	$ —	$ 25.6
U.S. Government agencies	—	864.6	—	864.6
Municipal bonds	—	4,841.6	—	4,841.6
Foreign governments	—	800.5	0.8	801.3
U.S. corporate	—	1,957.2	6.5	1,963.7
Foreign corporate	—	1,731.7	—	1,731.7
Asset-backed:				
RMBS	—	217.8	26.7	244.5
CMBS	—	158.8	91.2	250.0
Other asset-backed	—	85.9	13.4	99.3
Total fixed maturities available for sale	—	10,683.7	138.6	10,822.3
Equities available for sale	559.5	—	5.0	564.5
Other invested assets[2]	—	—	86.4	86.4
Short-term investments[3]	—	120.2	—	120.2
Total	$559.5	$10,803.9	$230.0	$11,593.4

(1) Represents only items measured at fair value.
(2) Primarily private equities.
(3) Short-term investments in Level 2 are carried at cost or amortized cost, which approximates fair value.

4. Fair Value Measurements (Continued)

In 2011, there were no transfers in or out of Level 1, \$71.9 million of transfers into Level 2 from Level 3 and \$59.2 million of transfers out of Level 2 into Level 3. In 2010, there were no transfers in or out of Level 1, \$64.2 million of transfers into Level 2 from Level 3 and \$10.8 million of transfers out of Level 2 into Level 3. The transfers into Level 2 from Level 3 were due to an increase in observable inputs related to the valuation of such securities. The transfers out of Level 2 into Level 3 were due to a decrease in observable inputs related to the valuation of such securities.

At December 31, 2011 and 2010, Level 3 assets totaled \$185.1 million and \$230.0 million, respectively, representing 1.4% and 2.0%, respectively, of total assets measured at fair value on a recurring basis.

Both observable and unobservable inputs may be used to determine the fair values of positions classified in Level 3. As a result, the unrealized gains and losses on instruments held at December 31, 2011 and 2010 may include changes in fair value that were attributable to both observable inputs (*e.g.*, changes in market interest rates) and unobservable inputs (*e.g.*, changes in unobservable long-dated volatilities).

Net unrealized depreciation related to Level 3 investments approximated \$33.2 million and \$6.7 million at December 31, 2011 and 2010, respectively.

The following tables present analyses of the changes during 2011 and 2010 in Level 3 assets measured at fair value on a recurring basis:

	Fixed Maturities Available for Sale								
			Asset-backed:						
	Foreign Governments	U.S. Corporate	RMBS	CMBS	Other Asset-backed	Equities Available for Sale	Other Invested Assets(2)	Other Assets	Total
	(in millions)								
2011									
Balance beginning of year	\$0.8	\$ 6.5	\$26.7	\$ 91.2	\$13.4	\$5.0	\$ 86.4	\$ —	\$230.0
Net realized/unrealized gains (losses) included in:									
Net investment income	—	—	1.8	(1.1)	—	—	(6.0)	—	(5.3)
Realized net capital gains (losses)(1)	—	—	—	—	—	—	—	(2.7)	(2.7)
AOCI	—	0.1	(6.1)	1.6	0.4	—	—	—	(4.0)
Purchases	—	—	—	—	—	2.0	—	2.7	4.7
Sales	—	—	—	—	—	—	(12.5)	—	(12.5)
Issuances	—	—	—	—	—	—	—	—	—
Settlements	—	(0.2)	(6.4)	(3.9)	(1.9)	—	—	—	(12.4)
Transfers into Level 3	—	6.3	42.3	10.6	—	—	—	—	59.2
Transfers out of Level 3	—	(6.5)	(4.4)	(55.3)	(5.7)	—	—	—	(71.9)
Balance, end of year	\$0.8	\$ 6.2	\$53.9	\$ 43.1	\$ 6.2	\$7.0	\$ 67.9	\$ —	\$185.1

(1) There were no unrealized losses recorded in realized net capital losses in 2011 on instruments still held at December 31, 2011.
(2) Primarily private equities.

4. Fair Value Measurements (Continued)

	Fixed Maturities Available for Sale								
			Asset-backed:						
	Foreign Governments	U.S. Corporate	RMBS	CMBS	Other Asset-backed	Equities Available for Sale	Other Invested Assets[2]	Other Assets	Total
	(in millions)								
2010									
Balance beginning of year	$ 1.4	$ —	$18.6	$ 32.7	$ 17.6	$ 7.5	$72.2	$ —	$150.0
Net realized/unrealized gains (losses) included in:									
Net investment income	—	—	0.7	(1.1)	0.2	—	3.0	—	2.8
Realized net capital gains (losses)[1]	—	—	(6.1)	—	—	—	—	(2.4)	(8.5)
AOCI	0.2	—	14.0	12.2	2.6	—	(0.6)	—	28.4
Purchases, sales, issuances and settlements, net	(1.6)	6.5	(5.9)	83.2	16.8	(2.5)	4.5	2.4	103.4
Transfers in (out) of Level 3, net	0.8	—	5.4	(35.8)	(23.8)	—	7.3	—	(46.1)
Balance, end of year	$ 0.8	$6.5	$26.7	$ 91.2	$ 13.4	$ 5.0	$86.4	$ —	$230.0

(1) There were $6.1 million of OTTI related to RMBS fixed maturities available for sale that was recorded in realized net capital losses in 2010 on instruments still held at December 31, 2010.

(2) Primarily private equities.

(e) Assets Measured at Fair Value on a Non-Recurring Basis

None of TRH's assets were written down to fair value on a non-recurring basis during 2011 and 2010.

5. Investments

(a) Statutory Deposits

Investments with fair values of $645 million and $574 million at December 31, 2011 and 2010, respectively, were deposited with governmental authorities as required by law. The substantial majority of these deposits are fixed maturities and equities available for sale.

5. Investments (Continued)

(b) Gross Unrealized Gains and Losses

The cost or amortized cost and fair value of fixed maturities and equities at December 31, 2011 and 2010 are summarized as follows:

	Cost or Amortized Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	OTTI(2)
			(in thousands)		
2011					
Fixed maturities available for sale and carried at fair value:					
U.S. Government	$ 23,992	$ 4,463	$ (1)	$ 28,454	$ —
U.S. Government agencies	1,114,004	22,248	(268)	1,135,984	—
Municipal bonds	5,443,762	355,522	(14,796)	5,784,488	—
Foreign governments	832,243	34,245	(50)	866,438	—
U.S. corporate	2,259,652	57,687	(3,620)	2,313,719	(386)
Foreign corporate	1,834,546	54,844	(13,013)	1,876,377	—
Asset-backed:					
RMBS	243,868	625	(46,586)	197,907	(113,820)
CMBS	229,072	10,621	(4,120)	235,573	—
Other asset-backed	63,497	1,726	(634)	64,589	—
Total	$12,044,636	$541,981	$ (83,088)	$12,503,529	$(114,206)
Equities available for sale	$ 562,913	$ 56,045	$ (32,634)	$ 586,324	
2010					
Fixed maturities held to maturity and carried at amortized cost:					
Municipal bonds	$ 1,189,801	$ 54,641	$ (3,764)	$ 1,240,678	$ —
Fixed maturities available for sale and carried at fair value:					
U.S. Government	$ 24,164	$ 1,465	$ (3)	$ 25,626	$ —
U.S. Government agencies	856,708	11,215	(3,324)	864,599	—
Municipal bonds	4,785,607	119,890	(63,858)	4,841,639	—
Foreign governments	790,710	11,248	(650)	801,308	—
U.S. corporate	1,944,114	34,544	(14,934)	1,963,724	(386)
Foreign corporate	1,692,919	48,816	(10,107)	1,731,628	—
Asset-backed:					
RMBS	285,431	525	(41,416)	244,540	(113,820)
CMBS	248,258	7,850	(6,117)	249,991	—
Other asset-backed	99,806	812	(1,337)	99,281	—
Total	$10,727,717	$236,365	$(141,746)	$10,822,336	$(114,206)
Equities available for sale	$ 476,516	$ 92,501	$ (4,487)	$ 564,530	

(1) Investments in fixed maturities are shown at amortized cost.

(2) Represents the non-credit portion of OTTI, not adjusted for subsequent changes in unrealized gains or losses, taken on securities still held as of period-end.

5. Investments (Continued)

See Note 5(h) for information about the reclassification in 2011 of fixed maturities previously classified as held-to-maturity to available for sale.

(c) Contractual Maturities of Fixed Maturities

The amortized cost and fair value of fixed maturities at December 31, 2011 by contractual maturity are as follows. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Investments in fixed maturities exclude short-term investments.

	Amortized Cost	Fair Value
	(in thousands)	
Fixed maturities available for sale:		
Non-asset-backed and non-U.S. Government agencies:		
Due in one year or less	$ 543,793	$ 548,763
Due after one year through five years	3,919,531	4,032,216
Due after five years through ten years	2,460,820	2,626,454
Due after ten years	3,470,051	3,662,043
Asset-backed and U.S. Government agencies[(1)]	1,650,441	1,634,053
Total	$12,044,636	$12,503,529

(1) Asset-backed and U.S. Government agency fixed maturities by their nature do not generally have single maturity dates.

(d) Net Investment Income

An analysis of net investment income follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Fixed maturities	$452,782	$449,134	$424,075
Equities	17,896	10,447	14,211
Other invested assets (including alternative investments)	(5,980)	20,106	20,898
Other	6,846	7,782	19,841
Total investment income	471,544	487,469	479,025
Investment expenses	(13,986)	(13,922)	(11,623)
Net investment income	$457,558	$473,547	$467,402

5. Investments (Continued)

(e) Investment Gains and Losses

Realized net capital gains (losses) are summarized as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Realized net capital gains (losses) resulted from:			
Total OTTI	$(4,163)	$(14,685)	$(96,527)
Less: OTTI recognized in OCI	—	6,713	13,445
OTTI charged to earnings	(4,163)	(7,972)	(83,082)
Sales and redemptions of securities	87,424	61,762	12,794
Net foreign currency transaction gains (losses)	5,339	(23,689)	(353)
Total	$88,600	$ 30,101	$(70,641)
Realized net capital gains (losses) by source:			
Fixed maturities	$22,740	$ 32,096	$(41,813)
Equities available for sale	63,217	24,822	(23,204)
Net foreign currency transaction gains (losses)	5,339	(23,689)	(353)
Other	(2,696)	(3,128)	(5,271)
Total	$88,600	$ 30,101	$(70,641)

The change in net unrealized appreciation (depreciation) of investments is summarized as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Change in net unrealized appreciation (depreciation) of investments, before deferred income tax effect:			
Fixed maturities held to maturity carried at amortized cost(1)	$(50,877)	$ (6,282)	$ 65,330
Fixed maturities available for sale carried at fair value(1)(2)	$364,274	$(78,219)	$ 564,687
CEA of adoption of new accounting guidance(3)	—	—	(110,107)
Equities available for sale carried at fair value(2)	(64,603)	22,326	124,331
Other	(1,066)	356	(2,383)
Total	$298,605	$(55,537)	$ 576,528

(1) The decrease in net unrealized appreciation of fixed maturities held to maturity for 2011 results from the reclassification of all fixed maturities held-to-maturity to fixed maturities available for sale at September 30, 2011; thus there was no net unrealized appreciation of fixed maturities held-to-maturity at December 31, 2011. See Note 5(h) of Notes to Consolidated Financial Statements for discussion of the reclassification of fixed maturities previously classified as held-to-maturity to available for sale.

(2) See Note 2(a) of Notes to Consolidated Financial Statements.

(3) See Note 2(l)(1) of Notes to Consolidated Financial Statements.

5. Investments (Continued)

Gross realized gains and gross realized losses on sales and redemptions of TRH's available for sale securities were as follows:

	2011		2010		2009	
	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses	Gross Realized Gains	Gross Realized Losses
			(in millions)			
Fixed maturities	$33.9	$(10.2)	$45.2	$(6.8)	$47.3	$(49.4)
Equities	77.8	(11.4)	28.9	(3.1)	78.4	(58.3)

Equity securities sold at a loss in 2011, 2010 and 2009 were in a continuous unrealized loss position for 12 months or less and did not meet the conditions of TRH's accounting policy to be considered OTTI at any quarter-end prior to the time of sale. (See Note 5(g) for the criteria TRH uses to evaluate if an equity investment is considered OTTI.) TRH's equity security investment strategy includes the intent to optimize total investment return through active management, which can lead to selling securities at a gain or loss due to changing market conditions and as market opportunities arise.

In 2011 and 2010, the gross realized losses from sales and redemptions of equities available for sale were due in part to the rebalancing of TRH's equity portfolio. In 2009, securities in the equities available for sale portfolio were sold for a number of reasons, including the repositioning of TRH's equity portfolio with respect to the changes in the investment and credit markets during 2009 and the desire over time to take advantage of tax-basis capital loss carry-backs to prior years that had capital gains.

In general, gross realized losses on sales of fixed maturities available for sale in 2011, 2010 and 2009 were generally the result of (a) TRH's desire to manage the duration, credit and concentration risk of the investment portfolio as part of its overall view of prudent management of an available for sale fixed maturity investment portfolio; and (b) the disposition of certain securities that, based on TRH's judgment, were unlikely to provide on a relative basis as attractive a return as alternative securities entailing comparable risks. In addition, gross realized losses on sales of fixed maturities available for sale in 2009 were also partially the result of repositioning of the investment portfolio in light of the transition to a new investment manager in the third quarter of 2009.

As discussed in Note 5(g), the OTTI amounts on certain fixed maturities are separated into credit loss and non-credit loss components. The credit loss impairments are recognized in earnings as realized capital losses, while the non-credit loss impairments are recorded in OCI. The following table sets forth the amount of credit loss impairments on fixed maturities held by TRH as of December 31, 2011, 2010 and 2009, for which a portion of the OTTI amount was recorded in OCI.

	2011	2010	2009
		(in millions)	
Beginning balance[(1)]	$10.8	$ 4.5	$ 21.4
New securities subject to credit impairment losses	—	6.3	11.8
Credit impaired securities fully disposed of for which there was no prior intent or requirement to sell	—	—	(28.7)
Ending balance	$10.8	$10.8	$ 4.5

(1) April 1, 2009 for 2009.

5. Investments (Continued)

(f) Aging of Gross Unrealized Losses

As of December 31, 2011 and 2010, the aging of the gross unrealized losses with respect to all fixed maturities, including both held to maturity and available for sale, and equities available for sale, grouped by months in a continuous unrealized loss position, was as follows:

	Less than 12 Months		12 Months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
			(in millions)			
2011						
Fixed maturities:						
U.S. Government	$ 3	$ *	$ —	$ —	$ 3	$ *
U.S. Government agencies	105	*	—	—	105	*
Municipal bonds	6	*	103	(15)	109	(15)
Foreign governments	32	*	—	—	32	*
U.S. Corporate	160	(3)	9	*	169	(3)
Foreign corporate	182	(3)	144	(10)	326	(13)
Asset-backed:						
RMBS	12	(2)	179	(45)	191	(47)
CMBS	—	—	43	(4)	43	(4)
Other asset-backed	—	—	11	(1)	11	(1)
Total fixed maturities	500	(8)	489	(75)	989	(83)
Equities available for sale	157	(33)	—	—	157	(33)
Total	$ 657	$(41)	$489	$(75)	$1,146	$(116)
2010						
Fixed maturities:						
U.S. Government	$ 6	$ *	$ —	$ —	$ 6	$ *
U.S. Government agencies	179	(3)	—	—	179	(3)
Municipal bonds	1,367	(49)	91	(19)	1,458	(68)
Foreign governments	162	(1)	—	—	162	(1)
U.S. Corporate	709	(15)	8	*	717	(15)
Foreign corporate	277	(5)	112	(5)	389	(10)
Asset-backed:						
RMBS	46	(2)	175	(40)	221	(42)
CMBS	38	*	49	(6)	87	(6)
Other asset-backed	32	*	31	(1)	63	(1)
Total fixed maturities	2,816	(75)	466	(71)	3,282	(146)
Equities available for sale	58	(4)	—	—	58	(4)
Total	$2,874	$(79)	$466	$(71)	$3,340	$(150)

* Rounds to zero.

5. Investments (Continued)

At December 31, 2011, the carrying value of TRH's fixed maturity and equity securities aggregated $13.09 billion with aggregate pre-tax gross unrealized losses of $116 million. Additional information about these securities is as follows:

- Securities with gross unrealized losses were valued, in the aggregate, at approximately 90.8% of their current cost or amortized cost.
- Approximately 88.3% of these securities had unrealized losses of less than or equal to 20% of their current cost or amortized cost.
- Approximately 5.6% of the fixed maturity securities had issuer credit ratings which were below investment grade or not rated.

At December 31, 2011, TRH held 155 and 486 individual fixed maturity and equity investments, respectively, that were in an unrealized loss position, of which 96 individual fixed maturity investments were in a continuous unrealized loss position for 12 months or more.

As of December 31, 2011 and 2010, no single issuer accounted for more than 9% and 11%, respectively, of the aggregate gross unrealized losses.

At December 31, 2011 and 2010, the gross unrealized losses for all fixed maturities, including both held to maturity and available for sale, and equities available for sale included the following concentrations:

	Concentration as of	
	2011	2010
	(in millions)	
RMBS	$ 47	$ 42
Banking and financial institutions	25	11
Municipal bonds	15	68
Technology	4	2
CMBS	4	6
Other	21	21
Total	$116	$150

The fair value of fixed maturities in an unrealized loss position at December 31, 2011 and 2010, by contractual maturity, is shown below:

	2011	2010
	(in millions)	
Non-asset-backed and non-U.S. Government agencies:		
Due in one year or less	$ 75	$ 68
Due after one year through five years	338	926
Due after five years through ten years	117	297
Due after ten years	109	1,441
Asset-backed and U.S. Government agencies(1)	350	550
Total	$989	$3,282

(1) Asset-backed and U.S. Government agency fixed maturities by their nature do not generally have single maturity dates.

5. Investments (Continued)

(g) Evaluating Investments for OTTI

Each quarter, TRH evaluates its investments for OTTI such that a security is considered a candidate for OTTI if it meets any of the following criteria:

- Trading at a significant (25% or more) discount to par, amortized cost (if lower) or cost for an extended period of time (nine consecutive months or longer);
- The occurrence of a discrete credit event resulting in (a) the issuer defaulting on a material outstanding obligation; (b) the issuer seeking protection from creditors under the bankruptcy laws or any similar laws intended for court supervised reorganization of insolvent enterprises; or (c) the issuer proposing a voluntary reorganization pursuant to which creditors are asked to exchange their claims for cash or securities having a fair value substantially lower than the par value of their claims; or
- TRH may not realize a full recovery on its investment, regardless of the occurrence of one or more of the foregoing events.

The determination that a security has incurred OTTI requires the judgment of management and consideration of the fundamental condition of the issuer, its near-term prospects and all the relevant facts and circumstances. The above criteria also consider circumstances of a rapid and severe market valuation decline in which TRH would not be able to reasonably assert that the impairment period would be temporary (severity losses). The analysis of any individual security for OTTI is performed in its functional currency. Additional criteria considered includes a security's business prospects, the investment's credit ratings and whether there have been any recent downgrades, whether the issuer is current on all payments in accordance with the contractual terms of the investment and is expected to meet all of its obligations under the terms of the investment, market values, issuer specific financial information and available information from asset managers and rating agencies for individual securities.

OTTI on all investments other than fixed maturities are recognized through earnings as a realized capital loss. At each balance sheet date, TRH recognizes an OTTI on a fixed maturity in an unrealized loss position if (a) TRH intends to sell the security; (b) it is more likely than not TRH will be required to sell the security prior to an anticipated recovery in fair value in order to meet a liquidity, regulatory or other business need; or (c) TRH determines it will not recover the entire amortized cost basis of the security.

If TRH intends to sell an impaired fixed maturity security, or if it is more likely than not it will have to be sold, the total amount of the unrealized loss position is recognized in earnings as a realized capital loss. On a quarterly basis, TRH develops for fixed maturities, a best estimate of the present value of expected cash flows on a security by security basis. If the results of the cash flow analysis indicate TRH will not recover the full amount of its amortized cost basis in the investment, TRH recognizes OTTI equal to the difference between the present value of expected cash flows and the amortized cost basis of the security. This amount is the credit component of the OTTI and is recorded in earnings as a realized capital loss. The difference between the total unrealized loss position on the security and the OTTI amount recognized in earnings is non-credit related and is recorded in OCI as "net unrealized holding losses of fixed maturities on which other-than-temporary impairments were taken."

If a loss is recognized from a sale subsequent to a balance sheet date pursuant to changes in circumstances, the loss is recognized in the period in which the intent to hold the security to recovery no longer existed.

5. Investments (Continued)

TRH evaluated the significant categories of fixed maturity investments in an unrealized loss position for OTTI. For municipal bonds, TRH takes into account the taxing power of the issuer, source of revenue, credit risk and credit enhancements and pre-refunding. For asset-backed securities, TRH discounted its best estimate of future cash flows at an effective rate equal to the original effective yield of the security or, in the case of floating rate securities, at the current coupon. Those models included TRH's assumptions about prepayment speeds, default and delinquency rates, and underlying collateral (if any), as well as credit ratings, credit enhancements and other observable market data. For corporate fixed maturities, TRH reviewed business prospects, credit ratings and available information from asset managers and rating agencies for individual securities.

At December 31, 2011, the large majority of fixed maturities in an unrealized loss position consist of investment grade fixed maturities, principally asset-backed, municipal bonds and corporate fixed maturities. TRH did not consider the unrealized losses on these impaired fixed maturities to be credit related. In making these determinations, TRH has considered factors specific to the securities that have unrealized losses coupled with TRH's history of consistently strong operating cash flows, levels of cash, cash equivalents and liquid investment classes, as well as its short and medium-term cash needs. TRH does not intend to sell these securities, and will not likely be required to sell these securities before an anticipated recovery in fair value. Other considerations included the length of time and extent to which the security has been in an unrealized loss position, observable adverse conditions specifically related to the issuer or industry sector of the security, conditions in the country of issuance or primary market for the security, historical and implied volatility of the security's fair value, defaults on principal or interest payments, and recoveries or further declines in fair value subsequent to the balance sheet date.

At December 31, 2011, TRH determined that there were no OTTI on its equity securities in an unrealized loss position as no equities met TRH's equity security OTTI criteria and TRH has the intent and ability to hold all equities to recovery. In addition, no equities were in an unrealized loss position for over 12 months.

(h) Reclassification of Fixed Maturities Held to Maturity to Available for Sale

On September 30, 2011, TRH reclassified its entire portfolio of fixed maturities held-to-maturity, which consisted solely of municipal bonds, to the fixed maturities available for sale category. Financial markets have recently been disrupted by several issues, including the European debt crisis, the August 2011 downgrade of U.S. Government debt by Standard & Poor's, and the downgrade of certain pre-refunded municipal bonds. Due to these disruptions and the desire to maintain greater flexibility in managing its entire investment portfolio in an uncertain economy, TRH changed its intent to hold these securities to maturity and transferred such securities to the available for sale category.

The fair value and amortized cost of these fixed maturities at the time of this reclassification were \$1.26 billion and \$1.19 billion, respectively. As a result, as of September 30, 2011, net unrealized appreciation of investments, net of tax, a component of accumulated other comprehensive income and stockholders' equity, increased by \$48.2 million, as did other comprehensive income for 2011.

6. Income Taxes (Benefits)

The Company files a U.S. consolidated federal income tax return with its domestic subsidiaries, which includes foreign operations. TRC will include as part of its taxable income those items of income of the non-U.S. subsidiary, TRZ, which are subject to U.S. income tax currently, pursuant to Subpart F income

6. Income Taxes (Benefits) (Continued)

rules of the Internal Revenue Code, and included, as appropriate, in the consolidated federal income tax return.

The U.S. federal income tax rate was 35% for 2011, 2010 and 2009. Actual tax (benefits) expenses on (loss) income before income taxes differs from the expected amount computed by applying the U.S. federal income tax rate because of the following:

	Years Ended December 31,					
	2011		2010		2009	
	Amount	Percent of Loss Before Income Taxes	Amount	Percent of Income Before Income Taxes	Amount	Percent of Income Before Income Taxes
			(dollars in thousands)			
Expected tax (benefits) expenses	$ (75,133)	35.0%	$165,476	35.0%	$208,612	35.0%
Adjustments:						
Tax-exempt interest	(75,039)	35.0	(86,052)	(18.2)	(90,928)	(15.2)
Dividends received deduction	(2,653)	1.2	(1,888)	(0.4)	(2,022)	(0.3)
Recognition of benefit from prior year amended tax returns	—	—	(8,906)	(1.9)	—	—
Non-deductible merger-related costs	42,375	(19.7)	—	—	—	—
Interest on net under (over) payments of taxes	—	—	505	0.1	(1,073)	(0.2)
Other	(4,998)	2.3	1,452	0.3	3,782	0.6
Actual tax (benefits) expenses	$(115,448)	53.8%	$ 70,587	14.9%	$118,371	19.9%
Foreign and domestic components of actual tax (benefits) expenses:						
Foreign	$ (3,147)		$ 50,228		$ 29,273	
Domestic:						
Current	(32,118)		75,402		67,498	
Deferred	(80,183)		(55,043)		21,600	
	$(115,448)		$ 70,587		$118,371	

Income before income taxes from Domestic operations was $233.6 million, $354.1 million and $327.1 million in 2011, 2010 and 2009, respectively. (Loss) income before income taxes from foreign operations was ($448.3) million, $118.7 million and $269.0 million in 2011, 2010 and 2009, respectively.

The domestic deferred tax benefit for 2011 includes a $78.3 million benefit resulting from minimum tax credit carryforwards primarily attributable to the carryback of the 2011 tax-basis net operating loss to earlier years. By law, minimum tax credits may be carried forward indefinitely. The domestic current tax expense for 2010 included the impact of a capital loss of $48.2 million. The actual capital loss carryforward utilized in the 2010 U.S. consolidated tax return was $54.8 million. The 2011 tax benefit includes an adjustment to align the amounts reflected in the 2010 tax expense with the amounts in the 2010 tax return. In 2011, the remaining capital loss carryforward was fully utilized.

6. Income Taxes (Benefits) (Continued)

The domestic tax benefit for 2010 includes a tax benefit of $8.9 million (excluding interest), recorded in the fourth quarter, resulting from the resolution of prior year tax audits primarily attributable to foreign tax credits that became available as a result of the carryback of tax-basis net operating losses incurred in 2001 and 2005. The domestic deferred tax expense for 2010 is net of $5.5 million resulting from minimum tax credit carryforwards. The domestic current tax expense for 2009 included the impact of a tax capital loss of $209.2 million. The actual capital loss included in the 2009 U.S. consolidated tax return was $145.1 million. The 2010 tax expense includes an adjustment to align the amounts reflected in the 2009 tax expense with the amounts in the 2009 tax return.

The domestic deferred tax expense for 2009 is net of $56.7 million resulting from minimum tax credit carryforwards. The domestic current tax benefit for 2008 included the tax benefit on $100.3 million of tax capital loss carrybacks to prior years. The actual capital loss included in the 2008 U.S. consolidated tax return was $114.0 million. The 2009 tax expense includes an adjustment to align the amounts reflected in the 2008 tax expense with the amounts in the 2008 income tax return.

TRH recorded income tax benefits of $298.1 million in 2011 from pre-tax net catastrophe costs incurred in 2011. TRH recorded income tax benefits of $70.9 million in 2010 from pre-tax net catastrophe costs incurred in 2010. Income tax expenses recorded in 2009 from pre-tax net catastrophe costs incurred in 2009 was not material.

In 2011, TRH recorded a tax benefit of $6 million associated with merger-related costs. Most merger-related costs are not deductible. (See Note 3.)

The Internal Revenue Code provides limitations on the utilization of certain tax benefits following a corporate ownership change. Upon the closing of the Alleghany Merger, TRH would be subject to an annual limitation on its ability to use its foreign tax credit carryforwards and its minimum tax credit carryforwards. The total amount of foreign tax credit carryforwards and minimum tax credit carryforwards that are available to TRH prior to the Alleghany Merger are not diminished by this provision. The limitation provides for an annual limit on the amount of the carryforwards that can be utilized each year. The unused carryovers are available to be utilized in subsequent years, subject to the annual limitation. Based upon values at December 31, 2011, the annual limitation would be approximately $39 million. The actual limitation would be determined upon the closing of the Alleghany Merger.

6. Income Taxes (Benefits) (Continued)

The components of the net deferred income tax asset at December 31, 2011 and 2010 were as follows:

	2011	2010
	(in thousands)	
Deferred income tax assets:		
Unpaid losses and LAE, net of related reinsurance recoverable	$330,294	$328,951
Unearned premiums, net of prepaid reinsurance premiums	81,700	78,208
Minimum tax credit carryforward	185,866	107,541
OTTI write-downs for investments held	33,968	34,811
Foreign tax credit carryforward	40,004	22,522
Capital loss carryforward	—	26,459
Other	74,172	69,555
Total deferred income tax assets	746,004	668,047
Deferred income tax liabilities:		
Deferred policy acquisition costs	87,749	85,935
Net unrealized appreciation of investments	172,261	67,748
Cumulative translation adjustment	6,350	15,263
Other	29,085	35,293
Total deferred income tax liabilities	295,445	204,239
Net deferred income tax asset	$450,559	$463,808

No valuation allowance has been recorded as TRH has concluded that it is more likely than not that TRH will fully realize the deferred tax assets. The most significant deferred tax assets arise from the discounting of loss reserves, minimum tax credit carryforwards, realized and unrealized losses on investments and unearned premiums. TRH's strong history of operating earnings supports its conclusion that it has the ability to realize the full benefits associated with all deferred tax assets, particularly the assets associated with the discounting of loss reserves and minimum tax credits, which may be carried forward indefinitely. In addition to TRH's strong history of operating earnings, TRH also has a strong history of generating capital gains to offset capital losses.

At December 31, 2011 and 2010, TRH has current income tax receivables of $73.2 million and $17.5 million, respectively, which are included on the Consolidated Balance Sheets in other assets.

At December 31, 2011, 2010 and 2009, TRH has no unrecognized tax positions. TRH does not presently anticipate any material change in unrecognized tax positions during the next twelve months.

Interest and penalties relating to unrecognized tax expenses (benefits) are recognized in income tax expense, when applicable. There was no liability for interest or penalties accrued as of December 31, 2011 and 2010. In 2010, $9.6 million of interest, net of tax, was received on tax refunds. In 2010, current income tax expense was increased by approximately $0.5 million to align the interest, net of tax, receivable at December 31, 2009 with the amount actually received in 2010. Current income tax expense was reduced by $1.1 million of interest on net tax refunds in 2009.

6. Income Taxes (Benefits) (Continued)

Income taxes (paid) recovered, net, in 2011, 2010 and 2009 consisted of:

	Years Ended December 31,		
	2011	2010	2009
		(in millions)	
Income taxes paid	$(86.7)	$(115.6)	$(108.7)
Income taxes recovered	65.0	131.1	—
Income taxes (paid) recovered, net	$(21.7)	$ 15.5	$(108.7)

The total income taxes recovered in 2011 of $65.0 million consists principally of refunds in foreign tax jurisdictions. The total income taxes recovered in 2010 of $131.1 million consist of a $109.0 million refund of federal income taxes related to amended tax returns for prior tax years and $22.1 million of refund claims related to capital loss carrybacks to certain other prior tax years.

The following table lists the tax years that remain subject to examination by major tax jurisdiction as of December 31, 2011:

Major Tax Jurisdiction	Open Tax Years
Australia	2007-2010
Canada	2007-2010
France	2009-2010
Japan	2010
United Kingdom	2008-2010
United States	2008-2010

7. Liability for Gross Loss Reserves

The activity in gross loss reserves is summarized as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
At beginning of year:			
Gross loss reserves	$9,020,610	$8,609,105	$8,124,482
Less related reinsurance recoverable	805,837	737,280	775,404
Net loss reserves	8,214,773	7,871,825	7,349,078
Net losses and LAE incurred in respect of losses occurring in:			
Current year	3,378,405	2,738,733	2,718,119
Prior years	(122,004)	(56,959)	(38,948)
Total	3,256,401	2,681,774	2,679,171
Net losses and LAE paid in respect of losses occurring in:			
Current year	807,509	611,746	620,517
Prior years	1,618,129	1,595,728	1,800,491
Total	2,425,638	2,207,474	2,421,008
Foreign exchange effect	(16,470)	(131,352)	264,584
At end of year:			
Net loss reserves	9,029,066	8,214,773	7,871,825
Plus related reinsurance recoverable	499,937	805,837	737,280
Gross loss reserves	$9,529,003	$9,020,610	$8,609,105

2011 includes net catastrophe losses incurred of $882.6 million, principally relating to the March 2011 Tohoku earthquake and resulting tsunami in Japan; the February 2011 earthquake in New Zealand; fourth quarter 2011 flooding in Thailand; first quarter 2011 flooding in Australia and Cyclone Yasi; and second quarter 2011 tornado activity in the United States. In addition, in 2011, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2010 and prior years by $122.0 million. This development was comprised of net favorable development of $224.7 million for losses occurring in 2002 to 2010, partially offset by net adverse development of $102.7 million relating to losses occurring in 2001 and prior.

Net favorable development was recorded for losses occurring in the allied lines ($65.1 million), fire ($41.1 million) and credit ($25.2 million) lines, each arising principally from losses occurring in 2009 to 2010, and in the mortgage guaranty ($60.8 million) line, arising principally from losses occurring in 2007 to 2008. Net adverse development was recorded in 2011 in the other liability ($83.0 million), arising principally from losses occurring in 2001 and prior, partially offset by favorable development from losses occurring between 2004 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes.

TRH writes a significant amount of non-proportional assumed casualty reinsurance as well as proportional assumed reinsurance of excess liability business for such volatile classes as medical malpractice, D&O, E&O and general casualty. At the primary level, there are significant risk factors which contribute to the variability and unpredictability of the loss trend factor for this business such as jury awards, social inflation, medical inflation, tort reforms and court interpretations of coverage. In addition,

7. Liability for Gross Loss Reserves (Continued)

as a reinsurer, TRH is also highly dependent upon the claims reserving and reporting practices of its cedants, which vary greatly by size, specialization and country of origin and whose practices can be subject to change without notice.

2010 included net catastrophe losses incurred of $203.7 million, principally relating to the February 2010 earthquake in Chile; the September 2010 earthquake in New Zealand; first quarter 2010 storms in Australia and fourth quarter 2010 flooding in Australia; and the April 2010 Deepwater Horizon explosion. In addition, in 2010, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2009 and prior years by $57.0 million. This net favorable development was comprised of net favorable development of $216.9 million for losses occurring in 2002 to 2009, partially offset by net adverse development of $159.9 million relating to losses occurring in 2001 and prior.

Net favorable development was recorded for losses occurring in the fire ($70.1 million), surety and credit ($54.8 million) and ocean marine ($45.8 million) lines, each arising principally from losses occurring in 2005 to 2009. Significant net adverse development was recorded in 2010 in the other liability line ($116.7 million), arising principally from losses occurring in 2002 and prior, partially offset by favorable development from losses occurring between 2003 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes. In addition, net adverse development was recorded in 2010 for losses occurring in the fidelity ($32.1 million) line, arising principally from losses occurring in 2006 to 2009.

The favorable development in 2005 through 2009 resulted generally from favorable loss trends. The net adverse development arising from losses occurring in 2001 and prior, generally related to various excess casualty lines such as general liability and excess umbrella liability which were impacted by late reported excess claims.

There were no significant net catastrophe losses for events occurring in 2009. In addition, in 2009, TRH decreased its estimates of the ultimate amounts of net losses occurring in 2008 and prior years by $38.9 million. This net favorable development was comprised of net favorable development of $219.1 million for losses occurring in 2002 to 2008, partially offset by net adverse development of $180.2 million relating to losses occurring in 2001 and prior.

Significant net favorable development was recorded for losses occurring in the fire ($104.1 million) and allied lines ($42.4 million) lines, each arising principally from losses occurring in 2007 to 2008, and the surety and credit line ($25.3 million), arising principally from losses occurring in 2004 to 2008. The line of business with the most significant net adverse development recorded in 2009 was the other liability line ($120.4 million), arising principally from losses occurring in 2001 and prior, partially offset by favorable development from losses occurring between 2004 and 2006. The other liability line includes certain specialty casualty classes, such as D&O and E&O, and general casualty classes. In addition, significant net adverse development was recorded in 2009 for losses occurring in the fidelity ($30.0 million) line, arising principally from losses occurring in 2007 to 2008.

The favorable development in 2004 through 2008 results generally from favorable loss trends. The net adverse development arising from losses occurring in 2001 and prior, generally relates to various excess casualty lines such as general liability and excess umbrella liability which were impacted by late reported high layer excess claims. Ceding companies and their reinsurers continue to experience increased loss costs relative to expectations as loss emergence patterns continue to lengthen as regards the soft market years of 1997 through 2001.

7. Liability for Gross Loss Reserves (Continued)

Net development on losses occurring in prior years, for all periods discussed above, includes amounts relating to catastrophe events. See Note 11 for such amounts.

8. Senior Notes

In December 2005, the Company completed a public offering of $750 million aggregate principal amount of its 5.75% senior notes due on December 14, 2015 (the "2015 Notes"). In November 2009, the Company completed a public offering of $350 million aggregate principal amount of its 8.00% senior notes due on November 30, 2039 (the "2039 Notes" and together with the 2015 Notes, the "Senior Notes").

In 2011, 2010 and 2009, TRH repurchased portions of the 2015 Notes. No repurchases of the 2039 Notes occurred in 2011, 2010 or 2009. The impact of the repurchases of the 2015 Notes in 2011, 2010 and 2009 are detailed below:

	2011	2010	2009
	(in millions)		
Principal amount repurchased	$25	$3	$30
Repurchase price	26	3	20
(Loss) gain on early extinguishment of debt	(1)	*	10

* Loss on early extinguishment of debt rounds to zero.

The balance sheet carrying value, unamortized original issue discount, outstanding principal amount and fair value of the Senior Notes are presented below. The unamortized original issue discount is being amortized over the term of the notes on the effective interest rate method. The fair values are based on quoted market prices.

	As of December 31, 2011		As of December 31, 2010	
	2015 Notes	2039 Notes	2015 Notes	2039 Notes
	(in millions)			
Balance sheet carrying amount	$665.5	$340.5	$690.1	$340.4
Unamortized original issue discount	1.5	9.5	1.9	9.6
Outstanding principal amount	667.0	350.0	692.0	350.0
Fair value	713.9	398.1	736.6	351.1

Interest expense incurred and paid in connection with the Senior Notes was as follows:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Interest expense incurred	$66,769	$68,272	$43,454
Interest paid	66,572	68,439	40,394

9. Common Stock

Common stock activity for each of the three years in the period ended December 31, 2011 was as follows:

	2011	2010	2009
Shares outstanding, beginning of year	62,248,541	66,382,621	66,364,358
Issued under stock compensation plans	243,414	180,220	77,863
Acquisition of treasury stock	(5,103,871)	(4,314,300)	(59,600)
Shares outstanding, end of year	57,388,084	62,248,541	66,382,621

10. Net (Loss) Income Per Common Share

Net (loss) income per common share has been computed in the following table based upon weighted average common shares outstanding.

	Years Ended December 31,		
	2011	2010	2009
	(in thousands, except per share data)		
Net (loss) income (numerator)	$(99,219)	$402,201	$477,662
Weighted average common shares outstanding used in the computation of net (loss) income per common share:			
Average shares issued	67,833	67,549	67,374
Less: Average shares in treasury	(6,409)	(3,457)	(993)
Average outstanding shares—basic (denominator)	61,424	64,092	66,381
Average potential shares from stock compensation(1)	—	838	421
Average outstanding shares—diluted (denominator)(2)	61,424	64,930	66,802
Net (loss) income per common share:			
Basic	$(1.62)	$6.28	$7.20
Diluted	(1.62)	6.19	7.15

(1) As the impact of potential shares for 2011 is anti-dilutive (*i.e.,* reduces the net loss per common share), the effect of 3.5 million potential shares is not included in the diluted net loss per common share calculation. 2010 excludes the effect of 2.1 million anti-dilutive shares (from a total of 3.8 million potential shares). 2009 excludes the effect of 2.2 million anti-dilutive shares (from a total of 3.2 million potential shares).

(2) Had there been net income for 2011, weighted average diluted common shares outstanding would have been 62,401.

11. Impact of Catastrophe Costs

Net catastrophe costs represent TRH's best estimates of the aggregate ultimate costs to be incurred relating to significant catastrophe events based upon information available at the time the estimate was made. These catastrophe cost estimates reflect significant judgment relating to many factors, including the ultimate resolution of certain legal and other issues. Such estimates are often heavily reliant on industry loss predictions, preliminary data from cedants, output from catastrophe modeling software and market share analysis. Due to the preliminary nature of information used to prepare certain of these estimates, among other factors, the ultimate costs that TRH will incur related to these events may differ materially

11. Impact of Catastrophe Costs (Continued)

from these estimates. Net catastrophe costs also include estimated changes in net catastrophe costs incurred relating to events occurring in prior years.

Gross and ceded reinstatement premiums serve to increase or decrease, respectively, net premiums written and earned by such amounts in their respective periods. Reinstatement premiums may arise on both assumed and ceded business as a result of contractual provisions found in certain catastrophe excess-of-loss reinsurance contracts that require additional premium to be paid in the event of a loss to reinstate coverage for the remaining portion of the contract period.

Net catastrophe costs in 2011 totaled $851.8 million, $357.2 million of which is related to the March 2011 Tohoku earthquake and resulting tsunami in Japan; $254.4 million of which is related to the February 2011 earthquake in New Zealand; $110.5 million of which is related to fourth quarter 2011 flooding in Thailand; $53.0 million of which is related to first quarter 2011 flooding in Australia and Cyclone Yasi; and $43.3 million of which is related to second quarter 2011 tornado activity in the United States. Net catastrophe costs in 2010 totaled $202.4 million, consisting principally of $118.6 million related to the February 2010 earthquake in Chile; $29.4 million related to the September 2010 earthquake in New Zealand; $22.3 million related to first quarter 2010 storms in Australia and fourth quarter 2010 flooding in Australia; and $13.3 million related to the April 2010 Deepwater Horizon explosion. There were no significant net catastrophe costs for events occurring during 2009.

Summaries of the components of pre-tax net catastrophe costs for 2011, 2010 and 2009 are presented below:

	Years Ended December 31,		
	2011	2010	2009
	(in millions)		
Net losses and LAE incurred from catastrophe events occurring in:			
Current year	$ 879.6	$207.2	$ —
Prior years	3.0	(3.5)	(8.0)
Total net losses and LAE incurred from catastrophe events	882.6	203.7	(8.0)
Net (assumed) ceded reinstatement premiums	(30.8)	(1.3)	2.4
Net catastrophe costs	$ 851.8	$202.4	$(5.6)
Losses and LAE incurred from catastrophe events:			
Gross	$ 985.8	$287.4	$(0.9)
Ceded	(103.2)	(83.7)	(7.1)
Net	882.6	203.7	(8.0)
Reinstatement premiums:			
Gross	(38.0)	(10.0)	3.1
Ceded	7.2	8.7	(0.7)
Net	(30.8)	(1.3)	2.4
Net catastrophe costs	$ 851.8	$202.4	$(5.6)

11. Impact of Catastrophe Costs (Continued)

A summary of pre-tax net catastrophe costs by segment for 2011, 2010 and 2009 is presented below:

	Years Ended December 31, 2011	2010	2009
	(in millions)		
Domestic	$ 85.3	$ (1.4)	$ 0.8
International-Europe	189.1	76.5	(5.8)
International-Other	577.4	127.3	(0.6)
Total	$851.8	$202.4	$(5.6)

12. Accumulated Other Comprehensive Income (Loss)

The components of AOCI and changes in such amounts between years are as follows:

	Net Unrealized Appreciation (Depreciation) of Investments without Non-credit OTTI, Net of Tax	Net Unrealized Appreciation (Depreciation) of Investments with Non-credit OTTI, Net of Tax	Retirement Plan Liability Adjustment, Net of Tax	Net Unrealized Currency Translation Gain (Loss), Net of Tax	Accumulated Other Comprehensive Income (Loss)
			(in thousands)		
Balance, December 31, 2008	$(212,829)	$ —	$ —	$ (44,861)	$(257,690)
CEA, net of tax (see Note 2(l))	—	(71,569)	—	—	(71,569)
Change during the year	419,505	26,808	—	(47,353)	398,960
Balance, December 31, 2009	206,676	(44,761)	—	(92,214)	69,701
Change during the year	(58,696)	22,597	452	120,561	84,914
Balance, December 31, 2010	147,980	(22,164)	452	28,347	154,615
Change during the year	197,662	(3,570)	(1,208)	(16,553)	176,331
Balance, December 31, 2011	$ 345,642	$(25,734)	$ (756)	$ 11,794	$ 330,946

13. Stock-Based Compensation Plans

In 2009, the Board of Directors (the "Board") adopted, and the stockholders approved, the Transatlantic Holdings, Inc. 2009 Long Term Equity Incentive Plan (the "2009 Plan"). The 2009 Plan permits the granting of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units, performance awards and share awards. The maximum number of shares available for grant under the 2009 Plan is 2,600,000 shares, of which no more than 1,000,000 may be issued in the form of incentive stock options. In addition, the maximum number of options, SARs, performance-based restricted stock units ("Performance RSUs") and performance share units granted to an individual in any three year calendar period may not exceed 1,000,000 and the maximum dollar amount of cash or the fair market value of shares that any individual may receive in any calendar year in respect to performance units may not exceed $5 million. As of December 31, 2011, there were 798,954 shares of common stock available for issuance in connection with future grants of awards under the 2009 Plan. Shares available for future issuance assume participants will earn the maximum number of Performance RSUs until the actual amounts are determined, at which time, such shares available amount will be adjusted accordingly. Following the closing of the Alleghany Merger, all of TRH's stock-based compensation will become awards payable in cash as determined by the Alleghany Merger Agreement subject to existing vesting terms. Shares available for future issuance have not been reduced by stock-based compensation related to the retention agreements offered to key officers and employees in 2011 (see Note 19) as no shares have been granted as of December 31, 2011 and the number of shares is currently undeterminable.

TRH also maintains the Transatlantic Holdings Inc. Partners Plan (the "Partners Plan") and the Transatlantic Holdings, Inc. Senior Partners Plan (the "Senior Partners Plan"). Performance RSUs awarded under the Partners Plan and the Senior Partners Plan were granted from the 2009 Plan or, prior to 2009, from the Transatlantic Holdings, Inc. 2003 Stock Incentive Plan, as amended (the "2003 Plan").

The 2009 Plan replaced the Transatlantic Holdings, Inc. 2000 Stock Option Plan, as amended, (the "2000 Plan") and the 2003 Plan. No further awards can be granted under the 2000 Plan or the 2003 Plan.

In 2008, the Board adopted, and the stockholders approved, the Transatlantic Holdings, Inc. 2008 Non-Employee Directors' Stock Plan (the "Non-Employee Directors' Plan"). The Non-Employee Directors' Plan provides that equity-based or equity-related awards can be granted to non-employee directors as determined by the Compensation Committee of the Board (the "Compensation Committee"). The maximum number of shares available for grant under the Non-Employee Directors' Plan is 100,000. As of December 31, 2011, there were 44,933 shares of common stock available for issuance in connection with future grants of awards under the Non-Employee Directors' Plan.

At December 31, 2011, TRH had awards outstanding from six stock-based compensation plans: (a) the 2009 Plan; (b) the 2000 Plan; (c) the 2003 Plan; (d) the Non-Employee Directors' Plan; (e) the Transatlantic Holdings, Inc. 1990 Employee Stock Purchase Plan, as amended (the "Stock Purchase Plan"); and (f) the 2010 U.K. Sharesave Plan (the "Sharesave Plan").

Expenses relating to stock-based compensation arrangements totaled $28.1 million, $35.3 million and $13.2 million in 2011, 2010 and 2009, respectively. Income tax benefits recognized related to stock-based compensation arrangements totaled $9.7 million, $12.3 million and $4.5 million in 2011, 2010 and 2009, respectively.

Net cash (paid) received from exercises of stock-based compensation was ($5.7) million in 2011, insignificant in 2010 and $1.6 million during 2009. The net cash paid from exercises of stock-based compensation is due to the payment of the employee portion of withholding taxes to governmental

13. Stock-Based Compensation Plans (Continued)

authorities on vested restricted stock units. TRH has not paid out any cash to settle share-based payment awards in 2011, 2010 or 2009. Cash savings resulting from excess tax benefits were insignificant in 2011 and totaled $0.3 million and $0.2 million in 2010 and 2009, respectively.

Income tax benefits realized by TRH on stock-based compensation exercises totaled $6.4 million, $2.6 million and $0.8 million in 2011, 2010 and 2009, respectively.

Historically, TRH has settled stock-based compensation exercises through the issuance of new shares.

The impact on the financial statements of the Stock Purchase Plan and the Sharesave Plan was not material to TRH in 2011, 2010 and 2009. A discussion of the more significant stock-based compensation awards follows.

(a) Stock Options

No options were granted in 2011, 2010 or 2009. In earlier years, options to purchase the Company's common stock ("TRH shares") were granted to certain key employees and non-employee directors at prices not less than the New York Stock Exchange ("NYSE") closing price on the date of grant under the 2000 Plan. In general, 25% of the options become exercisable on the anniversary date of the grant in each of the four years following the grant and expire 10 years from the date of grant.

A summary of the status of options granted as of December 31, 2011 and the changes since January 1, 2011 is presented below:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life	Aggregate Intrinsic Value (in thousands)
Outstanding, January 1, 2011	2,024,855	$63.00		
Granted	—	—		
Exercised	(1,875)	52.68		
Forfeited or expired	(232,933)	72.52		
Outstanding, December 31, 2011	1,790,047	61.77	3.0 years	$503
Exercisable, December 31, 2011	1,740,672	61.57	2.9 years	503

The aggregate intrinsic value of options exercised (the aggregate amount by which the market price of TRH shares at the time of exercise exceeded the exercise price of options exercised) was insignificant in 2011 and totaled $0.2 million and $1.6 million in 2010 and 2009, respectively. A total of approximately 102,000, 102,000 and 167,000 options vested in 2011, 2010 and 2009, respectively, with aggregate grant-date fair values of $2.2 million, $2.2 million and $3.6 million in 2011, 2010 and 2009, respectively.

As of December 31, 2011, there was $0.1 million of total unrecognized compensation costs relating to options granted but not yet vested. Compensation expense for options granted is recognized on a straight-line basis. These costs are expected to be recognized over a weighted average period of 0.1 years.

(b) Service-Based Restricted Stock Units ("Service RSUs") and Performance RSUs

Service RSUs and Performance RSUs have been granted under the 2009 Plan, the Non-Employee Directors' Plan and the 2003 Plan to officers, employees and directors of TRH. A summary of the status of

13. Stock-Based Compensation Plans (Continued)

the Service RSUs and Performance RSUs granted as of December 31, 2011 and the changes since January 1, 2011 are presented below:

	Number of Units		Weighted Average Grant Date Fair Value	
	Service RSUs	Performance RSUs	Service RSUs	Performance RSUs
Unvested, January 1, 2011	794,396	1,009,360	$46.42	$49.14
Granted	105,028	185,975	43.93	43.89
Net additional RSUs resulting from satisfaction of performance condition	—	24,760	—	31.91
Vested	(215,654)	(158,216)	56.40	63.14
Forfeited or expired	(5,900)	(477)	44.17	65.98
Unvested, December 31, 2011	677,870	1,061,402	42.89	45.74

	Service RSUs	Performance RSUs
Unvested RSUs as of December 31, 2011:		
Weighted average remaining contractual life	0.8 years	1.0 years
Aggregate intrinsic value (in thousands)	$ 37,100	$ 58,091

The Company reserves the right to make payments for the Service RSUs and Performance RSUs in TRH shares or the cash equivalent of the fair value of such shares on the date of vesting.

(1) Service RSUs

Service RSUs have vesting dates ranging from one to four years from the date of grant. As of December 31, 2011, the great majority of Service RSUs will vest on the third anniversary of the date of grant for those grantees with continued employment through such date. The fair values of Service RSUs were estimated on the date of grant based on the NYSE closing price of TRH shares on the date of grant.

The number of Service RSUs granted and vested in 2011, 2010 and 2009 were as follows:

	Years Ended December 31,		
	2011	**2010**	**2009**
Granted	105,028	311,640	411,390
Vested	215,654	112,859	21,552

As of December 31, 2011, there was $8.4 million of total unrecognized compensation costs relating to Service RSUs granted but not yet vested. These costs are expected to be recognized over a weighted average period of 1.4 years.

(2) Performance RSUs

Under the Partners Plan through 2010, the Compensation Committee awarded to senior executives Performance RSUs with a two-year performance period ("Two-Year Performance RSUs") that pay out in TRH shares if performance goals for a specified period are satisfied. Each Two-Year Performance RSU converts into one TRH share. Two-Year Performance RSUs operate on the basis of

13. Stock-Based Compensation Plans (Continued)

successive overlapping two year performance periods, with a new period beginning each year. Recipients earn Performance RSUs based on the growth in adjusted book value per share of TRH shares ("BVPS Growth") during the performance period. Based on the percentage of the BVPS Growth target achieved over the performance period, recipients can earn from 25% to 150% of the awarded number of Performance RSUs. No Performance RSUs will be earned if BVPS Growth is less than 25% of target.

A summary of unvested Two-Year Performance RSUs grants as of December 31, 2011 follows:

Year Granted	Performance Period Beginning	Performance Period End	Performance RSUs Granted	Maximum Number of Performance RSUs Available to be Earned	Actual Performance RSUs Earned	Unvested Earned Performance RSUs Vest on January 1,
2006	January 1, 2006	December 31, 2007	42,925	64,387	64,387	2012
2006	January 1, 2007	December 31, 2008	87,683	131,525	100,913	2013
2008	January 1, 2008	December 31, 2009	92,925	139,388	120,374	2012
2009	January 1, 2009	December 31, 2010	201,200	301,800	296,925	2012 and 2013
2010	January 1, 2010	December 31, 2011	220,850	331,275	205,698	2013 and 2014

Under the Partners Plan and Senior Partners Plan, the Compensation Committee awarded to senior executives Performance RSUs with a three-year performance period ("Three-Year Performance RSUs") that pay out in TRH shares if performance goals for a specified period are satisfied. Three-Year Performance RSUs were granted under the Partners Plan in 2011 and under the Senior Partners Plan in years prior to 2011. Each Three-Year Performance RSU converts into one TRH share. Three-Year Performance RSUs operate on the basis of successive overlapping three year performance periods, with a new period beginning each year. Recipients earn Performance RSUs based on BVPS Growth during the performance period. Based on the percentage of the BVPS Growth target achieved over the performance period, recipients can earn from 25% to 150% of the awarded number of Performance RSUs for Three-Year Performance RSUs granted under the Partners Plan and 25% to 200% of the awarded number of Performance RSUs for Three-Year Performance RSUs granted under the Senior Partners Plan. No Performance RSUs will be earned if BVPS Growth is less than 25% of target for the Partners Plan or 50% of target for the Senior Partners Plan.

A summary of unvested Three-Year Performance RSUs grants as of December 31, 2011 follows:

Year Granted	Performance Period Beginning	Performance Period End	Performance RSUs Granted	Maximum Number of Performance RSUs Available to be Earned	Actual Performance RSUs Earned	Unvested Earned Performance RSUs Vest on January 1,
2006	January 1, 2006	December 31, 2008	12,000	24,000	21,552	2012
2007	January 1, 2007	December 31, 2009	27,000	54,000	48,090	2013
2008	January 1, 2008	December 31, 2010	31,500	63,000	50,866	2012
2009	January 1, 2009	December 31, 2011	63,300	126,600	103,212	2012 and 2013
2010	January 1, 2010	December 31, 2012	69,000	138,000	N/A[(1)]	2013 and 2014
2011	January 1, 2011	December 31, 2013	185,975	278,939	N/A[(1)]	2014

(1) Amount undeterminable as of December 31, 2011 as the performance period has not yet ended.

13. Stock-Based Compensation Plans (Continued)

The fair values of Performance RSUs are estimated based on the NYSE closing price of TRH shares on the date of grant.

158,216 and 42,960 performance RSUs vested in 2011 and 2010, respectively. No performance RSUs vested in 2009.

As of December 31, 2011, there was $11.2 million of total unrecognized compensation costs relating to Performance RSUs granted but not yet vested. Compensation expense for Performance RSUs is recognized on a straight-line basis. These costs are expected to be recognized over a weighted average period of 1.6 years.

14. Related Party Transactions with AIG

Through March 15, 2010, AIG was considered a related party of TRH. (See Note 1.) After March 15, 2010, the AIG Group ceased to be a related party of TRH. TRH had service and expense agreements and certain other agreements with the AIG Group which provide for the reimbursement to the AIG Group of certain administrative and operating expenses which include, but are not limited to, investment advisory, investment recordkeeping, cash management services, office space and human resource related activities. Most of these service and expense agreements have ceased on various dates in 2009. Under the guidance of TRH's Finance and Investment Committee of the Board and senior management, the AIG Group acted as financial advisors and managers of TRH's investment portfolio through June 30, 2009. Effective July 1, 2009, TRH employed a third party not affiliated with AIG to provide these services. In 2009, $8.9 million of operating and investment expenses relate to services provided by the AIG Group under these agreements. There were no material operating or investment expenses related to services provided by the AIG Group in 2011 or 2010.

Gross premiums written originated by the AIG Group and ceded to TRH from contracts that were entered into while the AIG Group was a related party were immaterial in 2011 and totaled approximately $196 million (4.8%) and $263 million (6.3%) in 2010 and 2009, respectively. These amounts exclude (a) premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement; (b) amounts assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries; and (c) all premiums from contracts that were effective after March 15, 2010. The amount of premiums assumed that initially were insured by AIG subsidiaries as a result of TRH's marketing efforts and then ceded to TRH by prearrangement are not material. (See Note 16 for the amount of premiums assumed from an AIG subsidiary and ceded in an equal amount to other AIG subsidiaries.)

15. Dividend Restriction and Statutory Financial Data

The payment of dividends and interest on the Senior Notes by the Company is generally dependent on the ability of its subsidiaries to pay dividends. The payment of dividends by TRC and its wholly-owned subsidiaries, TRZ and Fair American, is restricted by insurance regulations. Under New York insurance law, TRC and Fair American may pay dividends only out of their statutory earned surplus. Such dividends are limited by statutory formula unless otherwise approved by the New York State Department of Financial Services (the "NYS DFS"). The statutory surplus of TRC includes the statutory surplus of Fair American since all the capital stock of Fair American is owned by TRC. Ordinarily, based on TRC's statutory surplus at year-end 2011, TRC could pay dividends of approximately $384 million annually to the Company during 2012 without regulatory approval. For 24 months following the closing of the Alleghany Merger, TRC can pay $200 million of dividends annually to the Company without regulatory approval, and will need the prior approval of the NYS DFS in order to declare dividends to the Company in excess of $200 million.

15. Dividend Restriction and Statutory Financial Data (Continued)

Statutory surplus and net (loss) income were as follows:

	Years Ended December 31, 2011	2010	2009
		(in thousands)	
TRC			
Statutory surplus	$3,843,832	$4,325,438	$4,016,064
Statutory net (loss) income	(15,319)	355,848	415,534
Fair American (formerly Putnam Reinsurance Company)			
Statutory surplus	233,050	226,629	203,507
Statutory net income	3,626	24,145	33,055

TRC and Fair American each prepare statutory financial statements in accordance with accounting practices prescribed or permitted by New York—their state of domicile. Prescribed statutory accounting practices are discussed in a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as in state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed. As required by the State of New York, TRC and Fair American use the Codification of Statutory Accounting Principles as primary guidance on statutory accounting. All material statutory accounting practices of TRC and Fair American are prescribed in the authoritative literature described above.

16. Reinsurance Ceded

In the normal course of business, TRH generally purchases reinsurance from its retrocessionnaires to reduce the effect of individual or aggregate losses, to reduce volatility in specific lines, to improve risk adjusted portfolio returns and to increase gross premium writings and risk capacity without requiring additional capital.

TRH's ceded reinsurance agreements consist of pro rata and excess-of-loss contracts. Under pro rata reinsurance, TRH and its retrocessionnaires share premiums, losses and expenses in an agreed upon proportion. For consideration, generally based on a percentage of premiums of the individual policy or policies subject to the reinsurance agreement, excess-of-loss contracts provide reimbursement to TRH for losses in excess of a predetermined amount up to a predetermined limit.

16. Reinsurance Ceded (Continued)

Premiums written, premiums earned and losses and LAE incurred are comprised as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Gross premiums written	$4,034,800	$4,132,931	$4,203,777
Ceded premiums written:			
Related parties(1)	(1,946)	(152,572)	(133,625)
Other	(173,287)	(98,666)	(84,051)
	(175,233)	(251,238)	(217,676)
Net premiums written	$3,859,567	$3,881,693	$3,986,101
Gross premiums earned	$4,058,723	$4,095,795	$4,283,797
Ceded premiums earned:			
Related parties(1)	(63,540)	(141,165)	(156,137)
Other	(175,721)	(96,010)	(88,578)
	(239,261)	(237,175)	(244,715)
Net premiums earned	$3,819,462	$3,858,620	$4,039,082
Gross incurred losses and LAE(2)	$3,290,786	$2,863,633	$2,747,213
Reinsured losses and LAE ceded(2)	(34,385)	(181,859)	(68,042)
Net losses and LAE incurred	$3,256,401	$2,681,774	$2,679,171

(1) Premiums written and earned that were ceded to related parties represent amounts from contracts with the AIG Group with effective dates of March 15, 2010 or earlier.

(2) See Note 11 of Notes to Consolidated Financial Statements for gross and ceded catastrophe losses.

Gross premiums written and earned, ceded premiums written and earned, gross incurred losses and LAE and reinsured losses and LAE ceded include amounts, which, by prearrangement with TRH, were assumed from an AIG subsidiary and then ceded in an equal amount to other AIG subsidiaries. Gross premiums written and ceded premiums written include $68 million, $153 million and $129 million in 2011, 2010 and 2009, respectively, relating to such arrangements. Gross premiums earned and ceded premiums earned include $130 million, $139 million and $151 million in 2011, 2010 and 2009, respectively, relating to such arrangements. Gross incurred losses and LAE and reinsured losses and LAE ceded include ($143) million, $41 million and $40 million in 2011, 2010 and 2009, respectively, relating to such arrangements.

A significant portion of the above amounts are considered related party transactions. (See Note 14.) In 2010 and 2009, all ceded premiums written, ceded premiums earned and reinsured losses and LAE ceded from the above arrangements were related party transactions with the AIG Group as they were from contracts with effective dates of March 15, 2010 or earlier. While the arrangements continued in 2011, only the portion related to contracts with effective dates of March 15, 2010 or earlier are considered related party transactions with the AIG Group. In 2011, $2 million of ceded premiums written, $65 million of ceded premiums earned and ($159) million of reinsured losses and LAE ceded from these arrangements were related party transactions. In 2011, 2010 and 2009, related party cessions to the AIG Group, other than amounts related to the above arrangements, were not material.

16. Reinsurance Ceded (Continued)

In the fourth quarter of 2011, TRH terminated such agreements with the subsidiaries of AIG. The 2011 amounts above include the following impacts of the termination, (a) gross premiums written were decreased by $86.4 million for the settlement of all remaining unearned premiums and ceded premiums written were decreased by $86.4 million for the settlement of related prepaid reinsurance premiums, with no impact on net premiums written; and (b) gross losses and LAE incurred were decreased by $250.9 million for the settlement of all remaining gross loss reserves related to these agreements and reinsured losses and LAE ceded was decreased by $250.9 million for the settlement of all remaining reinsurance recoverables, with no net impact on net losses and LAE incurred. There was no impact on gross, ceded or net premiums earned from the termination of these agreements.

Amounts recoverable from retrocessionnaires are recognized in a manner consistent with the claims liabilities associated with the retrocession and are presented on the balance sheet as reinsurance recoverable on paid and unpaid losses and LAE. Such balances at December 31, 2011 and 2010 are comprised as follows:

	As of December 31,	
	2011	2010
	(in thousands)	
Reinsurance recoverable on paid losses and LAE	$ 43,362	$ 25,897
Reinsurance recoverable on unpaid losses and LAE	487,940	793,837
Total	$531,302	$819,734

Ceded reinsurance arrangements do not relieve TRH from its obligations to the insurers and reinsurers from whom it assumes business. The failure of retrocessionnaires to honor their obligations could result in losses to TRH; consequently, an allowance has been established for estimated unrecoverable reinsurance on paid and unpaid losses totaling $12.0 million as of December 31, 2011 and 2010. Write-offs of reinsurance recoverable on paid and unpaid losses and LAE in 2011 and 2010 were not material. At December 31, 2011, $12.2 million of the total reinsurance recoverable balance was overdue by more than 90 days, $6.4 million of which was collateralized. At December 31, 2010, $8.2 million of the total reinsurance recoverable balance was overdue by more than 90 days, of which $2.2 million was collateralized.

To estimate the allowance for unrecoverable reinsurance on paid and unpaid losses, TRH uses a default analysis. The primary components of the default analysis are reinsurance recoverable balances by reinsurer, net of collateral, and default factors used to determine the portion of a reinsurer's balance deemed uncollectible. Default factors require considerable judgment and are determined using the current rating, or rating equivalent, of each reinsurer as well as other key considerations and assumptions. The use of different assumptions within TRH's approach could have a material effect on the provision for unrecoverable reinsurance reflected in the Consolidated Financial Statements. To the extent the creditworthiness of TRH's reinsurers were to deteriorate due to an adverse event, such as a large number of major catastrophes, actual uncollectible amounts could be significantly greater than the provision for uncollectible reinsurance. Such an event could have a material adverse effect on TRH's financial condition, results of operations, and cash flows.

Under its reinsurance security policy, TRH seeks to cede business to reinsurers generally rated "A-" or better. TRH considers reinsurers that are not rated or do not fall within the above rating categories and may grant exceptions to TRH's general policy on a case-by-case basis. At December 31, 2011,

16. Reinsurance Ceded (Continued)

approximately 94% of total reinsurance recoverable on paid and unpaid losses and LAE balances were due from reinsurers rated “A-” or better and 6% were due from reinsurers which were rated below “A-” or were not rated.

With respect to reinsurance recoverable on paid and unpaid losses and LAE, TRH is the beneficiary of substantial amounts of funds held, trust agreements and letters of credit collateralizing reinsurance recoverables with respect to certain reinsurers. At December 31, 2011 and 2010, such funds held, trust agreements and letters of credit secured $95.2 million and $352.1 million, respectively, of TRH’s reinsurance recoverable on paid and unpaid losses. No uncollateralized amounts recoverable from a single retrocessionnaire are considered material to the financial position of TRH.

17. Segment Information

TRH conducts its business and assesses performance through segments organized along geographic lines. The Domestic segment principally includes financial data from branches in the United States except Miami, as well as revenues and expenses of the Company (including interest expense on the Senior Notes and merger-related costs). (See Notes 8 and 3.)

Prior to 2011, financial information for the Sydney branch was included in the London branch as part of the International-Europe segment. Sydney branch financial information for prior periods was not material. In 2011, Sydney is more appropriately considered a segment for financial reporting purposes and is aggregated with other segments that are generally not material in International-Other. Segment information for periods prior to 2011 has been revised to conform to the current segment presentation. Financial data from the London and Paris branches and from TRZ are reported in the aggregate as International-Europe and considered as one segment due to operational and regional similarities. Data from the Miami (which serves Latin America and the Caribbean), Toronto, Hong Kong, Tokyo and Sydney branches are grouped as International-Other and represent the aggregation of segments that are generally not material. In each segment, property and casualty reinsurance is provided to insurers and reinsurers on a treaty and facultative basis, through brokers or directly to ceding companies.

A significant portion of the assets and liabilities of TRH’s international operations relate to the countries where ceding companies and reinsurers are located. Most investments are located in the country of domicile of these operations. In addition to licensing requirements, TRH’s international operations are regulated in various jurisdictions with respect to currency, amount and type of security deposits, amount and type of reserves and amount and type of local investment. Regulations governing constitution of technical reserves and remittance balances in some countries may hinder remittance of profits and repatriation of assets. International operations and assets held abroad may be adversely affected by political and other developments in foreign countries, including possibilities of tax changes, nationalization and changes in regulatory policy, as well as by consequences of hostilities and unrest. The risks of such occurrences and their overall effect upon TRH vary from country to country and cannot easily be predicted.

While the majority of premium revenues and assets relate to the regions where particular offices are located, a significant portion of such amounts may be derived from other regions of the world.

In addition, three large international brokers, respectively, accounted for assumed premiums equal to 24%, 18% and 11% in 2011, 25%, 18% and 9% in 2010 and 26%, 16% and 8% in 2009, of consolidated revenues, with a significant portion in each segment. In each year, premiums brokered by companies acquired are included in the calculated percentages of the acquiror starting in the year of acquisition as if such acquisition had occurred on January 1 of that year.

17. Segment Information (Continued)

The following table is a summary of financial data by segment:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Domestic:			
Net premiums written	$ 1,873,330	$ 1,949,520	$ 2,051,053
Net premiums earned(1)	1,859,820	1,966,543	2,064,778
Net investment income	291,560	320,469	309,747
Realized net capital gains (losses)	75,759	49,568	(54,923)
Revenues	2,225,960	2,336,465	2,329,471
Net losses and LAE	1,239,325	1,318,584	1,364,082
Underwriting expenses(2)	522,079	565,069	565,250
Underwriting profit(3)(4)	98,416	82,890	135,446
Income before income taxes(5)	233,593	354,055	327,070
Identifiable assets(7)	9,835,150	9,749,420	9,412,298
International-Europe:			
Net premiums written	$ 1,408,520	$ 1,362,067	$ 1,382,426
Net premiums earned	1,340,232	1,337,360	1,419,888
Net investment income	122,259	113,337	120,685
Realized net capital gains (losses)	10,147	(8,893)	(12,642)
Revenues	1,472,638	1,441,804	1,527,931
Net losses and LAE	1,129,926	983,250	1,055,313
Underwriting expenses(2)	363,498	341,976	359,210
Underwriting (loss) profit(3)(4)	(153,192)	12,134	5,365
(Loss) income before income taxes	(20,495)	115,306	113,597
Identifiable assets(7)	4,479,078	4,105,289	3,943,683
International-Other(6):			
Net premiums written	$ 577,717	$ 570,106	$ 552,622
Net premiums earned	619,410	554,717	554,416
Net investment income	43,739	39,741	36,970
Realized net capital gains (losses)	2,694	(10,574)	(3,076)
Revenues	665,843	583,884	588,310
Net losses and LAE	887,150	379,940	259,776
Underwriting expenses(2)	207,357	200,501	174,045
Underwriting (loss) profit(3)(4)	(475,097)	(25,724)	120,595
(Loss) income before income taxes	(427,765)	3,427	155,366
Identifiable assets(7)	1,620,445	1,850,645	1,587,678
Consolidated:			
Net premiums written	$ 3,859,567	$ 3,881,693	$ 3,986,101
Net premiums earned(1)	3,819,462	3,858,620	4,039,082
Net investment income	457,558	473,547	467,402
Realized net capital gains (losses)	88,600	30,101	(70,641)
Revenues	4,364,441	4,362,153	4,445,712
Net losses and LAE	3,256,401	2,681,774	2,679,171
Underwriting expenses(2)	1,092,934	1,107,546	1,098,505
Underwriting (loss) profit(3)(4)	(529,873)	69,300	261,406
(Loss) income before income taxes(5)	(214,667)	472,788	596,033
Identifiable assets(7)	15,934,673	15,705,354	14,943,659

(1) Net premiums earned from the AIG Group from contracts with effective dates of March 15, 2010 or prior (when the AIG Group was a related party) were approximately $91.2 million, $244.6 million and $334.0 million in 2011, 2010 and 2009, respectively, and are included mainly in Domestic. (See Notes 1 and 14 of Notes to Consolidated Financial Statements.)

17. Segment Information (Continued)

(2) Underwriting expenses represent the sum of net commissions, (increase) decrease in deferred policy acquisition costs and other underwriting expenses.

(3) Underwriting profit (loss) represents net premiums earned less net losses and LAE and underwriting expenses.

(4) See Note 11 of Notes to Consolidated Financial Statements for net catastrophe costs by segment.

(5) Includes merger-related costs. (See Note 3 of Notes to Consolidated Financial Statements.)

(6) The Miami, Tokyo and Sydney branch segment data are each considered significant for at least one of the periods presented. Certain key Miami, Tokyo and Sydney data elements which are included in International-Other are as follows:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Miami:			
Revenues	$ 257,597	$243,326	$269,435
Income (loss) before income taxes	36,109	(55,814)	71,924
Identifiable assets as of December 31	514,755	549,747	478,751
Tokyo:			
Revenues	$ 98,730	$ 86,808	$ 83,327
(Loss) income before income taxes	(293,923)	38,522	39,061
Identifiable assets as of December 31	249,500	232,772	179,272
Sydney:			
Revenues	$ 52,623	$ 43,122	$ 26,869
(Loss) income before income taxes	(201,070)	(16,948)	10,023
Identifiable assets as of December 31	142,208	114,128	94,442

(7) As of December 31.

Net premiums earned by major product line are as follows:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Casualty:			
Other liability(1)	$ 949,491	$1,080,979	$1,037,628
Accident and health	366,772	411,565	399,267
Medical malpractice	336,163	313,559	359,030
Auto liability	297,884	217,632	274,543
Ocean marine and aviation	292,046	256,871	305,785
Surety and credit	203,521	206,425	222,931
Other	194,041	235,078	246,785
Total casualty	2,639,918	2,722,109	2,845,969
Property:			
Fire	566,262	492,026	544,641
Allied lines	394,589	385,079	342,125
Homeowners multiple peril	65,216	74,507	77,473
Earthquake	55,742	51,056	61,550
Auto physical damage	62,630	105,022	130,989
Other	35,105	28,821	36,335
Total property	1,179,544	1,136,511	1,193,113
Total	$3,819,462	$3,858,620	$4,039,082

(1) A large majority of the amounts within the other liability line relates to complex risks such as E&O and D&O, to general casualty risks and, to a lesser extent, environmental impairment liability.

18. Commitments and Contingent Liabilities

(a) Legal Proceedings

TRH, in common with the reinsurance industry in general, is subject to litigation in the normal course of its business. TRH does not believe that any pending litigation will have a material adverse effect on its consolidated results of operations, financial position or cash flows.

In the ordinary course of business, TRH is involved in lawsuits, arbitrations and other formal and informal dispute resolution procedures, the outcomes of which will determine TRH's rights and obligations under reinsurance agreements and other more general contracts. In some disputes, TRH seeks to enforce its rights under an agreement or to collect funds due to TRH. In other matters, TRH is resisting attempts by others to enforce alleged rights. Such disputes are resolved through formal and informal means, including litigation, arbitration and mediation.

In all such matters, TRH believes that its positions are legally and commercially reasonable. TRH also regularly evaluates those positions, and where appropriate, establishes or adjusts loss reserves to reflect its evaluation. TRH's aggregate loss reserves take into account the possibility that TRH may not ultimately prevail in each and every disputed matter. TRH takes into consideration changes in judicial interpretation of legal liability and policy coverages, changes in claims handling practices and inflation. TRH considers not only monetary increases in the cost of what it reinsures, but also changes in societal factors that influence jury verdicts and case law, TRH's approach to claim resolution, and, in turn, claim costs. TRH believes its aggregate loss reserves reduce the potential that an adverse resolution of one or more of these matters, at any point in time, would have a material impact on TRH's financial condition, results of operations or cashflows. However, there can be no assurance that adverse resolutions of such matters in any one period or in the aggregate will not result in a material adverse effect on TRH's results of operations, financial condition or cashflows.

In addition, from time to time, regulators commence investigations into insurance and reinsurance-industry practices. TRH has cooperated, and will continue to cooperate, in producing documents and other information in response to subpoenas and other requests. While TRH does not believe that any of these inquiries will have a material impact on TRH's business or financial results, it is not possible to predict with any certainty at this time what impact, if any, these inquiries may have on TRH's business or financial results.

(1) Stockholder Legal Proceedings Related to the Allied World Merger Agreement and the Alleghany Merger Agreement

In connection with the since-terminated Allied World Merger Agreement, five putative stockholder class action lawsuits were filed against the Company and the members of the Board challenging the merger contemplated by the Allied World Merger Agreement. Each lawsuit named the Company, the members of the Board, and Allied World as defendants. Four of the lawsuits also named GO Sub as a defendant, and one of the lawsuits named a former director of the Company as a defendant. Each of the lawsuits asserted that the members of the Board breached a fiduciary duty in connection with the approval of the Allied World Merger, and that Allied World and its subsidiaries aided and abetted the alleged breaches of a fiduciary duty. One of the lawsuits also alleged that the Company aided and abetted its directors' alleged breach of a fiduciary duty. The lawsuits sought to enjoin the Allied World Merger, among other relief.

On June 29, 2011, defendants moved to dismiss or stay the three New York actions in favor of the virtually identical proceedings pending in the Delaware Court of Chancery. On July 25, 2011, the

18. Commitments and Contingent Liabilities (Continued)

plaintiffs in the three New York actions moved to consolidate those actions into a single action. On October 18, 2011, the parties stipulated that each of these actions would be discontinued without prejudice. The Court entered the parties' stipulation the following day.

On July 21, 2011, Vice Chancellor Parsons of the Court of Chancery of the State of Delaware entered an order consolidating the two Delaware actions. Under that order, the Delaware plaintiffs filed a consolidated amended complaint on August 1, 2011 alleging that the Board breached a fiduciary duty by approving certain deal measures that purportedly privileged the Allied World Merger over other potential proposals, including a proposal from Validus Holdings, Ltd. ("Validus"), and by allegedly failing to include material information in the Company's proxy materials, and that Allied World and GO Sub aided and abetted such breaches. Additionally, on August 1, 2011, the Delaware plaintiffs filed a motion to expedite proceedings and a motion for a preliminary injunction, both of which the Company opposed. At a conference held on August 22, 2011, the court declined to set a hearing date on the Delaware plaintiffs' motion for a preliminary injunction and, except for a very narrow issue, denied the Delaware plaintiffs' motion for expedited discovery.

On October 10, 2011, the Delaware plaintiffs filed a second consolidated amended complaint alleging that the Board breached a fiduciary duty (and that Allied World and GO Sub aided and abetted such breach) by, among other things, adopting and refusing to rescind a shareholder rights plan, approving certain payments to Allied World in conjunction with the Termination Agreement and approving a share repurchase program. The second amended complaint also asserted derivative claims for breach of fiduciary duty against the Board, Allied World and GO Sub, a claim for unjust enrichment against Allied World and GO Sub, and a derivative claim for declaratory relief that the Termination Agreement is null and void. The lawsuit sought the return of any payments from the Company to Allied World pursuant to the Termination Agreement, among other relief. On October 24, 2011, defendants moved to dismiss the second consolidated amended complaint.

On December 21, 2011, the Delaware plaintiffs filed their third consolidated amended complaint. This third consolidated amended complaint added Alleghany and Shoreline as defendants, and alleged that the members of the Board breached a fiduciary duty in connection with the approval of the Alleghany Merger and that Alleghany and Shoreline aided and abetted the alleged breaches of fiduciary duty. In addition, this third consolidated amended complaint retained its allegations against Allied World and its subsidiaries. On January 6, 2012, defendants moved to dismiss the third consolidated amended complaint.

In connection with the Alleghany Merger Agreement, two additional putative stockholder class action lawsuits were filed against the Company and the members of the Board challenging the merger contemplated by the Alleghany Merger Agreement. These lawsuits asserted that the members of the Board breached a fiduciary duty in connection with the approval of the Alleghany Merger and that the Company, Alleghany and Shoreline aided and abetted the alleged breaches of fiduciary duty. On January 4, 2012, the Company and the Board filed a motion to dismiss or stay one of the lawsuits.

On January 30, 2012, the Company entered into a memorandum of understanding with the plaintiffs regarding the settlement of these putative stockholder class actions against the Company and its directors, Alleghany, Shoreline, Allied World and GO Sub. The Company agreed, pursuant to the terms of the proposed settlement, to make certain supplemental disclosures related to the Alleghany Merger. The memorandum of understanding contemplates that the parties will enter into a stipulation of settlement. The stipulation of settlement will be subject to customary conditions, including court

18. Commitments and Contingent Liabilities (Continued)

approval following notice to the Company's stockholders. In the event that the parties enter into a stipulation of settlement, a hearing will be scheduled at which the Court of Chancery of the State of Delaware will consider the fairness, reasonableness, and adequacy of the settlement. If the settlement is finally approved by the court, it will resolve and release all claims in all actions that were or could have been brought challenging any aspect of the Alleghany Merger, the Alleghany Merger Agreement, and any disclosure made in connection therewith (but excluding claims for appraisal under Section 262 of the Delaware General Corporation Law), among other claims, pursuant to terms that will be disclosed to stockholders prior to final approval of the settlement. In addition, in connection with the settlement, the parties contemplate that plaintiffs' counsel will file a petition in the Court of Chancery of the State of Delaware for an award of attorneys' fees and expenses to be paid by the Company or its successor, which the defendants may oppose. The Company or its successor will pay or cause to be paid any attorneys' fees and expenses awarded by the Court of Chancery of the State of Delaware. There can be no assurance that the parties will ultimately enter into a stipulation of settlement or that the Court of Chancery of the State of Delaware will approve the settlement even if the parties were to enter into such stipulation. In such event, the proposed settlement as contemplated by the memorandum of understanding may be terminated.

(2) *Validus Holdings, Ltd. v. Transatlantic Holdings, Inc., et al.* (Court of Chancery of the State of Delaware)

On August 10, 2011, Validus filed a complaint in Delaware Chancery Court against the Company, the Board, Allied World and GO Sub. The complaint alleges that the Company and the Board breached their fiduciary duties (and that Allied World and GO Sub aided and abetted such breaches) (a) by requiring Validus to execute a confidentiality agreement containing a standstill provision prior to engaging in negotiations with Validus and (b) as a result of the Company's and Allied World's various disclosures regarding both the proposed merger with Allied World and Validus' proposal, which Validus alleges include false and misleading statements. On August 16, 2011, Validus filed a Motion for Preliminary Injunction and a Motion for Expedited Proceedings, both of which the Company opposed. At a conference held on August 22, 2011, the court declined to set a hearing date on Validus' motion for a preliminary injunction and indicated that it was unlikely to conclude that Validus asserted a colorable claim for breach of fiduciary duty based on the Company's requirement that Validus enter into a confidentiality agreement with a standstill provision. On August 24, 2011, Validus withdrew its motion for expedited proceedings. On September 6, 2011, the Company and the Board moved to dismiss the complaint.

The Company and the Board believe this lawsuit is without merit and intend to defend against it vigorously.

(3) *Transatlantic Holdings, Inc. v. Validus Holdings Ltd.* (U.S. District Court for the District of Delaware)

On July 28, 2011, the Company filed a lawsuit in the United States District Court for the District of Delaware against Validus alleging that Validus violated Sections 14(a) and (e) of the Securities Exchange Act of 1934 ("Securities Exchange Act") and Section 11 of the Securities Act of 1933 by making materially false and/or misleading statements in its proxy and tender offer materials filed with the Securities and Exchange Commission. The lawsuit seeks, among other relief, an order: (a) compelling Validus to correct the material false and/or misleading statements it has made in connection with both its proxy and tender offer materials; and (b) prohibiting Validus from acquiring

18. Commitments and Contingent Liabilities (Continued)

or attempting to acquire shares of the Company until its misstatements have been corrected. On August 10, 2011, Validus filed a motion to dismiss the Company's lawsuit. On September 12, 2011, the Company filed an amended complaint against Validus and two Validus executives alleging that Validus and the executives violated Section 14(a) of the Securities Exchange Act by making materially false and/or misleading statements in its proxy and tender offer materials filed with the Securities and Exchange Commission and seeking a declaration that the Company's Schedule 14(D)-9 filed with the Securities and Exchange Commission complies with Section 14(d)(1) of the Securities Exchange Act. Pursuant to a stipulation filed with the court on October 3, 2011, the parties agreed, among other things, that Validus' motion to dismiss would be withdrawn as moot and that the Company could file an amended complaint after October 31, 2011.

(4) Other Legal Proceedings

On January 26, 2012, the Company reached an agreement with AIG to settle a dispute, previously in arbitration, which arose as a result of losses claimed by TRH from its participation in a securities lending program administered and managed by AIG. The agreement calls for the parties to attempt to reach a mediated settlement involving the securities lending program, along with various other business issues that were not the subject of the arbitration proceedings. If a mediated settlement is not reached, the parties have agreed that the mediator will determine the amount of a settlement payment to TRH by June 1, 2012 with respect to the securities lending claims alone within a range between $45 million and $125 million. TRH will record the benefit resulting from this settlement when the final outcome is determined. The agreement settles all of the claims in the arbitration without any admission of liability by any party.

On September 15, 2011, TRC entered into a negotiated settlement and commutation with United Guaranty Residential Insurance Company, United Guaranty Mortgage Indemnity Company, United Guaranty Credit Insurance Company and United Guaranty Residential Insurance Company of North Carolina (collectively, "UGC") with respect to arbitration proceedings involving certain contracts related to subprime mortgages and credit default insurance pursuant to which UGC purchased reinsurance from TRC. The negotiated settlement reduced 2011 net premiums written and net premiums earned by $19 million, net losses and loss adjustment expenses incurred in respect of losses occurring in prior years by $61 million and net commissions by $3 million, resulting in a pre-tax net benefit to (loss) income before income taxes of $45 million.

(b) Commercial Commitments

In the normal course of business, TRH has letters of credit outstanding as of December 31, 2011 totaling $44.9 million. These letters of credit are provided to secure certain loss reserves and other balances due to ceding companies. Where TRH provides a letter of credit, it is generally contractually obligated to continue to provide a letter of credit to the ceding company in the future to secure certain reserves and other balances.

18. Commitments and Contingent Liabilities (Continued)

(c) Leases

As of December 31, 2011, the future minimum lease payments (principally for leased office space) under various long-term operating leases were as follows:

	Future Minimum Lease Payments
	(in thousands)
2012	$ 13,550
2013	12,921
2014	12,303
2015	11,804
2016	10,318
Remaining years after 2016 (from 2017 to 2022)	44,447
Total	$105,343

Rent expense approximated $12.7 million, $12.5 million and $12.9 million in 2011, 2010 and 2009, respectively.

(d) Funding Commitment

In 2011, TRH entered into an agreement with a non-U.S. reinsurer to purchase $25 million of preferred stock in the reinsurer in 2012.

19. Employee Retention Plans

In June 2011, TRH offered retention agreements to key officers and employees (the "2011 Retention Plan"). Approximately $29 million of compensation offered consisted of stock-based compensation, which will vest equally on September 30, 2012 and December 31, 2013, subject to the recipients' continued employment with TRH on those dates, among other things. As of December 31, 2011, no stock-based compensation has yet been granted and therefore no expense has been recorded related to these agreements. The remainder of the program provides for cash awards aggregating $11 million payable on December 31, 2012, subject to the recipients' continued employment with TRH through December 31, 2012, among other things. Retention agreements with Alleghany will replace the 2011 Retention Plan related to the stock-based retention agreements with substantially similar vesting terms and will generally become effective after the completion of the Alleghany Merger.

$2 million of expenses related to cash awards under the 2011 Retention Plan were incurred in 2011 and are included mainly in other underwriting expenses. Expenses related to the 2011 Retention Plan will be incurred ratably through the vesting periods, with the majority of the remaining expenses expected to be recorded in 2012 and the balance recorded in 2013.

In October 2008, TRH adopted a retention program (the "2008 Retention Plan") covering a significant number of its employees, including its senior-most management. Salary expenses incurred related to the 2008 Retention Plan totaled nil in 2011 and 2010 and approximately $20 million in 2009.

20. Quarterly Financial Information (Unaudited)

The following is a summary of unaudited quarterly financial data for each of the years ended December 31, 2011 and 2010. However, in the opinion of management, all adjustments, consisting of normal recurring accruals, necessary for a fair statement of the results of operations for such periods have been made.

	Three Months Ended							
	March 31,		June 30,		September 30,		December 31,	
	2011(1)	2010	2011	2010	2011	2010	2011	2010
	(in thousands, except per share data)							
Net premiums written	$1,043,824	$1,026,299	$996,648	$947,589	$955,672	$1,007,030	$ 863,423	$900,775
Net premiums earned	956,829	992,595	954,929	973,752	945,757	958,291	961,947	933,982
Net investment income	106,840	112,610	119,508	115,774	117,948	123,840	113,262	121,323
Realized net capital gains (losses)	55,412	(1,889)	(766)	8,277	13,225	10,567	20,729	13,146
Total expenses	1,438,664	1,084,236	978,934	967,208	973,515	928,549	1,187,995	909,372
Net (loss) income	(190,152)	15,875	80,882	110,510	67,534	134,056	(57,483)	141,760
Net (loss) income per common share:								
Basic	(3.05)	0.24	1.29	1.72	1.08	2.11	(0.98)	2.26
Diluted	(3.05)	0.24	1.28	1.70	1.06	2.08	(0.98)	2.22

(1) As the impact of potential shares for the three months ended March 31, 2011 and December 31, 2011 is anti-dilutive (*i.e.*, reduces the net loss per common share), potential shares are not included in the diluted net loss per common share calculation.

Item 9.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There have been no changes in nor any disagreements with accountants on accounting and financial disclosure within the twenty-four months ended December 31, 2011.

Item 9A.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the end of the period covered by this report, an evaluation was carried out by TRH's management, with the participation of TRH's Chief Executive Officer and Chief Financial Officer, of the effectiveness of TRH's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, TRH's Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in TRH's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the fourth quarter of TRH's fiscal year ended December 31, 2011 that has materially affected, or is reasonably likely to materially affect, TRH's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management of TRH is responsible for establishing and maintaining adequate internal control over financial reporting. TRH's internal control over financial reporting is a process designed under the supervision of TRH's principal executive and principal financial officers to provide reasonable assurance regarding the reliability of financial reporting and the preparation of TRH's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

As of the end of TRH's 2011 fiscal year, management conducted an assessment of the effectiveness of TRH's internal control over financial reporting based on the framework established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on this assessment, management has concluded that TRH's internal control over financial reporting as of December 31, 2011 is effective.

TRH's internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of TRH; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of TRH's assets that could have a material effect on TRH's financial statements.

The effectiveness of TRH's internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of TRH's internal control over financial reporting as of December 31, 2011.

Item 9B.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
OTHER INFORMATION

None.

PART III

Item 10.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except for the information relating to executive officers of Transatlantic Holdings, Inc. (the "Company", and collectively with its subsidiaries, "TRH") included in Part I of this Annual Report on Form 10-K under the heading "Executive Officers of the Registrant" and in this paragraph, information required by this item will be included in an amendment to this Form 10-K or a definitive proxy or information statement to be filed with the Securities and Exchange Commission (the "SEC") within 120 days after the end of the Company's fiscal year in accordance with General Instruction G(3) to Form 10-K, and such information is incorporated herein by reference. TRH has adopted a code of ethics that applies to its principal executive officer and principal financial and accounting officer that establishes minimum standards of professional responsibility and ethical conduct. This code of ethics is available on TRH's website at http://www.transre.com.

Item 11.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
EXECUTIVE COMPENSATION

This item is omitted because an amendment to this Form 10-K or a definitive proxy or information statement will be filed with the SEC not later than 120 days after the close of the fiscal year in accordance with General Instruction G(3) to Form 10-K.

Item 12.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

This item is omitted because an amendment to this Form 10-K or a definitive proxy or information statement will be filed with the SEC not later than 120 days after the close of the fiscal year in accordance with General Instruction G(3) to Form 10-K.

In addition, summarized information with respect to equity compensation granted by the Company as of December 31, 2011 is as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted Average Exercise Price of Outstanding Option, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column (a))[4]
	(a)	(b)	(c)
Equity compensation plans approved by security holders:			
Stock options	1,790,047	$61.77	
Service & performance restricted stock units[1]	1,921,398	—	
Other[2]	34,868	42.10	
Total equity compensation plans approved by security holders[3]	3,746,313	29.90	2,160,997
Equity compensation plans not approved by security holders	—	—	—
Total[3]	3,746,313	$29.90	2,160,997

(1) Includes 20,138 vested but unissued restricted stock units.

(2) Represents shares subscribed under the Transatlantic Holdings, Inc. 1990 Employee Stock Purchase Plan, as amended, and the Transatlantic Holdings, Inc. 2010 U.K. Sharesave Plan.

(3) For purposes of calculating the total weighted average exercise price, service and performance restricted stock units are included at a zero exercise price. Excluding service and performance restricted stock units, the weighted average exercise price of all outstanding options, warrants and rights from equity compensation plans would be $61.39.

(4) The number of shares available for issuance by equity compensation plan consists of: 798,954 shares under the Transatlantic Holdings, Inc. 2009 Long Term Equity Incentive Plan; 44,933 shares under the Transatlantic Holdings, Inc. 2008 Non-Employee Directors' Stock Plan; 1,221,610 shares under the Transatlantic Holdings, Inc. 1990 Employee Stock Purchase Plan, as amended; and 95,500 shares under the Transatlantic Holdings, Inc. 2010 U.K. Sharesave Plan.

Item 13.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

This item is omitted because an amendment to this Form 10-K or a definitive proxy or information statement will be filed with the SEC not later than 120 days after the close of the fiscal year in accordance with General Instruction G(3) to Form 10-K.

Item 14.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
PRINCIPAL ACCOUNTANT FEES AND SERVICES

This item is omitted because an amendment to this Form 10-K or a definitive proxy or information statement will be filed with the SEC not later than 120 days after the close of the fiscal year in accordance with General Instruction G(3) to Form 10-K.

PART IV

Item 15.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements and Exhibits

1. Financial Statements and Schedules

   See accompanying Index to Consolidated Financial Statements in Item 8. Schedules not included in the accompanying index have been omitted because they are not applicable.

2. Exhibits

   21.1 — Subsidiaries of Registrant.

   23.1 — Consent of PricewaterhouseCoopers LLP.

   31.1 — Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Michael C. Sapnar, President and Chief Executive Officer.

   31.2 — Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Steven S. Skalicky, Executive Vice President and Chief Financial Officer.

   32.1 — Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Michael C. Sapnar, President and Chief Executive Officer.

   32.2 — Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Steven S. Skalicky, Executive Vice President and Chief Financial Officer.

See accompanying Exhibit Index for additional Exhibits incorporated by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

TRANSATLANTIC HOLDINGS, INC.

By: /s/ MICHAEL C. SAPNAR

Michael C. Sapnar
Title: *President and Chief Executive Officer*

February 27, 2012

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MICHAEL C. SAPNAR Michael C. Sapnar	President and Chief Executive Officer (principal executive officer) and Director	February 27, 2012
/s/ STEVEN S. SKALICKY Steven S. Skalicky	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	February 27, 2012
/s/ RICHARD S. PRESS Richard S. Press	Chairman	February 27, 2012
/s/ STEPHEN P. BRADLEY Stephen P. Bradley	Director	February 27, 2012
/s/ IAN H. CHIPPENDALE Ian H. Chippendale	Director	February 27, 2012
/s/ JOHN G. FOOS John G. Foos	Director	February 27, 2012
/s/ JOHN L. MCCARTHY John L. McCarthy	Director	February 27, 2012
/s/ ROBERT F. ORLICH Robert F. Orlich	Director	February 27, 2012

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
SUMMARY OF INVESTMENTS—OTHER THAN INVESTMENTS IN RELATED PARTIES
As of December 31, 2011

Type of Investment	Cost or Amortized Cost(1)	Fair Value	Amount at Which Shown in the Balance Sheet
		(in thousands)	
Fixed maturities:			
U.S. Government	$ 23,992	$ 28,454	$ 28,454
U.S. Government agencies	1,114,004	1,135,984	1,135,984
States, municipalities and political subdivisions	5,443,762	5,784,488	5,784,488
Foreign governments	832,243	866,438	866,438
U.S. corporate	2,259,652	2,313,719	2,313,719
Foreign corporate	1,834,546	1,876,377	1,876,377
Asset-backed:			
Residential mortgage-backed	243,868	197,907	197,907
Commercial mortgage-backed	229,072	235,573	235,573
Other asset-backed	63,497	64,589	64,589
Total fixed maturities	12,044,636	12,503,529	12,503,529
Equities:			
Common stocks:			
Public utilities	22,604	25,820	25,820
Banking and financial	83,434	73,296	73,296
All other	449,875	480,208	480,208
Total common stocks	555,913	579,324	579,324
Nonredeemable preferred stocks	7,000	7,000	7,000
Total equities	562,913	586,324	586,324
Other invested assets	256,315	266,185	266,185
Short-term investments	63,661	63,661	63,661
Total investments	$12,927,525	$13,419,699	$13,419,699

(1) Investments in fixed maturities are shown at amortized cost.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
CONDENSED FINANCIAL INFORMATION OF REGISTRANT
BALANCE SHEETS
(Parent Company Only)
As of December 31, 2011 and 2010

	2011	2010
	(in thousands, except share data)	
Assets:		
Fixed maturities available for sale, at fair value (amortized cost: 2011—$163,485; 2010—$146,103)	$ 165,524	$ 147,652
Short-term investments, at cost (approximates fair value)	2,777	50,207
Cash and cash equivalents	878	52,202
Investment in subsidiaries	4,822,038	4,915,380
Dividends due from subsidiaries	—	100,000
Other assets	97,696	62,729
Total assets	$5,088,913	$5,328,170
Liabilities:		
Dividends payable	$ —	$ 13,200
Senior notes	1,005,960	1,030,511
Total liabilities	1,005,960	1,043,711
Stockholders' equity:		
Preferred stock	—	—
Common stock	67,855	67,611
Additional paid-in capital	340,151	318,064
Accumulated other comprehensive income	330,946	154,615
Retained earnings	3,850,218	3,988,891
Treasury stock, at cost: 2011—10,466,671; 2010—5,362,800 shares of common stock	(506,217)	(244,722)
Total stockholders' equity	4,082,953	4,284,459
Total liabilities and stockholders' equity	$5,088,913	$5,328,170

See Notes to Condensed Financial Information of Registrant (Parent Company Only)

STATEMENTS OF OPERATIONS
(Parent Company Only)
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
		(in thousands)	
Revenues:			
Net investment income (principally dividends from subsidiary)	$ 406,863	$304,959	$151,907
Realized net capital losses	(225)	(3,232)	(3,941)
(Loss) gain on early extinguishment of debt	(1,179)	(115)	9,869
Equity in undistributed (loss) income of subsidiaries	(314,140)	159,756	366,066
Total revenues	91,319	461,368	523,901
Expenses:			
Operating expenses	158,928	22,496	19,707
Interest on senior notes	66,769	68,272	43,454
Total expenses	225,697	90,768	63,161
(Loss) income before income taxes	(134,378)	370,600	460,740
Income tax benefits:			
Current	(48,148)	(25,933)	(14,309)
Deferred	12,989	(5,668)	(2,613)
Total income tax benefits	(35,159)	(31,601)	(16,922)
Net (loss) income	$ (99,219)	$402,201	$477,662

See Notes to Condensed Financial Information of Registrant (Parent Company Only)

STATEMENTS OF CASH FLOWS
(Parent Company Only)
For the Years Ended December 31, 2011, 2010 and 2009

	2011	2010	2009
		(in thousands)	
Cash flows from operating activities:			
Net (loss) income	$ (99,219)	$ 402,201	$ 477,662
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Equity in undistributed loss (income) of subsidiaries	314,140	(159,756)	(366,066)
Change in dividend due from subsidiary	100,000	(70,000)	(30,000)
Other, net	(25,845)	11,707	(2,911)
Total adjustments	388,295	(218,049)	(398,977)
Net cash provided by operating activities	289,076	184,152	78,685
Cash flows from investing activities:			
Proceeds of fixed maturities sold or matured	344,842	23,923	14,319
Purchase of fixed maturities	(361,664)	(135,406)	(35,513)
Net sale (purchase) of short-term investments	47,453	267,048	(319,989)
Other, net	(26,927)	(13,933)	(5,300)
Net cash provided by (used in) investing activities	3,704	141,632	(346,483)
Cash flows from financing activities:			
Dividends to stockholders	(52,652)	(52,611)	(51,780)
Common stock issued	(5,749)	(43)	1,579
Acquisition of treasury stock	(261,495)	(219,734)	(3,069)
Repurchase of senior notes	(26,110)	(3,105)	(19,612)
Net proceeds from issuance of senior notes	—	—	336,929
Other, net	1,902	1,911	(187)
Net cash (used in) provided by financing activities	(344,104)	(273,582)	263,860
Change in cash and cash equivalents	(51,324)	52,202	(3,938)
Cash and cash equivalents, beginning of year	52,202	—	3,938
Cash and cash equivalents, end of year	$ 878	$ 52,202	$ —

Notes to Condensed Financial Information of Registrant (Parent Company Only)

(1) The condensed financial information of registrant should be read in conjunction with the Consolidated Financial Statements and Notes to Consolidated Financial Statements included elsewhere herein.

(2) Investment in subsidiaries is accounted for on the equity method.

(3) See Note 8 of Notes to Consolidated Financial Statements for a discussion of the senior notes.

(4) Dividends received from consolidated subsidiaries totaled $500.0 million, $231.5 million and $121.5 million in 2011, 2010 and 2009, respectively.

(5) The Company's cash and cash equivalents and short-term investments are available for liquidity needs in 2012.

(6) See Note 3 of Notes to Consolidated Financial Statements for a discussion of the merger agreement with Alleghany Corporation, the terminated merger agreement with Allied World Assurance Holdings, AG and merger-related expenses.

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
As of December 31, 2011, 2010 and 2009 and for the Years Then Ended

	Deferred Policy Acquisition Costs	Unpaid Losses and Loss Adjustment Expenses	Unearned Premiums	Net Premiums Earned	Net Investment Income	Net Losses and Loss Adjustment Expenses	Net Commissions and Change in Deferred Policy Acquisition Costs	Other Underwriting Expenses	Net Premiums Written
					(in thousands)				
2011									
Property-Casualty									
Domestic	$113,398	$5,799,455	$ 596,844	$1,859,820	$291,560	$1,239,325	$429,799	$ 92,280	$1,873,330
International:									
Europe	85,221	3,025,150	368,537	1,340,232	122,259	1,129,926	310,651	52,847	1,408,520
Other	52,091	704,398	211,944	619,410	43,739	887,150	180,152	27,205	577,717
Consolidated	$250,710	$9,529,003	$1,177,325	$3,819,462	$457,558	$3,256,401	$920,602	$172,332	$3,859,567
2010									
Property-Casualty									
Domestic	$109,827	$5,379,987	$ 592,269	$1,966,543	$320,469	$1,318,584	$465,641	$ 99,428	$1,949,520
International:									
Europe	62,787	2,780,704	300,009	1,337,360	113,337	983,250	289,467	52,509	1,362,067
Other	65,682	859,919	320,257	554,717	39,741	379,940	174,814	25,687	570,106
Consolidated	$238,296	$9,020,610	$1,212,535	$3,858,620	$473,547	$2,681,774	$929,922	$177,624	$3,881,693
2009									
Property-Casualty									
Domestic	$120,061	$5,116,056	$ 600,247	$2,064,778	$309,747	$1,364,082	$478,448	$ 86,802	$2,051,053
International:									
Europe	58,613	2,763,482	302,263	1,419,888	120,685	1,055,313	311,848	47,362	1,382,426
Other	58,792	729,567	285,016	554,416	36,970	259,776	150,028	24,017	552,622
Consolidated	$237,466	$8,609,105	$1,187,526	$4,039,082	$467,402	$2,679,171	$940,324	$158,181	$3,986,101

SCHEDULE IV

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
REINSURANCE
For the Years Ended December 31, 2011, 2010 and 2009

	Gross Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
			(dollars in thousands)		
2011					
Premiums written:					
Property-Casualty	$ —	$175,233	$4,034,800	$3,859,567	105%
2010					
Premiums written:					
Property-Casualty	—	$251,238	$4,132,931	$3,881,693	106%
2009					
Premiums written:					
Property-Casualty	—	$217,676	$4,203,777	$3,986,101	105%

SCHEDULE VI

TRANSATLANTIC HOLDINGS, INC. AND SUBSIDIARIES
SUPPLEMENTARY INFORMATION CONCERNING
PROPERTY/CASUALTY INSURANCE OPERATIONS
As of December 31, 2011, 2010 and 2009 and For the Years Then Ended

	Deferred Acquisition Policy Costs	Unpaid Losses and Loss Adjustment Expenses	Discount if any Deducted	Unearned Premiums	Net Premiums Earned	Net Investment Income	Net Losses and Loss Adjustment Expenses Related to Current Year	Net Losses and Loss Adjustment Expenses Related to Prior Years	Net Commissions and Change in Deferred Policy Acquisition Costs	Net Paid Losses and Loss Adjustment Expenses	Net Premiums Written
	(in thousands)										
2011 . .	$250,710	$9,529,003	$—	$1,177,325	$3,819,462	$457,558	$3,378,405	$(122,004)	$920,602	$2,425,638	$3,859,567
2010 . .	238,296	9,020,610	—	1,212,535	3,858,620	473,547	2,738,733	(56,959)	929,922	2,207,474	3,881,693
2009 . .	237,466	8,609,105	—	1,187,526	4,039,082	467,402	2,718,119	(38,948)	940,324	2,421,008	3,986,101

EXHIBIT INDEX

Exhibit No.		Description	Location
3.1	—	Restated Certificate of Incorporation of Transatlantic Holdings, Inc., dated September 8, 2009.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated September 8, 2009, and incorporated herein by reference.
3.2	—	Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock of Transatlantic Holdings, Inc.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated July 28, 2011 and incorporated herein by reference.
3.3	—	Amended and Restated By-Laws of Transatlantic Holdings, Inc., dated July 26, 2011.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated July 28, 2011 and incorporated herein by reference.
4.1	—	Form of Common Stock Certificate.	Filed as an exhibit to the Company's Registration Statement (File No. 33-34433) and incorporated herein by reference.
4.2	—	Rights Agreement, dated July 27, 2011, between Transatlantic Holdings, Inc. and American Stock Transfer & Trust Company LLC.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated July 28, 2011 and incorporated herein by reference.
4.2.1	—	Amendment No. 1 to Rights Agreement, dated November 20, 2011, between Transatlantic Holdings, Inc. and American Stock Transfer & Trust Company LLC.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated November 22, 2011 and incorporated herein by reference.
4.2.2	—	Indenture between Transatlantic Holdings, Inc. and The Bank of New York, dated December 14, 2005.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated December 15, 2005, and incorporated herein by reference.
4.2.3	—	First Supplemental Indenture between Transatlantic Holdings, Inc. and The Bank of New York, dated December 14, 2005.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated December 15, 2005, and incorporated herein by reference.
4.2.4	—	Second Supplemental Indenture by and among Transatlantic Holdings, Inc. and The Bank of New York Mellon, dated November 23, 2009.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated November 23, 2009, and incorporated herein by reference.
4.3	—	Voting Agreement by and between Transatlantic Holdings, Inc. and Davis Selected Advisors L.P., dated June 8, 2009.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated June 10, 2009, and incorporated herein by reference.
10.1	—	Investment Management Agreement between Transatlantic Holdings, Inc. and BlackRock Financial Management, Inc. dated June 30, 2009.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated July 2, 2009, and incorporated herein by reference.
10.2	—	Transatlantic Holdings, Inc. 2000 Stock Option Plan*.	Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-50298) and incorporated herein by reference.

Exhibit No.		Description	Location
10.2.1	—	Transatlantic Holdings, Inc. 2003 Stock Incentive Plan*.	Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-111513) and incorporated herein by reference.
10.2.2	—	Form of Transatlantic Holdings, Inc. 2000 Stock Option Plan stock option agreement*.	Filed as an exhibit to the Company's 2004 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2004, and incorporated herein by reference.
10.2.3	—	Form of Transatlantic Holdings, Inc. 2003 Stock Incentive Plan RSU award agreement*.	Filed as an exhibit to the Company's 2004 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2004, and incorporated herein by reference.
10.2.4	—	Amended Transatlantic Holdings, Inc. 2000 Stock Option Plan*.	Filed as an appendix to the Company's Definitive Proxy Statement (File No. 1-10545) dated April 18, 2008, and incorporated herein by reference.
10.2.5	—	Amended Transatlantic Holdings, Inc. 2003 Stock Incentive Plan*.	Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-135832) and incorporated herein by reference.
10.2.6	—	Transatlantic Holdings, Inc. Partners Plan*.	Filed as an exhibit to the Company's 2006 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2006, and incorporated herein by reference.
10.2.7	—	Transatlantic Holdings, Inc. Senior Partners Plan*.	Filed as an exhibit to the Company's 2006 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2006, and incorporated herein by reference.
10.2.8	—	Transatlantic Holdings, Inc. Annual Bonus Plan*.	Filed as an exhibit to the Company's 2006 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2006, and incorporated herein by reference.
10.2.9	—	Form of Transatlantic Holdings, Inc. Partners Plan Performance RSU Award Agreement*.	Filed as an exhibit to the Company's 2006 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2006, and incorporated herein by reference.
10.2.10	—	Form of Transatlantic Holdings, Inc. Senior Partners Plan Performance RSU Award Agreement*.	Filed as an exhibit to the Company's 2006 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2006, and incorporated herein by reference.
10.2.11	—	Transatlantic Holdings, Inc. 2008 Non-Employee Directors' Stock Plan*.	Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-152095) and incorporated herein by reference.

Exhibit No.		Description	Location
10.2.12	—	Transatlantic Holdings, Inc. Executive Severance Plan*.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated May 29, 2008, and incorporated herein by reference.
10.2.13	—	Form of Transatlantic Holdings, Inc. Retention Bonus Letters*.	Filed as an exhibit to the Company's 2008 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2008, and incorporated herein by reference.
10.2.14	—	Amendment No. 1 to the Transatlantic Holdings, Inc. 2003 Stock Incentive Plan*.	Filed as an exhibit to the Company's 2008 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2008, and incorporated herein by reference.
10.2.15	—	Amendment No. 1 to the Transatlantic Holdings, Inc. Partners Plan*.	Filed as an exhibit to the Company's 2008 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2008, and incorporated herein by reference.
10.2.16	—	Amendment No. 1 to the Transatlantic Holdings, Inc. Senior Partners Plan*.	Filed as an exhibit to the Company's 2008 Quarterly Report on Form 10-Q (File No. 1-10545) for the quarter ended September 30, 2008, and incorporated herein by reference.
10.2.17	—	Transatlantic Holdings, Inc. 2009 Long Term Equity Incentive Plan*.	Filed as an exhibit to the Company's Registration Statement on Form S-8 (File No. 333-159398) and incorporated herein by reference.
10.2.18	—	Transatlantic Holdings, Inc. 2007 Executive Bonus Plan*.	Filed as an appendix to the Company's Definitive Proxy Statement (File No. 1-10545) dated April 8, 2010 and incorporated herein by reference.
10.2.19	—	Form of Transatlantic Holdings, Inc. Executive Retention Agreement.*	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated July 7, 2011 and incorporated herein by reference.
10.3	—	Management Agreement between Transatlantic Reinsurance Company and Putnam Reinsurance Company, dated February 15, 1991.	Filed as an exhibit to the Company's 1995 Annual Report on Form 10-K (File No. 1-10545) and incorporated herein by reference.
10.4	—	Quota Share Reinsurance Agreement between Transatlantic Reinsurance Company and Putnam Reinsurance Company, dated December 6, 1995.	Filed as an exhibit to the Company's 1995 Annual Report on Form 10-K (File No. 1-10545) and incorporated herein by reference.
10.5	—	Termination Agreement among Transatlantic Holdings, Inc., Allied World Assurance Company Holdings, AG, and GO Sub, LLC, dated September 15, 2011.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated September 16, 2011 and incorporated herein by reference.

Exhibit No.		Description	Location
10.6	—	Agreement and Plan of Merger among Transatlantic Holdings, Inc., Alleghany Corporation and Shoreline Merger Sub, Inc. (formerly, Shoreline Merger Sub, LLC), dated November 20, 2011.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated November 22, 2011 and incorporated herein by reference.
10.7	—	Form of Voting Agreement between Transatlantic Holdings, Inc. and the Alleghany Supporting Stockholders, dated November 20, 2011.	Filed as an exhibit to the Company's Current Report on Form 8-K (File No. 1-10545) dated November 22, 2011 and incorporated herein by reference.
21.1	—	Subsidiaries of the registrant.	Filed herewith.
23.1	—	Consent of PricewaterhouseCoopers LLP.	Filed herewith.
31.1	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Michael C. Sapnar, President and Chief Executive Officer.	Filed herewith.
31.2	—	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, by Steven S. Skalicky, Executive Vice President and Chief Financial Officer.	Filed herewith.
32.1	—	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Michael C. Sapnar, President and Chief Executive Officer.	Provided herewith.
32.2	—	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, by Steven S. Skalicky, Executive Vice President and Chief Financial Officer.	Provided herewith.
101	—	Interactive data files pursuant to Rule 405 of Regulation S-T: (a) the Consolidated Balance Sheets as of December 31, 2011 and December 31, 2010; (b) the Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (c) the Consolidated Statements of Stockholders' Equity for the years ended December 31, 2011, 2010 and 2009; (d) the Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; (e) the Consolidated Statements of Comprehensive Income for the years ended December 31, 2011, 2010 and 2009; (f) the Notes to Consolidated Financial Statements; and (g) Financial Statement Schedules**.	Furnished herewith.

* Management contract or compensatory plan or agreement.

** This information is furnished and not filed for purposes of Sections 11 and 12 of the Securities Act of 1933, as amended, and Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

EXHIBIT 21.1

TRANSATLANTIC HOLDINGS, INC.
SUBSIDIARIES OF REGISTRANT

Name of Corporation	Jurisdiction of Incorporation	% of Voting Securities Owned by its Immediate Parent
Transatlantic Reinsurance Company	New York, U.S.A.	100%
Fair American Insurance and Reinsurance Company (formerly Putnam Reinsurance Company)	New York, U.S.A.	100%*
Trans Re Zurich Reinsurance Company Ltd.	Zurich, Switzerland	100%*
Transatlantic Re (Argentina) S.A.	Argentina	100%*
Transatlantic Reinsurance Company Escritório de Representacão no Brasil Ltda.	Brazil	100%*
Transatlantic Polska Sp. z o.o.	Warsaw, Poland	100%*
TRC (PANAMÁ) S.A.	Panama	100%*
Professional Risk Management Services, Inc.	Delaware, U.S.A.	100%
TReIMCo 1 Limited	England	100%
Calpe Insurance Company Limited	Gibraltar	100%

* The common stock is owned 100% by Transatlantic Reinsurance Company.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (File Nos. 333-155811 and 333-130111) and Form S-8 (File Nos. 33-99764, 33-41474, 333-50298, 333-111513, 333-135831, 333-135832, 333-152095, 333-159398 and 333-168024) of Transatlantic Holdings, Inc. of our report dated February 27, 2012 relating to the financial statements, financial statement schedules and the effectiveness of internal control over financial reporting, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
February 27, 2012

EXHIBIT 31.1

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Michael C. Sapnar, certify that:

1. I have reviewed this Annual Report on Form 10-K of Transatlantic Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ MICHAEL C. SAPNAR

Michael C. Sapnar
President and Chief Executive Officer

Date: February 27, 2012

EXHIBIT 31.2

CERTIFICATION PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

CERTIFICATION

I, Steven S. Skalicky, certify that:

1. I have reviewed this Annual Report on Form 10-K of Transatlantic Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ STEVEN S. SKALICKY

Steven S. Skalicky
Executive Vice President and Chief Financial Officer

Date: February 27, 2012

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2011 of Transatlantic Holdings, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael C. Sapnar, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ MICHAEL C. SAPNAR

Michael C. Sapnar
President and Chief Executive Officer

Date: February 27, 2012

The foregoing is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.

EXHIBIT 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K for the year ended December 31, 2011 of Transatlantic Holdings, Inc. (the "Company"), as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Steven S. Skalicky, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ STEVEN S. SKALICKY

Steven S. Skalicky
Executive Vice President and Chief Financial Officer

Date: February 27, 2012

The foregoing is being furnished solely pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and is not being filed as part of the Report or as a separate disclosure document.