

THE VALUE OF RISK



Annual Report 2006

PartnerRe



Financial Highlights

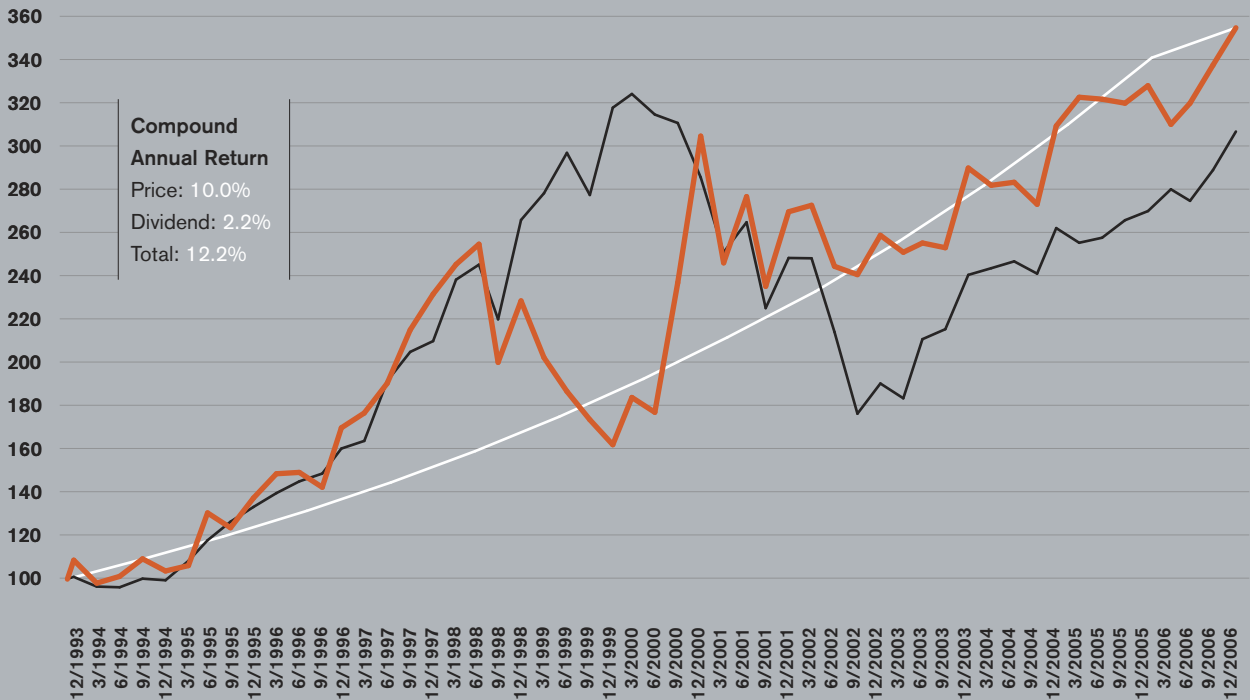
(expressed in millions of U.S. dollars, except per share data)

For the years ended						
December 31,						
	2002	2003	2004	2005	2006	
	\$ 2,655	\$ 3,590	\$ 3,853	\$ 3,616	\$ 3,689	Net premiums written
	2,670	3,873	4,166	4,206	4,187	Total revenues
	190	468	492	(51)	749	Net income (loss)
						Earnings (loss) per common share:
	\$ 3.60	\$ 6.65	\$ 7.27	\$ (4.42)	\$ 11.56	Diluted operating earnings (loss) per common share
	3.28	8.13	8.71	(1.56)	12.37	Diluted net income (loss) per common share
	12.5%	19.6%	17.0%	(8.6)%	26.0%	Operating return on beginning common shareholders' equity
	11.4%	24.0%	20.4%	(3.0)%	27.8%	Return on beginning common shareholders' equity calculated with net income
						Non-life ratios:
	69.3%	65.6%	65.4%	86.9%	55.1%	Loss ratio
	22.0%	22.2%	23.0%	23.1%	23.1%	Acquisition ratio
	5.5%	5.5%	5.9%	5.9%	6.4%	Other overhead expense ratio
	96.8%	93.3%	94.3%	115.9%	84.6%	Combined ratio

At						
December 31,						
	2002	2003	2004	2005	2006	
	\$ 8,548	\$ 10,903	\$ 12,680	\$ 13,744	\$ 14,948	Total assets
	2,077	2,594	3,352	3,093	3,786	Total shareholders' equity
	34.02	42.48	50.99	44.57	56.07	Diluted book value per common and common share equivalents
	2,714	3,120	3,398	3,725	4,054	Market capitalization

Comparative Performance Graph

PartnerRe Share Price S&P 500 Trend Line (11/1993 = 100)



The Company's Annual Report contains measures such as operating earnings, operating earnings per share and operating return on equity that are considered non-GAAP measures. See page 24 for a reconciliation of those non-GAAP measures to the most comparable GAAP measures.

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Letter from the Chairman

To Our Shareholders:

When I became Chairman of the Board in the Spring of 2002, we were coming out of an important transitional period. With a clear strategy and a strong organization in place, PartnerRe was in a good position to deliver on its goals. The five years that followed served up many challenges, and yet the Company has not only succeeded in achieving its goals, but has come through stronger than ever. In many ways, the excellent results of 2006 illustrate what has been accomplished and the future potential of this Company.

2002 also brought about significant changes in the U.S. regulatory environment. At that time, the Board and I were confident that we had solid procedures and principles in place to guide us going forward, and they have. I am proud to say that we have an organization that prides itself on best-of-class governance. We have a solid risk management framework, with accountability at every level and the active inclusion of the Board. Finally, we are committed to open and transparent communication and we will continue to deliver on that commitment.

Our success over the last five years validates the strategic choices made during that time and prior to 2002. We have delivered on our long-term return goals, we are able to provide valuable capacity to our clients and we have an organizational framework that promotes trust and accountability.

In that context, the Company's results in 2006 are particularly gratifying; and I would be remiss in not offering special congratulations to our CEO, Patrick Thiele, his executive staff and the entire PartnerRe team on their superb performance this year. Just as our shareholders have benefited from the effective execution of PartnerRe's strategy, so too will employees be rewarded appropriately for their accomplishments.

I also want to take this opportunity to welcome Lucio Stanca back to our Board. After a period of service as a cabinet member of the Italian government, Mr. Stanca re-joins us as a member of the Company's Nominating & Governance Committee, and of the Finance & Risk Management Committee.

It is a pleasure to serve as Chairman of the Board for PartnerRe. Thank you for your continued support, not only for 2006 but over the last five years. The Board and I look forward to continuing our good working relationship together, as we oversee the creation of value for you in 2007 and beyond.

A handwritten signature in black ink, appearing to read "John A. Rollwagen". The signature is fluid and cursive, with a long horizontal stroke at the end.

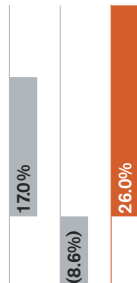
John A. Rollwagen
Chairman of the Board



Patrick Thiele
President and Chief Executive Officer

Letter from the CEO

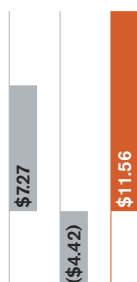
2004
2005
2006



Operating Return on Beginning Common Shareholders' Equity



Net Income (Loss)
(\$ millions)



Diluted Operating Earnings (Loss) per Common Share

To Our Shareholders:

In the last two years, we have experienced the two extremes of the reinsurance industry. 2006 was as exceptional from a positive perspective as 2005 was from a negative perspective. Where we lost \$51 million and dropped \$6.42 per diluted share in book value in 2005, we earned \$749 million and increased book value per diluted share by \$11.50, or 26%, in 2006. In fact, one was partly the result of the other. The losses of 2005 led to significant price increases and dislocations in the U.S. wind market, leading to considerable profitability when no major storms occurred. And, in addition to a scarcity of hurricanes, there were no major insurance losses in 2006 from earthquakes, typhoons, floods or tsunamis.

The other remarkable thing about 2006, from our perspective, was that all of our business units and most lines of business produced record profitability in the same year. As a global diversified reinsurer with significant exposure to various markets, we normally expect that some part of our operation will face increased losses or softer market conditions at any given point in time. In 2006, not only did our catastrophe and property lines perform well, so did our casualty and specialty lines. In addition, our Life, ART and investment operations had solid returns during the year.

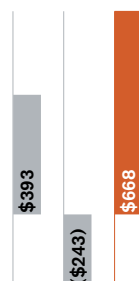
A lack of large losses and solid earnings across the book led to an operating ROE of 26%, easily our best result ever. We don't expect this type of experience every year. Indeed, I think of a 26% operating ROE as a 1-in-10 year event. But I do think that our 2006 results show that PartnerRe can withstand the turmoil of years like 2005, respond to opportunities that invariably follow, and earn back the lost money in a very short period of time. This is because we were prepared for an event like Katrina, and because we believe in our business model. Those beliefs allowed us to not only maintain our exposure to the lines affected by the 2005 hurricanes, but to increase it; and that increased exposure helped us achieve these excellent results.

Nevertheless, we don't believe that any single year, either good or bad, defines whether a reinsurer has a good strategy or whether it is able to execute its strategy effectively. Reinsurance is a long-term business and a reinsurer's performance can only be quantified over a multi-year period. In this business, good luck only lasts so long.

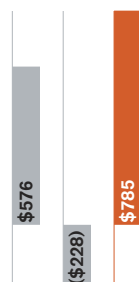
We are proud of our operating performance over the last five years. Despite extreme events in the industry – a collapse in the stock market in 2002, huge increases in the industry's casualty reserves in 2003 and record catastrophe losses in 2004 and 2005 – PartnerRe grew its book value per share at a 14% compound annual rate over that five-year period. Our operating ROE averaged 13.3% and our dividend increased every year, from \$1.15 to \$1.60 per share.

We did that without exposing our shareholders and clients to excessive amounts of risk and without degrading the strength of our capital or reserves.

2004
2005
2006



Operating Income (Loss) Available to Common Shareholders
(\$ millions)



Comprehensive Income (Loss)
(\$ millions)



Diluted Book Value per Common and Common Share Equivalents

How we did it – how we managed the quantitative and qualitative levers of our business – is detailed later in “The Value of Risk,” starting on page 16. In this report, you will see that three principles drive our behavior.

First, we provide a product of value. We sell our clients the security of knowing that when losses occur, PartnerRe will be there. And we’ll be there because we have and will maintain capacity and unquestioned financial integrity. We do not gamble with our clients’ futures.

Second, we will deliver an appropriate return on our shareholders’ capital, to compensate them for the risk we assume on their behalf. For the last five years, we’ve defined 13% over a cycle as our target operating ROE and we have achieved that. We’re not quite there from a total return to investors, as our stock price growth has lagged our book value per share growth, but we have not lost sight of that commitment.

Third, we intend to be a well managed company. For PartnerRe, a company that is well managed is one where things happen for good reason; where decisions are made to benefit all stakeholders and not just executive management; a company where employees can meet their financial and career goals; and a company with which employees, clients and shareholders can all be proud to be associated.

All three of these principles are critical to executing our strategy effectively and they guide our operations within our defined and maintained risk appetite and operating policies.

Outlook

January 1, 2007, was a good renewal for us. Approximately 55% of our non-life book was up for renewal, and we were able to maintain our priced profitability at the cost of a moderate 4% reduction of in-force premiums, and a small increase in expected volatility.

However, we also saw some negative trends in the market that are expected to intensify through 2007. On the back of observed low loss trends, our clients are retaining more of their risk by raising attachment points and by dropping lower layers. This is taking significant amounts of premium from the reinsurance marketplace; a trend that will be further compounded by the recent acts of the Florida legislature.

The trend of decreasing prices is also intensifying. Lower demand coupled with greater supply of capacity – from both established companies and start-up vehicles – generally leads to lower prices. This is especially true in the current environment of low loss trends.

So while we started out 2007 well, we expect challenges in virtually all non-life markets as we move through the year. At PartnerRe, we take comfort from two facts. First, we enter this deteriorating market with the highest level of profitability and the strongest financial position in our history. Second, we have faced these challenges before, and we know how to function and succeed in adversity.

2004
2005
2006



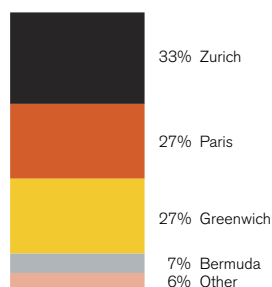
Dividends Declared and Paid per Common Share

So no matter what major catastrophes are in store, no matter what new volatility drivers arise, we expect to be able to meet or exceed our long-term goals of 10% growth in book value and continual increases in our dividend.

Acknowledgements

As always, I'd like to thank all of our employees (they're listed on pages 164 and 165) for their continued hard work and trust. In a challenging environment, they were calm and good humored and very effective. I'd especially like to acknowledge Mark Pabst and his huge contribution to making PartnerRe the Company it is today. We all miss him a great deal.

Thank you, also, to our shareholders, cedants and brokers, for your continued support. 2006 was an exceptional year for our industry, and it was the culmination of a successful five years for PartnerRe.



Distribution of Employees
Total: 935

Patrick Thiele
President and Chief Executive Officer

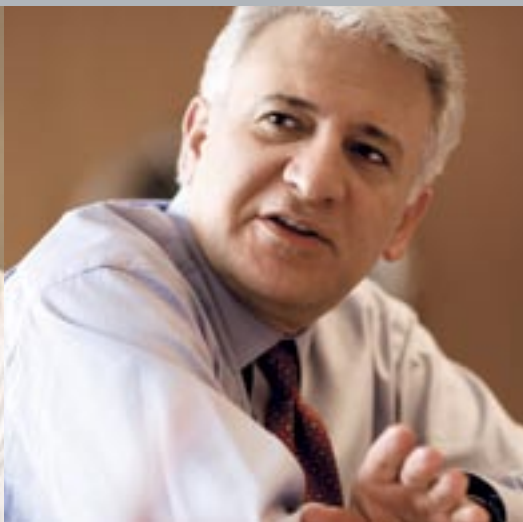
Business Units

	U.S.	Global		
		Property & Casualty	Specialty Lines	Catastrophe
Organization	<p>Organized into four business units to serve U.S. clients:</p> <ul style="list-style-type: none"> - Standard Lines - Program Business - Specialty Casualty - Specialty Lines 	<p>Organized into six departments along geographic lines:</p> <ul style="list-style-type: none"> - Northern Europe - Central and Eastern Europe - Southern Europe and Latin America - France, Benelux and Canada - Greater China and South East Asia - Overseas (including Australia, Japan, Korea, Middle East, Africa, Turkey, India) 	<p>Organized into eight departments by client or line of business:</p> <ul style="list-style-type: none"> - Agriculture - Aviation / Space - Credit / Surety - Energy Onshore - Engineering - Marine / Energy Offshore - Specialty Casualty - Specialty Property 	<p>One worldwide business unit organized into two departments:</p> <ul style="list-style-type: none"> - Underwriting - Research
Clients / Objectives	<p>Leading property and casualty insurance companies within the U.S. market.</p> <p>Products and services are provided to clients through reinsurance intermediaries.</p>	<p>Leading multiline insurance companies in all geographic markets, excluding U.S.</p> <p>Products and services are provided to clients directly and through reinsurance intermediaries.</p>	<p>Monoline companies and specialty line divisions in multiline companies worldwide for Aviation, Credit, Energy, Engineering, Marine / Energy Offshore and Facultative Property. All other lines exclude business from U.S. clients.</p> <p>Products and services are provided to clients directly and through reinsurance intermediaries for both facultative and treaty solutions.</p>	<p>Monoline companies, Pools and general P&C companies, serviced directly or through reinsurance intermediaries.</p> <p>Services include providing coverage for natural hazards such as windstorm, earthquake, flood and other perils, as well as man-made catastrophes and advising on adequacy and structuring of protections.</p>
Lines of Business / Scope of Work	<p>Property & Casualty business:</p> <ul style="list-style-type: none"> - Property - Automobile - General Liability - Umbrella Liability - Workers Compensation - Professional Liability - Directors and Officers Liability - Medical Malpractice - Agriculture - Surety 	<p>Standard Property & Casualty business:</p> <ul style="list-style-type: none"> - Property - Third Party Liability - Employers Liability - Workers Compensation - Personal Accident - Motor Third Party Liability 	<p>Agriculture: Crop hail, MPCI, aquaculture, forestry, bloodstock, livestock.</p> <p>Aviation / Space: Airlines, manufacturers, airport operators, general aviation, space.</p> <p>Credit / Surety: Domestic and export credit, surety bonds.</p> <p>Energy Onshore: Onshore oil and gas operations, mining, power generation, pharmaceuticals, chemicals.</p> <p>Engineering: Construction/ erection, delay in start-up, boiler/machinery, business interruption.</p> <p>Marine / Energy Offshore: Hull, cargo, specie, marine liabilities, loss of hire, P&I, energy offshore.</p> <p>Specialty Casualty: Products liability, professional liability, medical malpractice, D&O.</p> <p>Specialty Property: Property damage, business interruption, nuclear, terrorism pools.</p>	<p>Property and motor catastrophe excess of loss treaties, and proportional and stop loss property treaties for natural perils.</p> <p>Scope of work includes natural hazards, research and modeling.</p>

			Group Functions	
	Alternative Risk Transfer	Investments	Finance	Support
Life				
One business unit writing non-U.S. life business, serviced from offices in Paris, Zurich, Mexico, Montreal and Singapore.	<p>One worldwide business unit to originate, structure and underwrite Alternative Risk Transfer products including:</p> <ul style="list-style-type: none"> - Structured Risk Reinsurance - Weather - Principal Finance - Strategic Investments 	One investment organization, located in the Greenwich office, managing over \$10 billion of globally invested assets.	Aligned with Group organizational structure, along Group and business unit lines, to ensure appropriate financial controls and maximize stockholder returns, while minimizing financial risk.	<p>Aligned with Group organizational structure, along Group and business unit lines:</p> <ul style="list-style-type: none"> - Group roles include strategic planning, policy and control - Business unit roles focus on execution and operational support
Life insurers who require capacity, expertise and a range of services including medical underwriting and product development.	<p>Structured Risk Reinsurance: Property and casualty insurance companies seeking alternatives to traditional reinsurance solutions.</p> <p>Weather: Energy, agriculture, construction, and transportation companies whose results may be impacted by weather.</p> <p>Principal Finance: Investment banks, commercial banks, and other financial intermediaries seeking financing related to nonstandard assets.</p> <p>Strategic Investments: Start-up or venture companies in the risk-bearing arm of the financial services sector.</p>	<ul style="list-style-type: none"> - Preserve liquidity and protection of capital - Generate investment income and capital gains - Leverage investment skills to capitalize on convergence of reinsurance and capital markets 	<ul style="list-style-type: none"> - Ensure appropriate control environment - Asset/liability management across the Group - Optimal Group-wide capital allocation - Financial performance measurement - Complete and accurate financial reporting - Actuarial reserving 	<p>Human Resources: Attract, retain and develop intellectual capital of the organization.</p> <p>Information Technology: Provide effective information technology tools worldwide.</p> <p>Legal: Ensure compliance with legal and reporting requirements.</p> <p>Corporate Communications: Ensure consistent understanding of messages and information internally and externally.</p> <p>Internal Audit: Provides internal control and risk assurance services, as well as Sarbanes-Oxley compliance testing.</p>
Longevity and mortality lines in G7 countries (excluding U.S.) and some additional countries.	<p>Structured Risk Reinsurance: Prospective aggregate stop loss, loss portfolio transfer/adverse development covers, multi-year structured catastrophe and excess of loss covers, and capped quota shares.</p> <p>Weather: Temperature, rainfall, snowfall, wind.</p> <p>Principal Finance: Risk underwriting for nonstandard investments related to structured finance, project finance, tax-advantaged real estate and distressed debt opportunities.</p>	Responsible for managing all PartnerRe invested assets worldwide, with an investment philosophy that distinguishes between liability funds, which are matched against existing reinsurance liabilities, and capital funds.	Responsible for the Group's fiduciary and control functions; transactional accounting and processing; external reporting; decision support; actuarial analysis and reserving; planning; asset management and protection, risk management and treasury; capital markets, rating agencies and investor relations.	Responsible for ensuring that all support requirements – Human Resources, Information Technology, Legal, Corporate Communications, Internal Audit – are met on a Group and local basis.



Bruno Meyenhofer
CEO, PartnerRe Global



Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.



Scott Moore
CEO, PartnerRe U.S.

Our Integrated Risk Management Framework

PartnerRe's Approach to Enterprise Risk Management

In the business of assuming risk, a sound risk management framework is essential. In the past two years, we have introduced our approach to risk and practice of risk management at PartnerRe, demonstrating how our strategy, structure and risk management processes are inextricably linked. In the following pages, we continue the dialogue by providing an overview of PartnerRe's approach to enterprise risk management, including an update on what we have said in the past about our risk appetite and tolerance.

Our risk management framework encompasses our approach to the strategic risks that we share with the rest of our industry, the reinsurance and capital market risks that we are paid to assume, and the operational risks that are a part of running any business.

Our approach to managing these risks to our enterprise begins with identifying, categorizing and classifying the risks that have the potential to reduce or destroy economic value or franchise value. With those identified, we focus on reducing the likelihood of occurrence and the impact of those risks. Our top business risks and how we manage them are identified on pages 12 and 13.

Through our integrated approach to risk management, we reduce the probability and severity of our business risks. In order to move top risks, classified as "high-likelihood" and "significant-impact," down the curve, we employ the following tactics, along with controls, processes and policies that are integral to how PartnerRe functions on a day-to-day basis.

Risk Management Culture

Risk assumption and risk management are at the core of PartnerRe's value proposition; they are embedded in our strategy and tied to our stated goals. PartnerRe aims to assume volatility for our clients and provide unquestioned ability to pay claims. Our strategy, which has not changed for the past five years, is fully understood by employees, clients and brokers. It is supported by risk, return and operational policies, and an understanding of correlations, processes, limits and controls that are embedded throughout the organization. This framework provides a stable, consistent basis for decision-making and execution at all levels of the Company.

Our Five-Point Strategy

Diversify risk across products and geographies.	Maintain risk appetite moderately above the market.	Actively manage capital across the portfolio and over the cycle.	Add value through underwriting/ transactional excellence.	Achieve superior returns on invested assets in the context of a disciplined risk framework.
1	2	3	4	5

Effective Structure, Process and Controls

Our organizational structure is designed with a significant emphasis on the effective and efficient management of the Company's risks. The Executive Management and the Board are responsible for managing strategic risks, and individual business units manage our assumed risks, subject to Group oversight and control. The operational risks that are part of running any business are managed by designated functions within the organization.

There are interrelationships and dependencies between the various categories of risk. Each must be viewed in the context of the whole if their potential impact on the organization is to be fully understood and effectively managed within a well defined and integrated framework.

Top Strategic and Assumed Risks

The Risk	Risk Definition	PartnerRe's Response	Risk Owner	Risk Oversight
Governance	Poor decision making processes or values may lead to bad business decisions or questionable behavior that could impair the Company's financial position, reputation or credibility.	Experienced independent board and diverse executive team work within established structures and governance processes to foster the highest professional and ethical standards; ensure objective and consistent decision making; a clear vision of acceptable behavior (Tone at the Top, Code of Conduct) with appropriate accountability and action.	CEO	Governance Committee of the Board
Strategic Planning	Inappropriate business strategy may result in suboptimal results, lower profitability and potential loss of economic value.	Transparent strategy development and review processes. Extensive due diligence, underwriting, actuarial, legal and financial analyses of opportunities. Strategy is reviewed, approved and assessed periodically by the Board.	CEO	Board of Directors
Investment	Excessive exposure to capital markets risks may lead to a loss of economic value resulting from severe reductions in market values due to significant fluctuations in interest rates, equity prices, credit spreads or defaults.	Prudent investment policy that distinguishes between funds that support reinsurance liabilities and those that support capital. High quality, liquid and diversified portfolio managed within limits imposed by asset class, rating level, industry and issuer. Professional investment operation that is compliant with all best practices and controls.	Chief Financial Officer	Finance & Risk Committee of the Board
Risk Appetite	Assuming inappropriate levels of risk (too much or too little) may lead to failure to achieve the strategic return targets set by Management and the Board, or potential loss of economic value.	Disciplined processes to identify risk classes that are likely to provide targeted risk-adjusted returns across the reinsurance and economic cycles. Establish clear limits to risks that individually, or in the aggregate, could impair the Company's ability to operate as a going concern. Adjust risk appetite within established limits in response to market conditions.	CEO	Board of Directors
Reserving	Inappropriate loss reserves, due to ineffective analytical models, data, reserving strategies or process execution, may expose the Company to significant adverse loss development, impairing our ability to compete effectively.	Establish prudent loss reserves that are, in aggregate, in excess of the actuarial mid-estimate. Well defined policies, processes and controls are executed by an experienced group of actuaries. Regular peer reviews and periodic third party reviews.	Chief Actuarial Officer	Finance & Risk Committee of the Board
Underwriting	Failure to effectively evaluate exposures, or assume risk at adequate prices, terms and conditions may prevent the Company from achieving expected financial results and could impair economic value.	Knowledgeable and experienced underwriters work in multi-disciplinary teams, with pricing actuaries, claims professionals and lawyers, to identify, evaluate, accept and manage profitable risk transfer prospects. Underwriting process includes guidelines, limits, referral requirements and peer reviews.	Business Unit Heads	Finance & Risk Committee of the Board

PartnerRe's Integrated Risk Management framework is designed to clarify and document our risk philosophy, policies, processes and controls. It is a common framework for identifying, evaluating and managing risk across different risk categories and business units and group functions. The framework provides a platform to communicate the potential economic impact of risk on the successful execution of our strategy and objectives across the organization, and ensures risk management activities are aligned to our organizational structure and the way PartnerRe conducts its business.

Top Operational Risks

The Risk	Risk Definition	PartnerRe's Response	Risk Owner	Risk Oversight
Compliance	Failure to comply with laws, regulations and Company policies may result in fines, sanctions, prosecution, adverse publicity or loss of reputation, potentially affecting our ability to compete effectively.	Legal staff in all major offices and external advisors ensure that all applicable laws and regulations are known, understood and followed. Formal compliance process and procedures identify all the filing and legal requirements and necessary actions.	Group Legal Director	Audit Committee of the Board
Financial Reporting	Inaccurate or delayed filing of financial statements; financial statements not compliant with U.S. GAAP, SEC or local statutory requirements, leading to potential restatements, fines and loss of investor confidence.	A financial closing process with multiple levels of technical accounting and management reviews; checklists to ensure all financial statement filing requirements are met. Experienced, highly qualified staff and continuing training programs to ensure all new pronouncements are understood and applied.	Chief Accounting Officer	Audit Committee of the Board
Foreign Exchange	Significant fluctuations in foreign exchange (FX) rates may lead to a loss of economic value due to an ineffective hedging program resulting from ineffective data, analytics, applications, strategies or execution.	The Company reduces FX risk by either matching assets and liabilities by currency or using FX hedging products. A qualified treasury staff monitors currency exposures, evaluates market risks and develops and executes currency hedging strategies.	Group Treasurer	Finance & Risk Committee of the Board
Fraud	Intentional misstatement of the Company's financial statements or management information, or the misuse of assets for personal gain, could expose the Company to fines, civil or criminal prosecution and loss of credibility or reputation, impairing our ability to compete effectively.	Create and maintain an operating environment and culture of good business practice and behavior which fosters compliance with laws, regulations and internal policies and procedures. Code of Conduct and business practices, including how to report potential bad acts, is acknowledged annually by all employees.	Chief Financial Officer	Audit Committee of the Board
Information Technology	Poor systems design or ineffective system security or access controls may lead to compromised, lost or unreliable data, leading to poor business decisions. Systems breakdowns in conjunction with inadequate contingency plans could lead to disruption of business operations.	Effective IT systems design, security policies and controls – including risk mitigation strategies to support business operating requirements in the event of unexpected system outages – ensure a sound and reliable operating environment.	Chief Information Officer	Audit Committee of the Board
Tax	Overly aggressive interpretation and implementation of tax laws could expose the Company to audit adjustments, interest, penalties or civil/criminal prosecution and accompanying reputation risk. An overly conservative approach could result in suboptimal tax strategy.	In-house tax professionals and external advisors ensure awareness and compliance with all significant regulations in the various jurisdictions in which the Company operates. All large transactions require a tax review and concurrence. Operating guidelines established by Group tax department to ensure that everyday business practices do not create tax liabilities.	Group Tax Director	Audit Committee of the Board

Transparency


Structure, process and controls are only as effective as the communication that supports them. PartnerRe is committed to transparency at all levels, inside and outside the organization. What this means to our risk management process is that people have the information they need to make the most informed decisions. We ensure that there is open access to information, and PartnerRe's culture of collaboration across multiple disciplines ensures a high level of information sharing.


Risk Appetite and Tolerance

While our risk management framework addresses all categories of risk and the governance, controls and processes for them, we believe the risks that pose the greatest economic threat to the continuing success of a reinsurance company are assumed risks. They are the reinsurance and capital market risks that we assume for a return. In seeking to limit our assumed risks, we want to protect the Company from downside risk that can have a negative impact on our organization and materially impair our balance sheet. Therefore, we determine our appetite for our assumed risks based on the creation of economic value over time. We determine the level of risk we are willing to assume, based on our tolerance for exposing the capital that our shareholders entrust to us.


We explicitly articulate our risk limits as a numerical expression in internal communications and public disclosure. The limits are both absolute limits as well as limits modeled to losses for different time periods. Over recent years, our risk appetite and our integrated approach to risk and return have been validated by our experience.

Catastrophe Risk Limits


Risk Metric	Aggregate Limit
Maximum aggregate exposure in any single zone on any single peril	\$1.30 billion
Level of Catastrophe exposure as of December 31, 2006	
	
Limit \$1.30 billion	

Risk Metric	Aggregate Appetite
Maximum aggregate appetite for 1-in-75 year aggregate net annual loss for catastrophe	\$950 million
Level of Catastrophe exposure as of December 31, 2006	
	
Limit \$950 million	

Casualty Reserve Risk Limit

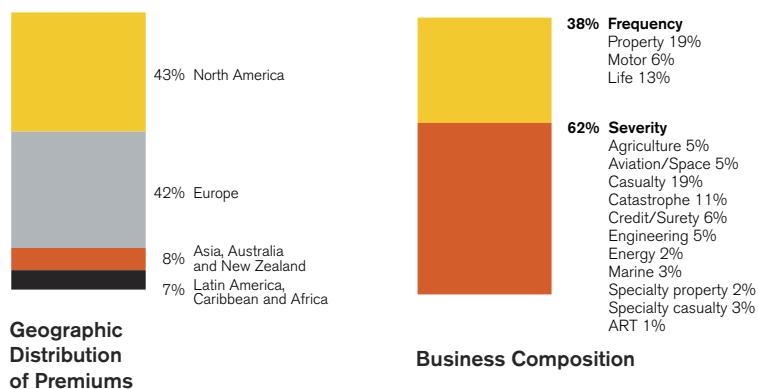
Risk Metric	Absolute Limit
Limit earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	\$3.70 billion
Level of 4-year aggregate long-tail earned premiums as of December 31, 2006	
	
Limit \$3.70 billion	

Equity Investment Risk Limit

Risk Metric	Absolute Limit
Maximum investment in equity and equity-like assets	\$2.55 billion
Level of Equity exposure as of December 31, 2006	
	
Limit \$2.55 billion	

Diversified Portfolio

Diversification is the cornerstone of our risk management and mitigation. We are diversified on a whole host of dimensions and levels: by geography, by business line, by distribution system, and within business units and business lines. And that's just on the reinsurance side. We diversify on the asset side, too, by asset class, industry, geography, currency and security. Being diversified allows us to manage volatility and enhance overall return by mitigating the economic impact of any single event or development. Over the last several years, PartnerRe has created a portfolio well diversified across risks and markets.

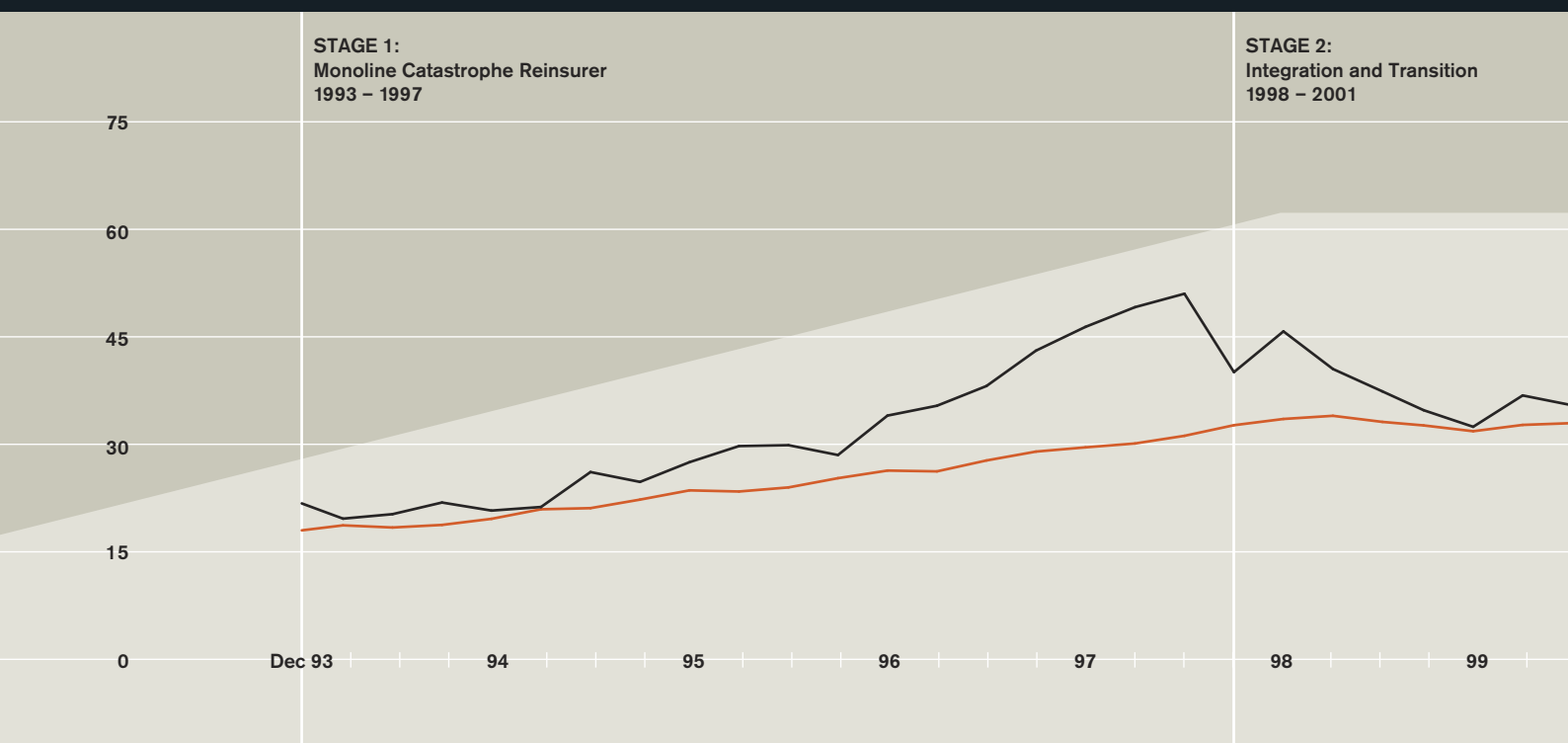


Prudent Capital Management

At PartnerRe, we manage our capital to ensure we are able to cover the risks we assume and to optimize shareholder returns over the cycle. We employ a consistent capital charge methodology across the Group that equates capital to risk, allowing us to evaluate the level of capital required and where returns on capital are most attractive. At the same time, we monitor the level of capital we require to meet all risk scenarios and to preserve our continuity of capacity and risk appetite, and we ensure that we maintain our financial strength with a high quality balance sheet and a prudent reserving philosophy. When our capital needs change, we are able to respond appropriately. An important part of our capital management strategy has been to return capital to our shareholders during the soft phase of the reinsurance cycle, as we did in 2004 and early 2005. Conversely, when capital needs and opportunities exceed our current level of capital, we respond by raising capital, as we did in October 2005.

THE VALUE OF RISK

Share Price and Diluted Book Value per Share Over Three Stages (in U.S. dollars)



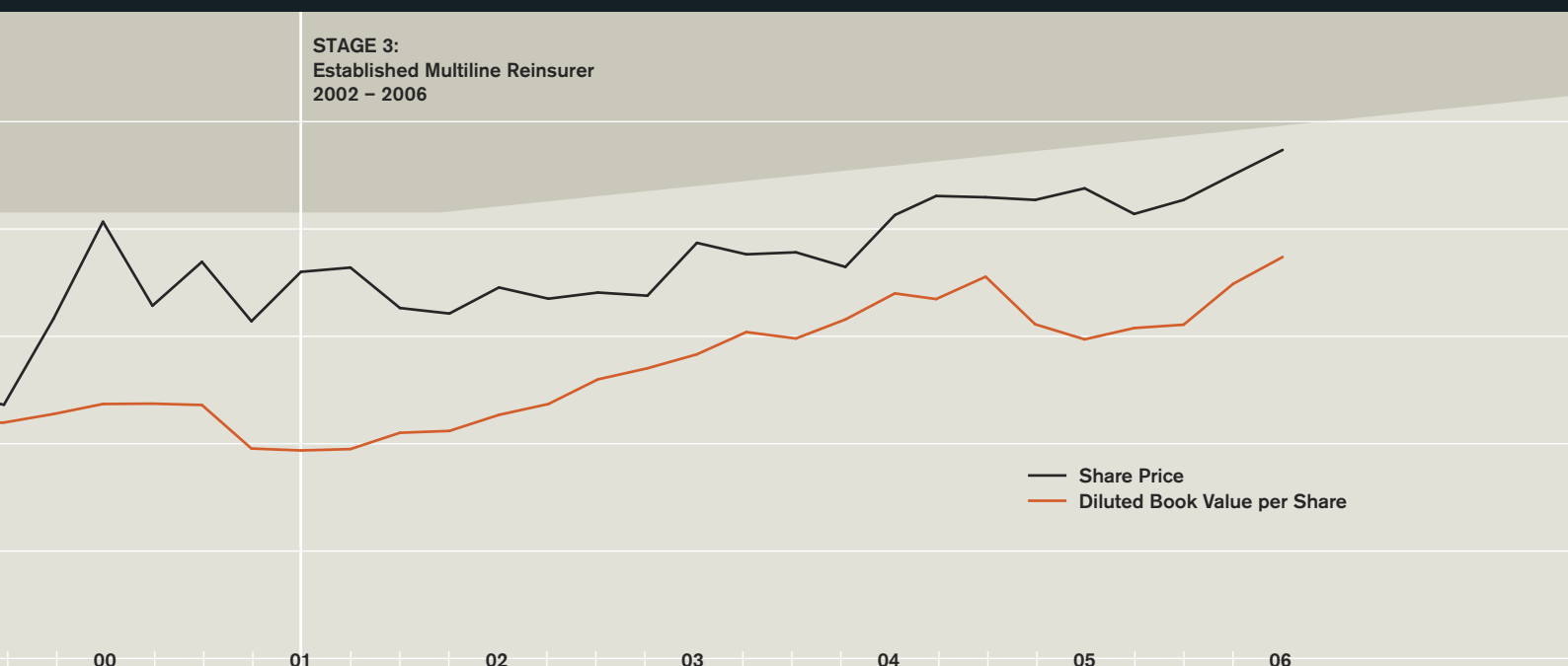
Following the discussions in our previous Annual Reports, “The Business of Risk” (2004) and “Risk Management in Practice” (2005), this year we discuss “The Value of Risk.” We demonstrate how our approach to the assumption and management of risk has created value, and will continue to create value, for our key stakeholders: our clients, our shareholders and our employees.

The business of risk is inherently volatile. Therefore, value creation by a reinsurer cannot be determined through a single measure or assessed over a short period of time. At PartnerRe, we measure our value over several years and across stakeholders. Every major decision we make is made with the interests of our clients, shareholders and employees in mind and under the guidance of three important value drivers: delivering a product of value to our clients, producing an appropriate return to shareholders for the risk assumed, and being a well managed company.

Since 2002, we steadily secured our position as a well diversified reinsurance company. Over this period, the value we have created for our clients, shareholders and employees, through the assumption and management of risk, can be demonstrated both quantitatively and qualitatively. The examples we give here are just a small sample of the many ways in which a reinsurer can create value. For PartnerRe, it is a sample of the actions we take on a daily basis across the organization.

1300 days-term
Operating ROE = 15.5%

STAGE 3:
Established Multiline Reinsurer
2002 – 2006



“Client relationships are best when we understand each other. We’re open, we’re early, we’re responsive.”

Scott Moore
CEO, PartnerRe U.S.

“Capacity, stability and consistency. That’s what clients value in the end, and I think it comes across clearly in the market that we have a reputation for those qualities.”

Bruno Meyenhofer
CEO, PartnerRe Global

A Product of Value

The reinsurance product is based on the assumption and mitigation of the risk and volatility insurers face. A reinsurer transforms the uncertainty presented by the risk into the certainty of claims payment at an appropriate level of premium.

At PartnerRe, we know that our cedants approach their reinsurance needs intelligently, putting quality and value first. We follow three principles to provide value for our clients: we ensure consistent levels of capacity are available for offer; we conduct clear and open dialogue about where we stand in relation to our clients’ needs; and – above all – we maintain an unquestioned ability to pay claims.

Our business model anticipates the possibility of large losses, making sure we are ready to withstand them. We ensure stability through rigorous risk management processes, pricing discipline and strict limits on our potential exposures. We provide further assurance through a strong capital base and a prudent reserving philosophy. To ensure our cedants have an informed opinion of our balance sheet strength and integrity, we have published our reserve triangles and the value of discount in our reserves.

Not only should cedants have the security of knowing that their reinsurers will have the resilience to handle large losses, they should also know their reinsurer will be there at the next renewal, providing capacity in the turmoil that invariably

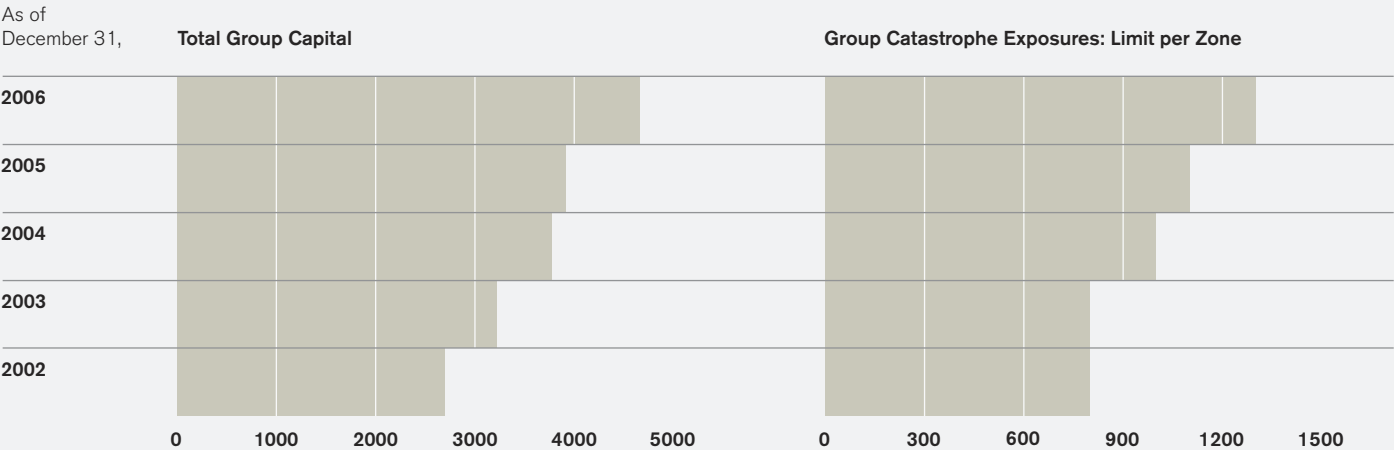
follows such events. We have consistently demonstrated our ability to maintain or increase our capacity after major events. In 2001, following September 11, and again after the storms in 2005, PartnerRe continued to provide substantial capacity where and when it was most needed.

A solid understanding of our clients, their needs and their markets is critical in ensuring a product of value. We align specialized people and resources with our brokers and cedants, where we have the most impact. We engage our clients in discussion about their needs so we can find the most appropriate solutions, and our underwriters and actuaries have the necessary tools and skills to capture the data needed to reach informed decisions.

Through dialogue and openly sharing analysis and data, our cedants have the benefit of an independent view of their risk and an understanding of our risk parameters. When appropriate, we involve our pricing actuaries in discussions with clients, to give further context to how we perceive the exposure we are being asked to reinsure.

These principles are the basis on which we conduct our business – over the past five years and going forward. While we are the tenth largest reinsurer in terms of premiums, our brokers and cedants view us as a top-five reinsurer in both the U.S. and European markets. We view this as an indication that our business partners see value in their relationships with PartnerRe.

Creating Value with an Increasing Risk Appetite (in millions of U.S. dollars)





"The U.S. Government's terrorist insurance legislation, TRIA, and its extension, TRIEA, have presented some unique challenges for many of our clients, especially for smaller companies where the Act provides meaningful protection based on their writings and surplus position. Sometimes their ratings hinge on the continuing protection TRIEA affords. Faced with the risk that Congress may not renew or continue to extend the Act, one such client approached us for help. Although we were unwilling to offer unlimited terrorism exposure, we sat down and discussed the problem with them. The upshot was that we were able to structure a unique reinsurance solution that both satisfied their needs and fit our risk/reward parameters. That's pretty typical for PartnerRe. Through openness and transparency, market expertise, and a willingness to be creative, we can come up with solutions to even the most difficult risk transfer problems."

Dick Sanford
Specialty Casualty Business Unit, PartnerRe U.S.



"At PartnerRe, we view investment risk as an integral part of our core business – the assumption and management of risk to achieve superior return on capital. Assuming capital markets risk provides diversification, helps manage volatility and enhances overall returns. Beginning in 2002, we brought the management of investment-grade fixed-income securities in-house. In 2004, we also began the internal management of equities. Of our \$10.7 billion total of invested assets, we now manage 95% in-house. This allows us to have a more holistic approach to our business, complementing our reinsurance operations with prudent matching of assets to liabilities. It also gives us the highest degree of control over asset allocation decisions. We invest our substantial cash flows for optimum risk-adjusted returns, and minimize risk through diversification across asset classes and stringent internal controls and processes. The result has been superior returns, regularly beating risk-adjusted benchmarks."

John W. Davidson
Head of Investments

Appropriate Risk and Return

We aim to provide our shareholders a fair, risk-adjusted return on their investment. They have a right to expect an appropriate return to compensate them for the risk to which their capital is exposed. At PartnerRe, we create value by intelligently assuming and managing risk, and we use operating return on equity, growth in book value and dividends as measures of that value creation.

For the past five years, we have defined a fair risk-adjusted return as a 13% operating ROE. The key is that 13% is a long-term return goal. We understand that bad years are not “exceptions” in our industry; they are a fact of life. So while we know we’ll make 15–20%+ in the good years, we acknowledge that in the bad years we’ll make much less. Over the long term, we’ve delivered on our promise of a 13% operating return to our shareholders on the capital they’ve invested.

Alongside return, shareholders seek to minimize risk and volatility. To do that effectively, a reinsurer must look at risks, returns and the correlations between risks, and aim to balance our risk appetite with market demand and our return requirements. Like our investors, we manage our business like a portfolio. The goal is a portfolio that’s going to have the highest risk/return offering within an acceptable

level of volatility. We’ve deliberately built a broad-based portfolio, including Non-life, Life, investments and alternative risks, which is further diversified by line and geography to help absorb the impact of individual losses, adding to the stability of our earnings and our capacity. We believe we have the ability to generate at least 300 basis points above the industry average shareholder returns, with a volatility that is only marginally higher than the average.

Shareholders rely on the information that companies provide in order to make investment decisions. PartnerRe aims to deliver value in all our communications, with a focus on integrity, consistency and transparency. The quality of our information gathering allows us to communicate information to our shareholders very quickly, with a high level of accuracy. We are one of the first to talk about large losses and have been consistently accurate in our initial loss estimates. In addition to measured and intelligent commentary on the industry in general, we have built a reputation for credibility and transparency. We have been open about our level of risk assumed and our limits on catastrophe, casualty and equity risk. In 2006, we published our reserve triangles. We believe all of this is very relevant information when assessing balance sheet strength and integrity.

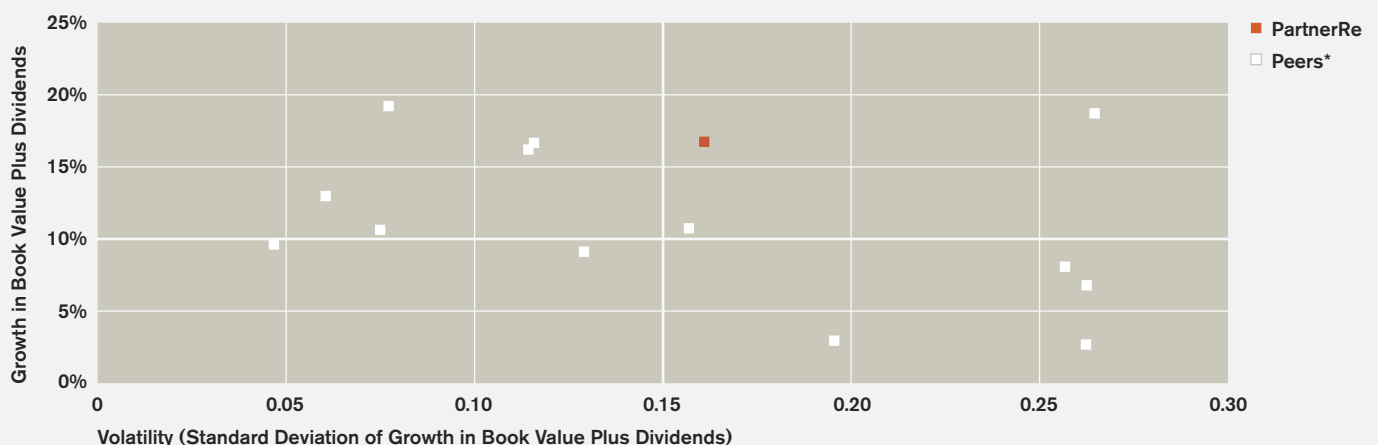
“We don’t think about return without thinking about risk. To gain an understanding of our own risk/return profile, we look at three things – the expected return, the volatility around the return, and the tail factor of the risk itself.”

Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.

“We use diversification on multiple levels. The more revenue we can develop at an adequate price level from non-correlating zones, the better positioned we are to have the capacity to absorb losses without impairing capital. This is key to value creation.”

Bruno Meyenhofer
CEO, PartnerRe Global

The Risk and Return Profile of the Reinsurance Industry (December 31, 2001 – December 31, 2006)



* The group includes: Arch Capital, Axis Capital, Endurance Specialty, Everest Re, Berkshire Hathaway, Hannover Re, IPCRe, Montpelier Re, Munich Re, RenaissanceRe, Swiss Re, Transatlantic, and XL Capital.

“We have rigorous processes. While actuarial pricing input is required on every account we authorize, the underwriter has the ultimate decision-making authority, so there is clear accountability. The whole process positions us to demonstrate that we understand the business, we understand the risk, and we provide informed terms and conditions.”

Scott Moore
CEO, PartnerRe U.S.

“We have the right people in place. Not even the best strategy stands a chance of success without the right people to execute it. They need to be able to perform at the highest level, with integrity, credibility and trust, and we have created an environment that fosters these qualities.”

Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.

A Well Managed Company

While a strong balance sheet is the backbone of any reinsurer’s success, its human capital must provide the value that clients and shareholders seek. We count on our people’s skills and judgment to assume and manage the risks that produce profitable returns. In return, we must be a well managed company with a positive work environment, where employees can grow, develop their careers and be rewarded for their performance.

It is our intention to be a world-class organization with a stable and committed workforce, a fully institutionalized business unit culture, and an internal pool of talent from which the majority of our key leadership positions are filled. We believe we have fulfilled that vision. For the past five years, we have created organizational stability with our business unit structure that has not changed since it was established.

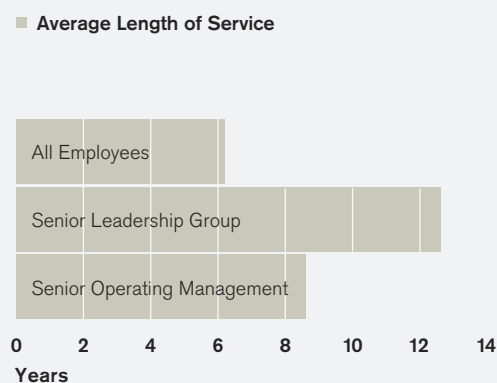
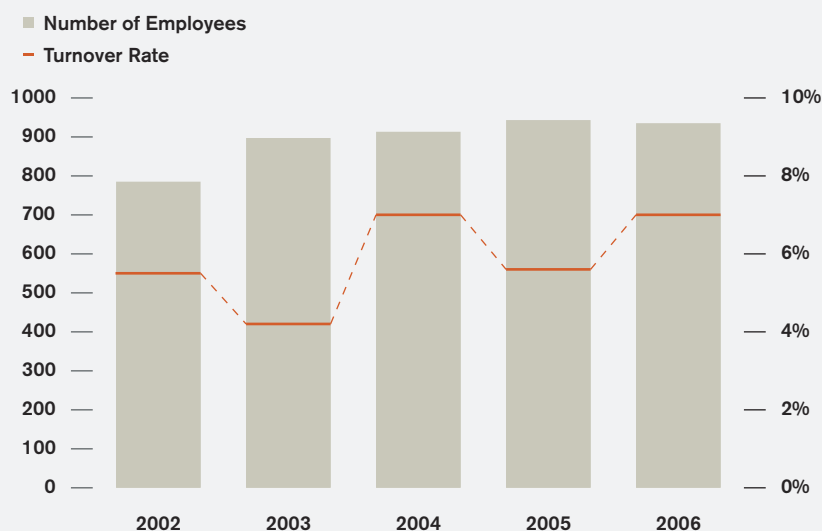
In the same period, we have focused on developing and retaining our people. For our leadership team, we use platforms such as our Senior Leadership Conference to support this commitment. We understand that being open and transparent with the people who make strategic and tactical decisions not only develops a culture of trust, but drives accountability down through the organization. People who feel valued stay with the Company, and long-term employees, familiar with

PartnerRe and its clients, provide continuity, stability and consistency. We keep our people even if we reduce the top line. This is key to effectively managing the cycles in our industry – it drives the right behavior, as it ensures internal integrity and transparency are not compromised by worries over meeting short-term goals.

An appropriate governance structure is essential to being a well managed company. It ensures there is clarity of roles and responsibility, and accountability for results. We have policies and processes in place for everything from risk management, reserves and underwriting to communications, HR and IT. Our business unit organization and our governance structure are aligned. Each business unit has a distinct strategy that supports the Company’s overall strategy. Capital allocations and budgets are unit-specific and driven by market conditions, terms and pricing. As a result, when markets change, the affected business units can respond quickly, reallocating capital and talent where needed to follow the best opportunities.

We believe in investing in our human capital, recognizing that the potentially higher expense ratio is offset by lower losses and enhanced profitability. Because at the end of the day, in addition to a skilled, motivated and seasoned workforce, we and our shareholders have been compensated for that expense with better book value growth.

Continuity of Human Capital





“Being a well managed company means having appropriate governance and processes, so that there’s a clear framework for decision-making and accountability. But that formal structure cannot work without the informal process of internal dialogue as well. Both come into play when allocating catastrophe capacity. The Board sets our overall appetite for catastrophe risk. The CEO and Executive Committee determine how much they want to use of that capacity. Feedback on market conditions from the Catastrophe and other business units, including Specialty, ART and U.S. P&C helps to determine how much we can deploy in a given market. We have an Exposure Control group that monitors aggregates and capacity allocation between the business units, and keeps us regularly advised. But the business unit leaders are constantly talking about the markets – as opportunities come up, we first informally discuss shifting capacity, and then go through the formal process with Exposure Control. We all use the same metric – ROE – so we can shift capacity to where it will be most effective, while still being conscious of our position in the market. Good communication and mutual trust between colleagues is essential so that we are all working for the good of the Company.”

Tad Walker
Head of Catastrophe

Reconciliation of Non-GAAP Measures

(expressed in millions of U.S. dollars, except per share data)

2002	2003	2004	2005	2006	
\$ 190	\$ 468	\$ 492	\$ (51)	\$ 749	Net income (loss)
					Less:
(17)	80	78	157	46	Net realized investment (losses)
20	30	21	35	35	gains, net of tax
					Dividends to preferred shareholders
\$ 187	\$ 358	\$ 393	\$ (243)	\$ 668	Operating earnings (loss)
					available to common shareholders
\$ 3.28	\$ 8.13	\$ 8.71	\$ (1.56)	\$ 12.37	Diluted net income (loss)
					per common share
					Less:
(0.32)	1.48	1.44	2.86	0.81	Net realized investment (losses)
					gains per common share
\$ 3.60	\$ 6.65	\$ 7.27	\$ (4.42)	\$ 11.56	Diluted operating earnings (loss)
					per common share
11.4%	24.0%	20.4%	(3.0)%	27.8%	Return on beginning common shareholders' equity
					calculated with net income (loss)
					Less:
(1.1)	4.4	3.4	5.6	1.8	Net realized (losses) gains,
					net of tax
12.5%	19.6%	17.0%	(8.6)%	26.0%	Operating return on beginning
					common shareholders' equity
\$ 2,077	\$ 2,594	\$ 3,352	\$ 3,093	\$ 3,786	Shareholders' equity
					Less:
250	—	—	—	—	Liquidation value of Series A cumulative preferred shares
—	290	290	290	290	Liquidation value of Series C cumulative preferred shares
—	—	230	230	230	Liquidation value of Series D cumulative preferred shares
\$ 1,827	\$ 2,304	\$ 2,832	\$ 2,573	\$ 3,266	Common shareholders' equity
					Less:
132	85	96	5	(19)	Net unrealized gains (losses) on fixed income securities,
					net of tax
\$ 1,695	\$ 2,219	\$ 2,736	\$ 2,568	\$ 3,285	Book value excluding net unrealized gains (losses)
					on fixed income securities
53.7	54.2	55.5	57.7	58.2	Divided by:
					Number of diluted common shares outstanding
					Equals:
\$ 31.57	\$ 40.90	\$ 49.27	\$ 44.49	\$ 56.39	Diluted book value per common and common
					equivalent share excluding net unrealized gains (losses)
					on fixed income securities

Certain statements contained in this document, including Management's Discussion and Analysis, may be considered forward-looking statements as defined in section 27A of the United States Securities Act of 1933 and section 21E of the United States Securities Exchange Act of 1934. Forward-looking statements are made based upon Management's assumptions and expectations concerning the potential effect of future events on the Company's financial performance and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are subject to certain significant risks, uncertainties and assumptions about our business that could cause actual results to differ materially from those reflected in such statements. These risks, uncertainties and assumptions are described in more detail in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission on March 1, 2007.

The words "believe," "anticipate," "estimate," "project," "plan," "expect," "intend," "hope," "forecast," "evaluate," "will likely result" or "will continue" or words of similar impact generally involve forward-looking statements. We caution readers not to place undue reliance on these forward-looking statements, which speak only as of their dates. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

Selected Consolidated Financial Data

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

The following Selected Consolidated Financial Data is presented in accordance with accounting principles generally accepted in the United States. This data should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements.

For the year ended December 31, 2002	2003	2004	2005	2006	Statement of Operations Data
\$ 2,706	\$ 3,625	\$ 3,888	\$ 3,665	\$ 3,734	Gross premiums written
2,655	3,590	3,853	3,616	3,689	Net premiums written
\$ 2,426	\$ 3,503	\$ 3,734	\$ 3,599	\$ 3,667	Net premiums earned
245	262	298	365	449	Net investment income
(7)	87	117	207	47	Net realized investment (losses) gains
6	21	17	35	24	Other income
2,670	3,873	4,166	4,206	4,187	Total revenues
1,716	2,366	2,476	3,087	2,111	Losses and loss expenses and life policy benefits
2,450	3,381	3,673	4,244	3,355	Total expenses
220	492	493	(38)	832	Income (loss) before distributions related to trust preferred and mandatorily redeemable preferred securities, taxes and interest in earnings of equity investments
27	22	—	—	—	Distributions related to trust preferred and mandatorily redeemable preferred securities
3	2	7	23	95	Income tax expense
—	—	6	10	12	Interest in earnings of equity investments
\$ 190	\$ 468	\$ 492	\$ (51)	\$ 749	Net income (loss)
\$ 3.37	\$ 8.23	\$ 8.80	\$ (1.56)	\$ 12.58	Basic net income (loss) per common share
\$ 3.28	\$ 8.13	\$ 8.71	\$ (1.56)	\$ 12.37	Diluted net income (loss) per common share
\$ 1.15	\$ 1.20	\$ 1.36	\$ 1.52	\$ 1.60	Dividends declared and paid per common share
Non-life Ratios					
69.3%	65.6%	65.4%	86.9%	55.1%	Loss ratio
22.0	22.2	23.0	23.1	23.1	Acquisition ratio
5.5	5.5	5.9	5.9	6.4	Other operating expense ratio
96.8%	93.3%	94.3%	115.9%	84.6%	Combined ratio
December 31, 2002	2003	2004	2005	2006	Balance Sheet Data
\$ 5,185	\$ 6,797	\$ 8,398	\$ 9,579	\$ 10,679	Total investments and cash
8,548	10,903	12,680	13,744	14,948	Total assets
4,474	5,917	7,044	7,962	8,301	Unpaid losses and loss expenses and policy benefits for life and annuity contracts
220	220	220	620	620	Long-term debt
—	—	—	—	258	Debt related to capital efficient notes
—	206	206	206	—	Debt related to trust preferred securities
200	200	—	—	—	Mandatorily redeemable preferred securities
200	—	—	—	—	Trust preferred securities
2,077	2,594	3,352	3,093	3,786	Shareholders' equity
\$ 34.02	\$ 42.48	\$ 50.99	\$ 44.57	\$ 56.07	Diluted book value per common and common share equivalents
51.9	53.9	54.0	55.0	57.8	Weighted average number of common and common share equivalents outstanding
52.4	53.7	54.9	56.7	57.1	Number of common shares outstanding

The Company adopted SFAS 150 and FIN46(R) in 2003. (See Note 2 to Consolidated Financial Statements.)

Executive Overview

The Company is a leading global reinsurer with a broadly diversified portfolio of risks. The Company writes all lines of business in virtually all markets worldwide, and differentiates itself through its approach to risk, its strategy to manage risk, and its financial strength. Through its broad product and geographic diversification, its excellent execution capabilities, and its local presence in most major markets, the Company is able to respond quickly to market needs, and capitalize on business opportunities virtually anywhere in the world.

Reinsurance is by its nature a risk assumption business. The Company's philosophy is to assume its clients' risks, thereby removing the volatility associated with these risks, and then manage those risks and the risk-related volatility. The Company's ability to succeed in the risk assumption business is dependent on its ability to accurately analyze and quantify risk, to understand volatility and how risks aggregate or correlate, and to establish the appropriate capital requirements and absolute limits for the risks assumed.

The reinsurance markets have historically been highly cyclical in nature. The cycle is driven by competition, the amount of capital and capacity in the industry, loss events, and investment returns. The Company's long-term strategy to generate shareholder value focuses on broad product and geographic diversification of risks, assuming a moderately greater degree of risk than the market average, actively managing its capital across its portfolio and over the duration of the cycle, adding value through underwriting and transactional excellence, and achieving superior returns on invested assets in the context of a disciplined risk framework.

The Company generates its revenue primarily from premiums. Premium rates and terms and conditions vary by line of business depending on market conditions. Pricing cycles are driven by supply and demand, and the amount of capital in the industry. The reinsurance business is also influenced by several other factors including variations in interest rates and financial markets, changes in legal, regulatory and judicial environments, loss trends, inflation and general economic conditions. Throughout the late 1990s, the industry's operating profitability and cash flows declined as a result of declining prices, a deterioration in terms and conditions and increasing loss costs. These negative trends were, however, offset by high investment returns that led to continued growth in capital. Premium rates began to increase in 2001, when the large loss events of that year, including the September 11 tragedy and the Enron bankruptcy, in addition to steep declines in interest rates and equity values, added to the pressure for improvements in pricing and underwriting conditions. In January 2002 through the middle of 2003, the Company experienced the strongest renewal seasons in over five years.

In the second half of 2003, the Company began to see a flattening in the rate of improvements in the terms and conditions of the most profitable lines and a slower rate of improvement in those lines that had not yet reached their peak in terms of profitability. From the middle of 2003 to the end of 2004, this resulted in a slower growth rate in pricing, although there was good pricing discipline in the industry.

During 2005, pricing was generally flat to down, except for those lines specifically affected by the 2004 hurricanes, and led to a reduction in premiums written by the Company in 2005. However, 2005 eventually developed into the worst year in the history of the industry in terms of catastrophe losses, with Hurricane Katrina, which devastated the Gulf Coast in late August, being the largest insured event ever. The catastrophic events of 2005, which included two other significant Atlantic hurricanes, Rita and Wilma, as well as a significant winterstorm and a flood in Europe, followed an unusually active Atlantic hurricane season

in 2004. Consequently, the Company observed in 2006 strong pricing increases in the lines and geographies that were affected by the large 2005 catastrophic loss events, including catastrophe covers in the southeastern U.S. and in the U.S. property and energy lines. Pricing in other lines was generally stable.

During the January 1, 2007 renewals, the Company observed strong pricing in U.S. wind-exposed lines, while all other lines saw pricing declines. There was a significant increase in risk retention by cedants, as well as a trend to restructure proportional business to a non-proportional basis, which reduced the overall amount of premiums in the reinsurance marketplace. Nevertheless, the Company wrote a considerable amount of new business during the January 1, 2007 renewals and believes it has maintained profitability on business renewed. While facing the changes in market conditions, the Company has not changed its strategy or approach to business and continues to be opportunistic in writing business in its property, casualty and specialty lines. The Company also continues to maintain balance and diversification in its overall portfolio and to maintain its focus on growth in its Life and ART business segments.

Within the Company's Life segment, the reinsurance market is differentiated between mortality and longevity products, with mortality being the largest market and longevity being smaller, but growing. For the mortality markets in which the Company writes business, the Company observed stable pricing for continental Europe and Latin America. In contrast, there are much more competitive conditions in the U.K. and Ireland, and while these two markets remain attractive, appropriate risk selection and pricing is important.

The prevailing competitive environment in which most of the ART products are written is currently characterized by high liquidity, high asset valuations, and low credit spreads. This environment has been in place for the last few years and has limited organic growth opportunities. The Company's response has been to continue to apply underwriting discipline, opportunistically grow in existing classes, and selectively expand its scope to new niche asset classes. In addition to providing more opportunities for profitable growth, this expansion strategy has increased the diversification with the ART segment, and positioned the Company to participate in the next cyclical correction in the nontraditional credit markets.

A key challenge facing the Company is to successfully manage through the less profitable portion of the reinsurance cycle. The Company is confident in its long-term strategy, and believes that by closely monitoring the progression of each line of business, being selective in the business that it writes, and maintaining the diversification and balance of its portfolio, it will continue to optimize returns. Individual lines of business and markets have their own unique characteristics and are at different stages of the reinsurance pricing cycle at any given point in time. Management believes it has achieved appropriate portfolio diversification by product, geography, line and type of business, length of tail, and distribution channel, and that this diversification, in addition to the financial strength of the Company and its strong global franchise, will help to mitigate cyclical declines in underwriting profitability and to achieve a more balanced return over time.

The Company also generates revenue from its substantial and high quality investment portfolio. The Company follows prudent investment guidelines through a strategy that seeks to maximize returns while managing investment risk in line with the Company's overall objectives of earnings stability and long-term book value growth. Liability funds are used to support the Company's net reinsurance liabilities, defined as the Company's operating and reinsurance liabilities, net of reinsurance assets, and are invested in a way that generally matches them to the corresponding liabilities in terms of both duration and

currency composition to protect the Company against changes in interest and foreign exchange rates. The Company invests the liability funds in high-quality fixed income securities with the primary objective of preserving liquidity and protecting capital. Capital funds are invested to achieve total returns that enhance growth in shareholders' equity and are invested in investment-grade and below investment-grade fixed income securities and equity instruments. A key challenge for the Company is achieving the right balance between current investment income and total returns (that include price appreciation or depreciation) in changing market conditions. The Company regularly reviews the allocation of investments to asset classes within its investment portfolio and reallocates investments to those asset classes the Company anticipates will outperform in the near future, subject to limits and guidelines. The Company may also lengthen or shorten the duration of its fixed income portfolio in anticipation of changes in interest rates, or increase or decrease the amount of credit risk it assumes, depending on credit spreads and anticipated economic conditions.

In addition to revenues generated from its underwriting operations and investment activities, the Company's profitability is significantly affected by the level of its losses and loss expenses incurred. The Company recognizes losses and loss expenses on the basis of actual and expected claims on business written. The Company's non-life net reserve position at December 31, 2006 was \$6.7 billion. Management believes that it follows prudent reserving policies in pursuit of a strong financial position. A key challenge for the Company is the accurate estimation of loss reserves for each line of business, which is critical in order to accurately determine the profitability of each line and allocate the optimal amount of capital to each line. The risk for the Company is that it will allocate too much of its capital to one or more lines of business that are less profitable than anticipated, and not enough capital to those lines of business that eventually prove to be more profitable.

Key Financial Measures

In addition to the Consolidated Balance Sheets and Consolidated Statement of Operations and Comprehensive Income (including net income), Management uses three key measures to evaluate its financial performance, as well as the overall growth in value generated for the Company's common shareholders.

Diluted Book Value per Share

Management uses diluted book value per share growth as a prime measure of the value the Company is generating for its common shareholders, as Management believes that growth in the Company's diluted book value per share ultimately translates into growth in the Company's stock price. Diluted book value per share is calculated using common shareholders' equity (shareholders' equity less the liquidation value of preferred shares) divided by the number of fully diluted shares outstanding. Diluted book value per share is impacted by the Company's net income and external factors such as interest rates, which can drive changes in unrealized gains or losses on its investment portfolio. Since December 31, 2001, the Company has generated a compound annual growth rate in diluted book value per share in excess of 14%.

ROE

Management uses operating return on beginning shareholders' equity (ROE) as a measure of profitability that focuses on the return to common shareholders. It is calculated using net operating earnings (loss) available to common shareholders (net income excluding after-tax net realized gains or losses on investments and preferred share dividends) divided by beginning common shareholders' equity. Management has set a minimum 13% ROE target over the reinsurance cycle, which Management believes provides an attractive return to shareholders for the risk assumed. Each business unit and support department

throughout the Company is focused on seeking to ensure that the Company meets the 13% return objective. This means that most economic decisions, including capital allocation and underwriting pricing decisions, incorporate an ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is allocated to each transaction for determining the transaction's ROE. Subject to an adequate return for the risk level as well as other factors, such as the contribution of each risk to the overall risk level and risk diversification, capital is allocated to the transactions generating the highest ROE. Management's challenge consists of (i) allocating an appropriate amount of capital to each transaction based on the incremental risk created by the transaction, (ii) properly estimating the Company's overall risk level and the impact of each transaction to the overall risk level, and (iii) assessing the diversification benefit, if any, of each transaction. The risk for the Company lies in mis-estimating any one of these factors, which are critical in calculating a meaningful ROE, and entering into transactions that do not contribute to the Company's 13% ROE objective.

Combined Ratio

The combined ratio is used industry-wide as a measure of underwriting profitability for Non-life business. The combined ratio is the sum of the technical ratio (losses and loss expenses and acquisition costs divided by net premiums earned) and the other operating expense ratio (other operating expenses divided by net premiums earned). A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and other operating expenses are less than the premiums earned on that business. While an important metric of success, the combined ratio does not reflect all components of profitability, as it does not recognize the impact of interest income earned on premiums between the time premiums are received and the time losses payments are ultimately made to clients. Since 2001, the Company has had four years of underwriting profitability reflected in combined ratios of less than 100% for its Non-life segment. In 2005, when the industry recorded its worst year in history in terms of catastrophe losses, with Hurricane Katrina, which devastated the Gulf Coast, being the largest insured event ever, the Company recorded a net underwriting loss as a result of the significant catastrophic loss events that year and that was reflected in the Company's Non-life combined ratio of 115.9%. The key challenge for maintaining a profitable combined ratio consists of (i) focusing on underwriting profitable business even in the weaker part of the reinsurance cycle, as opposed to growing the book of business at the cost of profitability, (ii) diversifying the portfolio to achieve a good balance of business, with the expectation that underwriting losses in certain lines or markets may potentially be offset by underwriting profits in other lines or markets, and (iii) maintaining control over expenses.

Other Key Issues of Management

Enterprise Culture

Management is focused on ensuring that the structure and culture of the organization promote intelligent, prudent, transparent and ethical decision-making. Management believes that a sound enterprise culture starts with the tone at the top. The Executive Management holds regular company-wide information sessions to present and review Management's latest decisions, whether operational, financial or structural, as well as the financial results for the Company. Employees are encouraged to address questions related to the Company's results, strategy or Management decisions, either anonymously or otherwise to Management so that they can be answered during these information sessions. Management believes that these sessions provide a consistent message to all employees about the Company's value of transparency. Management also strives to promote a work environment that (i) aligns the skill set of individuals with challenges encountered by the Company, (ii) includes segregation

of duties to ensure objectivity in decision making, and (iii) provides a compensation structure that encourages and rewards intelligent and ethical behavior. To that effect, the Company has a written Code of Business Conduct and Ethics and provides employees with a direct communication channel to the Audit Committee in the event they become aware of questionable behavior of Management or anyone else. Finally, Management believes that building a sound internal control environment, including a strong internal audit function, helps ensure that behaviors are consistent with the Company's cultural values.

Capital Adequacy

A key challenge for Management is to maintain an appropriate level of capital. Management's first priority is to hold sufficient capital to meet all of the Company's obligations to cedants, meet regulatory requirements, and support its position as one of the stronger reinsurers in the industry. Holding an excessive amount of capital, however, will reduce the Company's ROE. Consequently, Management closely monitors its capital needs and capital level throughout the cycle, and actively takes steps to increase or decrease the Company's capital in order to achieve the proper balance of financial strength and shareholder returns. Capital management is achieved by either deploying capital to fund attractive business opportunities, or in times of excess capital, returning capital to shareholders by way of share repurchases and dividends.

Liquidity and Cash Flows

The Company aims to be a reliable and financially secure partner to its cedants. This means that the Company must maintain sufficient liquidity at all times so that it can support cedants by settling claims quickly. The Company generates cash flows primarily from its underwriting and investment operations. Management believes that a profitable, well-run reinsurance organization will generate sufficient cash from premium receipts to pay claims, acquisition costs and operating expenses in most years. To the extent that underwriting cash flows are not sufficient to cover operating outflows in any year, the Company may utilize cash flows generated from investments and may ultimately liquidate assets from its investment portfolio. Management ensures that its liquidity requirements are supported by maintaining a high-quality, well-balanced and liquid portfolio, and by matching the duration of its investment portfolio with that of its net reinsurance liabilities. In 2007, the Company expects to continue to generate positive operating cash flows. Management also maintains credit facilities with banks that can provide efficient access to cash in the event of an unforeseen cash requirement.

Risk Management

A key challenge in the reinsurance industry is to create economic value through the intelligent assumption of reinsurance and investment risk, but also to limit or mitigate those risks that can destroy tangible as well as intangible value. Management believes that every organization faces numerous risks that could threaten the successful achievement of a company's goals and objectives. These include choice of strategy and markets, economic and business cycles, competition, changes in regulation, data quality and security, fraud, business interruption and management continuity; all factors which can be viewed as either strategic or operational risks that are common to any industry. (See Risk Factors in Item 1A of the Company's report on form 10-K). In addition to these risks, the Company operates as an assumer of risk and its results are primarily determined by how well the Company understands, prices and manages risk. While many industries and companies start with a return goal and then attempt to shed risks that may derail that goal, the Company starts with a capital-based risk appetite and then looks for risks that meet its return targets within that framework. Management believes that this construct allows the Company to balance the

cedants' need for absolute certainty of claims payment with shareholders' need for an adequate return on their capital.

The Company's risk management framework encompasses all the risks faced by the Company: the strategic risks that it shares with the rest of the reinsurance industry, assumed risks (the reinsurance and capital market risks that it is paid to assume) and the operational risks that are a part of running any business. Management identifies and categorizes risks in terms of their source, their impact on the Company and the preferred strategies for dealing with them. It takes an integrated approach, because it is impossible to manage any of these risks in isolation. There are interrelationships and dependencies between the various categories of risk. Each must be viewed in the context of the whole if their potential impact on the organization is to be fully understood and effectively managed.

The Executive Management and the Board are responsible for managing strategic risks and setting key risk policies and limits. The Board approves maximum limits as a percentage of the Company's economic value, while the Executive Management operates at levels equal to or lower than the maximum limits approved by the Board, depending on current market conditions and the distribution of the Company's portfolio of risks. The strategic risks include the direction and governance of the Company, as well as its response to key external factors faced by the reinsurance industry. Operational risks are managed by designated functions within the organization. They include failures or weaknesses in financial reporting and controls, non-compliance, poor cash management, fraud, breach of information technology security and reliance on third party vendors. The Company seeks to minimize these risks through robust processes and controls. Controls and monitoring processes throughout the organization seek to ensure that the Executive Management and the Board have a comprehensive view of the Company's risks and related mitigation strategies at all times. Individual business units manage assumed risks, subject to the limits and policies established by the Executive Management and the Board. These are the reinsurance risks that the Company's clients want to transfer and are the core of the Company's business. They also include the capital market risks that the Company assumes in the investment of its assets.

At a strategic level, the Company manages these risks through diversification and absolute limits. At an operational level, risk mitigation strategies for assumed risks include strong processes, technical risk assessment and collaboration among different groups of professionals who each contribute a particular area of expertise.

The Company maintains a risk appetite moderately above the average of the reinsurance market because Management believes that this position offers the best potential for creating shareholder value at an acceptable risk level. The most profitable products generally present the most volatility and potential downside risk. The Company manages that risk through diversification and absolute limits on any one risk. The Company accepts that results on a quarterly basis may be volatile; however, it seeks to protect itself from downside risk that can materially impair its balance sheet. The limits imposed represent the boundaries of risk tolerance and are based on the amount of capital that may be lost.

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

There are three areas of risk that the Company has currently identified as having the greatest potential for shock losses. These are catastrophe, reserving for casualty and other long-tail lines, and equity investment risk. The Company manages the risk of shock losses by setting limits on its tolerance for specific risks and on the amount of capital that it is willing to expose to such risks. The Company establishes limits to manage the absolute maximum foreseeable loss from any one event and considers the possibility that several shock losses could occur at one time, for example a major catastrophe event accompanied by a collapse in the equity markets. Management believes that the limits that it has placed on shock losses will allow the Company to continue writing business in such an event.

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

Catastrophe Risk

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

The Company imposes an absolute limit to catastrophe risk from any single loss through exposure limit caps in each zone and to each peril, with the largest zonal limit set at a maximum of \$1.3 billion, compared to an actual of \$1.3 billion, as of December 31, 2006. This risk is managed through the real time allocation of catastrophe exposure capacity on each exposure zone to different business units, regular modeling of aggregate loss scenarios through proprietary models, and a combination of quantitative and qualitative analysis. A zone is a geographic area in which the insurance risks are considered to be correlated to a single catastrophic event. Not all zones have the same limit and zones are broadly defined so that it would be highly unlikely for any single event to substantially erode the aggregate exposure limits from more than one zone. Even extremely high severity/low likelihood events will only partially exhaust the limits in any zone, as they are likely to only affect a part of the area covered by a wide zone.

The Company also manages its exposures so that the chance that an economic loss to the Company from all catastrophe losses in any one year exceeds \$950 million has a modeled probability of occurring less than once in 75 years. To measure this probability, the Company uses proprietary models that take into account not only the exposures in any zone, but also the likely frequency and severity of catastrophic events. This quantitative analysis is supplemented with the professional judgment of experienced underwriters. At December 31, 2006, the modeled economic loss to the Company from a one in 75 year catastrophic loss was \$650 million.

Casualty Reserving Risk

The Company defines this risk as the risk that the estimates of ultimate losses that underlie its booked reserves for casualty and other long-tail lines will prove to be too low, leading to substantial reserve strengthening. The tolerance set by the Company for this risk is measured using total earned premium for casualty and other long-tail lines. Total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods was set at a maximum of \$3.7 billion, compared to an actual of \$3.0 billion, as of December 31, 2006.

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

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

Equity Investment Risk

The Company defines this risk as the risk of a substantial decline in the value of its equity and equity-like securities (defined as all securities other than investment-grade securities) during the year. The tolerance set by the Company for this risk is measured using the value of equity and equity-like securities as a percentage of available economic capital and was set at a maximum of \$2.55 billion, compared to an actual of \$1.6 billion, as of December 31, 2006. Assuming equity risk (and equity-like risks such as high yield bonds and convertible securities) within that part of the investment portfolio that is not required to support liability funds provides valuable diversification from other risk classes, along with the potential for higher returns. However, an overweight position could lead to a large loss of capital and impair the balance sheet in the case of a market crash. The Company sets strict limits on investments in any one name and any one industry, which creates a diversified portfolio and allows Management to focus on the systemic effects of equity risks. Systemic risk is managed by asset allocation, subject to strict caps on other than investment-grade bonds as a percentage of capital. The Company's fully integrated information system provides real-time data on the investment portfolios, allowing for continuous monitoring and decision-support. Each portfolio is managed against a pre-determined benchmark to enable alignment with appropriate risk parameters and achievement of desired returns. See Quantitative and Qualitative Disclosures about Market Risk – Equity Price Risk.

Critical Accounting Policies and Estimates

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The following presents a discussion of those accounting policies and estimates that Management believes are the most critical to its operations and require the most difficult, subjective and complex judgment. If actual events differ significantly from the underlying assumptions and estimates used by Management, there could be material adjustments to prior estimates that could potentially adversely affect the Company's results of operations, financial condition and liquidity. These critical accounting policies and

estimates should be read in conjunction with the Company's Notes to Consolidated Financial Statements, including Note 2, Significant Accounting Policies, for a full understanding of the Company's accounting policies. The sensitivity estimates that follow are based on outcomes that the Company considers reasonably likely to occur.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

Because a significant amount of time can elapse between the assumption of risk, occurrence of a loss event, the reporting of the event to an insurance company (the primary company or the cedant), the subsequent reporting to the reinsurance company (the reinsurer) and the ultimate payment of the claim on the loss event by the reinsurer, the Company's liability for unpaid losses and loss expenses (loss reserves) is based largely upon estimates. The Company categorizes loss reserves into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACRs) and incurred but not reported (IBNR) reserves. Case reserves represent unpaid losses reported by the Company's cedants and recorded by the Company. ACRs are established for particular circumstances where, on the basis of individual loss reports, the Company estimates that the particular loss or collection of losses covered by a treaty may be greater than those advised by the cedant. IBNR reserves represent a provision for claims that have been incurred but not yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves and ACRs. Unlike case reserves and ACRs, IBNR reserves are often calculated at an aggregated level and cannot usually be directly identified as reserves for a particular loss or treaty. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants. The Company also estimates the future unallocated loss adjustment expenses (ULAE) associated with the loss reserves and these form part of the Company's loss adjustment expense reserves. The Company's Non-life loss reserves for each category, line and sub-segment are reported in the tables included later in this section.

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tail lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tail lines. In general, for reinsurance, the time lags are longer than for primary business due to the delay that occurs between the cedant becoming aware of a loss and reporting the information to its reinsurer(s). The delay varies by reinsurance market (country of cedant), type of treaty, whether losses are paid by the cedant and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer. For both short and long-tail lines, the Company's objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACRs from total loss reserves.

The Company analyzes its ultimate losses and loss expenses after consideration of the loss experience of various reserving cells. The Company assigns treaties to reserving cells and allocates losses from the treaty to the reserving cell. The reserving cells are selected in order to ensure that the underlying treaties have homogeneous loss development characteristics (e.g., reporting tail) but are large enough to make estimation of trends credible. The selection of reserving cells is reviewed annually and changes over time as the business of the Company evolves. For each reserving cell, the Company tabulates losses in reserving triangles that show the total reported or paid claims at each financial

year end by underwriting year cohort. An underwriting year is the year during which the reinsurance treaty was entered into as opposed to the year in which the loss occurred (accident year), or the calendar year for which financial results are reported. For each reserving cell, the Company's estimates of loss reserves are reached after a review of the results of several commonly accepted actuarial projection methodologies. In selecting its best estimate, the Company considers the appropriateness of each methodology to the individual circumstances of the cell and underwriting year for which the projection is made. The methodologies that the Company employs include, but may not be limited to, paid and reported Chain Ladder methods, Expected Loss Ratio methods, paid and reported Bornhuetter-Ferguson (B-F) methods, and paid and reported Benktander methods. In addition, the Company uses other methodologies to estimate liabilities for specific types of claims. For example, internal and vendor catastrophe models are typically used in the estimation of loss and loss expenses at the early stages of catastrophe losses before loss information is reported to the reinsurer. In the case of asbestos and environmental claims, the Company has established reserves for future loss and allocated loss expenses based on the results of periodic actuarial studies, which consider the underlying exposures of the Company's cedants.

The reserve methodologies employed by the Company are dependent on data that the Company collects. This data consists primarily of loss amounts and loss payments reported by the Company's cedants, and premiums written and earned reported by cedants or estimated by the Company. The actuarial methods used by the Company to project loss reserves that it will pay in the future (future liabilities) do not generally include methodologies that are dependent on claim counts reported, claim counts settled or claim counts open as, due to the nature of the Company's business, this information is not routinely provided by cedants for every treaty. Consequently, actuarial methods relying on this information cannot be used by the Company to estimate loss reserves.

A brief description of the reserving methods commonly employed by the Company and a discussion of their particular advantages and disadvantages is as follows:

Chain Ladder (CL) Development Methods (Reported or Paid)

These methods use the underlying assumption that losses reported (paid) for each underwriting year at a particular development stage follow a stable pattern. For example, the Chain Ladder development method assumes that on average, every underwriting year will display the same percentage of ultimate liabilities reported by the Company's cedants (say $x\%$) at 24 months after the inception of the underwriting year. The percentages reported (paid) are established for each development stage (e.g., at 12 months, 24 months, etc.) after examining historical averages from the loss development data. These are sometimes supplemented by external benchmark information. Ultimate liabilities are estimated by multiplying the actual reported (paid) losses by the reciprocal of the assumed reported (paid) percentage (e.g., $1/x\%$). Reserves are then calculated by subtracting paid claims from the estimated ultimate liabilities.

The main strengths of the method are that it is reactive to loss emergence (payments) and that it makes full use of historical experience on claim emergence (payments). For homogeneous low volatility lines, under stable economic conditions the method can often produce good estimates of ultimate liabilities and reserves. However, the method has weaknesses when the underlying assumption of stable patterns is not true. This may be the consequence of changes in the mix of business, changes in claim inflation trends, changes in claim reporting practices or the presence of large claims, among other things. Furthermore, the method tends to produce volatile estimates of ultimate liabilities

in situations where there is volatility in loss reported (paid) patterns. In particular, when the expected percentage reported (paid) is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate liabilities and reserves. Consequently, this method is often unsuitable for projections at early development stages of an underwriting year. Finally, the method fails to incorporate any information regarding market conditions, pricing, etc., which could improve the estimate of liabilities and reserves. It therefore tends not to perform very well in situations where there are rapidly changing market conditions.

Expected Loss Ratio (ELR) Method

This method estimates ultimate losses for an underwriting year by applying an estimated loss ratio to the earned premium for that underwriting year. Although the method is insensitive to actual reported or paid losses, it can often be useful at the early stages of development when very few losses have been reported or paid, and the principal sources of information available to the Company consist of information obtained during pricing and qualitative information supplied by the cedant. However, the lack of sensitivity to reported or paid losses means that the method is usually inappropriate at later stages of development.

Bornhuetter-Ferguson (B-F) Methods (Reported or Paid)

These methods aim to address the concerns of the Chain Ladder development methods, which are the variability at early stages of development and the failure to incorporate external information such as pricing. However, the B-F methods are more sensitive to paid and reported losses than the Expected Loss Ratio method above, and can be seen as a blend of the Expected Loss Ratio and Chain Ladder development methods. Unreported (unpaid) claims are calculated using an expected reporting (payment) pattern and an externally determined estimate of ultimate liabilities (usually determined by multiplying an *a priori* loss ratio with estimates of premium volume). The accuracy of the *a priori* loss ratio is a critical assumption in this method. Usually *a priori* loss ratios are initially determined on the basis of pricing information, but may also be adjusted to reflect other information that subsequently emerges about underlying loss experience. Although the method tends to provide less volatile indications at early stages of development and reflects changes in the external environment, this method can be slow to react to emerging loss development (payment). In particular, to the extent that the *a priori* loss ratios prove to be inaccurate (and are not revised), the B-F methods will produce loss estimates that take longer to converge with the final settlement value of loss liabilities.

Benktander Methods (Reported or Paid)

These methods can be viewed as a blend between the Chain Ladder development and the B-F methods described above. The blend is based on predetermined weights at each development stage that depend on the reported (paid) development patterns. Although mitigated to some extent, this method still exhibits the same advantages and disadvantages as the B-F method, but the mechanics of the calculation imply that it is more reactive to loss emergence (payment) than the B-F method.

Often the selected best estimate is a blend of the results from two or more methods (e.g., weighted averages). The judgment as to which method(s) is most appropriate for a particular underwriting year and reserving cell could change over time as new information emerges regarding underlying loss activity and other data issues. Furthermore, as each line is typically composed of several reserving cells, it is likely that the reserves for the line will be dependent on several reserving methods. This is because reserves for a line are the

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result of aggregating the reserves for each constituent reserving cell and that a different method could be selected for each reserving cell. Although it is not appropriate to refer to reserves for a line as being determined by a particular method, the table below summarizes the methods that were given principal weight in selecting the best estimates of reserves in each reserving line in 2006, 2005 and 2004, and can therefore be viewed as key drivers of selected reserves. The table distinguishes methods for mature and immature underwriting years as they are often different. The definition of maturity is specific to line and is related to the reporting tail. If at the reserve evaluation date, a significant proportion of losses for the underwriting year are expected to have been reported, then the underwriting year is deemed to be mature, otherwise it is deemed to be immature. For short-tail lines, such as property or agriculture, immature years can refer to the one or two most recent underwriting years, while for longer tail lines, such as casualty, immature years can refer to the three or four most recent underwriting years.

To the extent that the principal reserving methods used for major components of a reserving line are different, these are separately identified in the table below.

Reserving Line for Non-life Segment	Non-life Sub-segment	Immature Underwriting Years	Mature Underwriting Years
Property	U.S. P&C	Expected Loss Ratio	Reported B-F
Property / Specialty Property	Global (Non-U.S.) P&C / Worldwide Specialty / ART	Expected Loss Ratio	Reported CL
Casualty	U.S. P&C	Expected Loss Ratio	Reported B-F
Casualty / Specialty Casualty	Global (Non-U.S.) P&C / Worldwide Specialty	Expected Loss Ratio	Reported B-F / Paid B-F
Multiline	U.S. P&C	Expected Loss Ratio / Reported B-F	Reported B-F
Motor	U.S. P&C	Expected Loss Ratio / Reported B-F	Reported B-F
Motor – Proportional	Global (Non-U.S.) P&C	Expected Loss Ratio	Reported B-F
Motor – Non-proportional	Global (Non-U.S.) P&C	Expected Loss Ratio / Reported B-F	Reported B-F / Paid B-F
Agriculture	Worldwide Specialty	Expected Loss Ratio	Reported CL
Aviation / Space	Worldwide Specialty	Paid B-F / Reported B-F	Reported B-F
Catastrophe	Worldwide Specialty	Expected Loss Ratio based on exposure analysis	Reported B-F
Credit / Surety	Worldwide Specialty	Reported B-F / Reported CL	Reported B-F / Reported CL
Engineering	Worldwide Specialty	Reported B-F	Reported B-F
Energy Onshore	Worldwide Specialty	Expected Loss Ratio	Reported CL
Marine / Energy Offshore	Worldwide Specialty	Reported B-F	Reported B-F
Other ⁽¹⁾	U.S. P&C / Global (Non-U.S.) P&C / Worldwide Specialty	Periodic actuarial studies	Periodic actuarial studies

⁽¹⁾ The other reserving line is primarily related to asbestos and environments claims and non-active lines of business. See below and Note 4 to the Consolidated Financial Statements for a discussion on asbestos and environment claims.

The reserving methods used by the Company are dependent on a number of key parameter assumptions. The principal parameter assumptions underlying the methods used by the Company are:

- i. the loss development factors used to form an expectation of the evolution of reported and paid claims for several years following the inception of the underwriting year. These are often derived by examining the Company's data after due consideration of the underlying factors listed below. In some cases, where the Company lacks sufficient volume to have statistical credibility, external benchmarks are used to supplement the Company's data;
- ii. the tail factors used to reflect development of paid and reported losses after several years have elapsed since the inception of the underwriting year;
- iii. the *a priori* loss ratios used as inputs in the B-F methods; and
- iv. the selected loss ratios used as inputs in the Expected Loss Ratio method.

The validity of all parameter assumptions used in the reserving process is reaffirmed on a quarterly basis. Reaffirmation of the parameter assumptions means that the actuaries determine that the parameter assumptions continue to form a sound basis for projection of future liabilities. Parameter assumptions used in projecting future liabilities are themselves estimates based on historical information. As new information becomes available (e.g., additional losses reported), the Company's actuaries determine whether a revised estimate of the parameter assumptions that reflects all available information is consistent with the previous parameter assumptions employed. In general, to the extent that the revised estimate of parameter assumptions are within a close range of the original assumptions, the Company determines that the parameter assumptions employed continue to form an appropriate basis for projections and continue to use the original assumptions in its models. In this case, any differences could be attributed to the imprecise nature of the parameter estimation process. However, to the extent that the deviations between the two sets of estimates are not within a close range of the original assumptions, the Company reacts by adopting the revised assumptions as a basis for its reserve models. Notwithstanding the above, even where the Company has experienced no material deviations from its original assumptions during any quarter, the Company will generally revise the reserving parameter assumptions at least once a year to reflect all accumulated available information.

In addition to examining the data, the selection of the parameter assumptions is dependent on several underlying factors. The Company's actuaries review these underlying factors and determine the extent to which these are likely to be stable over the timeframe during which losses are projected, and the extent to which these factors are consistent with the Company's data. If these factors are determined to be stable and consistent with the data, the estimation of the reserving parameter assumptions are mainly carried out using actuarial and statistical techniques applied to the Company's data. To the extent that the actuaries determine that they cannot continue to rely on the stability of these factors, the statistical estimates of parameter assumptions are modified to reflect the direction of the change. The main underlying factors upon which the estimates of reserving parameters are predicated are:

- i. the cedant's business practices will proceed as in the past with no material changes either in submission of accounts or cash flows;
- ii. any internal delays in processing accounts received by the cedant are not materially different from that experienced historically, and hence the implicit reserving allowance made in loss reserves through the methods continues to be appropriate;
- iii. case reserve reporting practices, particularly the methodologies used to establish and report case reserves, are unchanged from historical practices;

- iv. the Company's internal claim practices, particularly the level and extent of use of ACRs are unchanged;
- v. historical levels of claim inflation can be projected into the future and will have no material effect on either the acceleration or deceleration of claim reporting and payment patterns;
- vi. the selection of reserving cells results in homogeneous and credible future expectations for all business in the cell and any changes in underlying treaty terms are either reflected in cell selection or explicitly allowed in the selection of trends;
- vii. in cases where benchmarks are used, they are derived from the experience of similar business; and
- viii. the Company can form a credible initial expectation of the ultimate loss ratio of recent underwriting years through a review of pricing information, supplemented by qualitative information on market events.

The Company's best estimate of total loss reserves is typically in excess of the midpoint of the actuarial reserve estimates. The Company believes that there is potentially significant risk in estimating loss reserves for long-tail lines of business and for immature underwriting years that may not be adequately captured through traditional actuarial projection methodologies. As discussed above, these methodologies usually rely heavily on projections of prior year trends into the future. In selecting its best estimate of future liabilities, the Company considers both the results of actuarial point estimates of loss reserves as well as the potential variability of these estimates as captured by a reasonable range of actuarial reserve estimates. Selected reserves are always within the indicated reasonable range of estimates indicated by the Company's actuaries. In determining the appropriate best estimate, the Company reviews (i) the position of overall reserves within the actuarial reserve range, (ii) the result of bottom up analysis by underwriting year reflecting the impact of parameter uncertainty in actuarial calculations, and (iii) specific qualitative information on events that may have an effect on future claims but which may not have been adequately reflected in actuarial mid-estimates, such as potential for outstanding litigation, claims practices of cedants, etc.

Carried loss reserves for the U.S. P&C sub-segment are considered to be predominantly long-tail due to the significant volume of U.S. casualty business written in this sub-segment. The casualty line comprised 68% of the net premiums written for this sub-segment, or 16% of the Company's total net premiums written in 2006. The remaining business within this sub-segment, property and motor, is considered to be short-tail. Within the Global (Non-U.S.) P&C sub-segment, the Company considers both its casualty business as well as its non-proportional motor business to be long-tail. These two lines represented 22% of the net premiums written in the Global (Non-U.S.) P&C sub-segment, or 5% of the Company's total net premiums written in 2006. Management considers the short-tail lines within the Global (Non-U.S.) P&C sub-segment to be property and proportional motor. The Worldwide Specialty sub-segment is primarily comprised of lines of business that are thought to be either short or medium-tail. The short-tail lines consist of agriculture, catastrophe, energy, credit/surety and specialty property and account for 61% of the net premiums written in this sub-segment, or 26% of the Company's total net premiums written in 2006. Aviation/space, engineering and marine are considered by the Company to have a medium-tail and represent 31% of this sub-segment's 2006 net premiums written, or 13% of the Company's total net premiums written in 2006. Specialty casualty business is considered to be long-tail and represents 8% of net premiums written in this sub-segment, or 3% of the Company's total net premiums written in 2006.

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The following table summarizes the net prior year favorable (adverse) reserve development for the Company's non-life operations, which is composed of its Non-life and ART segments, for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars):

	2006	2005	2004
Prior year net favorable (adverse) reserve development:			
Non-life segment:			
U.S. P&C	\$ (6)	\$ (48)	\$ (30)
Global (Non-U.S.) P&C	66	67	(24)
Worldwide Specialty	193	212	193
Total Non-life segment	253	231	139
ART segment	(1)	—	—
Total net non-life prior year reserve development	\$ 252	\$ 231	\$ 139

For a discussion of net prior year favorable (adverse) reserve development by segment and sub-segment, see Results by Segment below and Note 4 to Consolidated Financial Statements.

The table below summarizes the net prior year favorable (adverse) reserve development for the year ended December 31, 2006 by reserving line for the Company's non-life operations (in millions of U.S. dollars):

Reserving lines	Net favorable (adverse) prior year reserve development
Property / Specialty Property	\$ 78
Casualty / Specialty Casualty	46
Multiline	5
Motor — U.S. business	(7)
Motor — Non-U.S. Proportional business	15
Motor — Non-U.S. Non-proportional business	(23)
Agriculture	22
Aviation / Space	42
Catastrophe	(25)
Credit / Surety	31
Engineering	21
Energy Onshore	22
Marine / Energy Offshore	30
Other	(5)
Total net non-life prior year reserve development	\$ 252

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The following paragraphs discuss how losses paid and reported during the year ended December 31, 2006 compared with the Company's expectations and how the Company modified its reserving parameter assumptions in line with the emerging development in each reserving line.

Property: Aggregate losses reported for the U.S. property line were higher than expected, mainly for the 2005 hurricanes. The Company did not materially alter its reserving assumptions in this line, except for selecting higher loss ratios. Losses reported for the Non-U.S. property line were slightly lower than expected. The Company reflected this experience by lowering its loss ratio picks for the 2005 underwriting year and selecting slightly faster loss development patterns.

Casualty: Aggregate losses reported and losses paid for the Non-U.S. casualty line were significantly below the Company's expectations for most underwriting years. Aggregate losses reported for the U.S. casualty line were significantly lower than expected mainly for the 2004, 2005, and 2006 underwriting years. However, given the long-tail nature of this line (U.S. and Non-U.S.), the Company did not materially change its loss development assumptions.

Multiline: Aggregate reported losses were modestly lower than expected. Except for the 2005 underwriting year, most years had reported losses lower than expected. The Company reflected this experience by selecting slightly lower tail factors and faster loss development patterns.

Motor:

- Aggregate losses reported for the U.S. motor line were slightly higher than expected, mainly for the 2004, 2005 and 2006 underwriting years. The Company reflected this development by selecting reserving methods which give a greater weight to the observed development for the 2005 underwriting year.
- Aggregate losses reported for the Non-U.S. motor proportional line were slightly lower than expected, principally because of lower than expected development in the 2005 and 2004 underwriting years. The Company selected lower loss development factors for these underwriting years.
- Although aggregate losses reported for the Non-U.S. motor non-proportional line were in aggregate lower than expectations, a more in-depth analysis of the underlying movements revealed that losses reported from French cedants were significantly in excess of expectations, which was a continuation of trends that the Company observed in prior years. The Company reacted by raising significantly its loss tail factors and a priori loss ratios assumptions for non-proportional French business, while it did not materially change its loss development assumptions for other territories.

Agriculture: The aggregate losses reported during the year were significantly below the Company's expectations, primarily for the 2006 and 2005 underwriting years. The Company lowered its loss ratio picks for the 2005 underwriting year but did not otherwise materially alter its reserving assumptions.

Aviation / Space: The overall losses reported during the year were significantly lower than the Company's expectations, primarily for the 2005 underwriting year, but the effect was

uniform across all underwriting years. Paid losses were also modestly lower than expected across all underwriting years. The Company reflected this experience by lowering its *a priori* loss ratios for the 2005 underwriting year and selecting slightly faster loss development patterns.

Catastrophe: Losses reported in this line are largely a function of the presence or absence of catastrophic events during the year. During 2006, significantly fewer catastrophes occurred than the Company expected. Losses reported in respect of prior year catastrophe events were overall in line with expectations. However, the Company established an additional IBNR reserve of \$20 million in respect of 2005 U.S. catastrophe losses as a result of a general concern given recent litigation developments and evolving out of court settlement trends that may affect some of the Company's cedants in the future and hence the claims reported to the Company.

Credit / Surety: The aggregate losses reported during the year were slightly lower than expected, primarily for the 2005 underwriting year, but also for several more mature underwriting years. Losses reported for the 2006 underwriting year were significantly higher than expected, although loss reporting patterns at this early stage can be very volatile. The Company reflected this experience by lowering its loss development factors and loss ratio selections particularly for the Non-U.S. 2004 and 2005 years.

Engineering: The aggregate reported losses were modestly lower than expectations, while losses paid were significantly lower than expected. The Company has not materially changed its reserving assumptions, but in selecting its ultimate liabilities it has, in part, given greater weight to estimates from methods that are consistent with the observed development.

Energy Onshore: Aggregate reported losses were significantly lower than expected, although to a large extent this is due to the relative absence of large losses during the 2006 financial year. Loss reporting for this line is very sensitive to the presence or absence of large losses. The Company did not materially change its reserving assumptions for this line.

Marine / Energy Offshore: The aggregate reported losses during the year were significantly lower than expected. The main reason was significantly lower than expected development for relatively mature underwriting years, whereas development for the 2005 and 2006 years has been closer to expectations. The Company reflected this development by reducing its loss development factor assumptions and loss ratio selections.

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As an example of the sensitivity of the Company's reserves to reserving parameter assumptions, the tables below summarize, by reserving line, the effect on the Company's reserves of higher/lower *a priori* loss ratio selections, higher/lower loss development factors and higher/lower tail factors. The Company believes that the illustrated sensitivity to the reserving parameter assumptions is reasonably likely to occur and is indicative of the potential variability inherent in the estimation process of those parameters.

Reserving line selected assumptions	Higher <i>a priori</i> loss ratio	Higher loss development factors	Higher tail Factors ^(*)	Lower <i>a priori</i> loss ratio	Lower loss development factors	Lower tail Factors ^(*)
Property / Specialty Property	5 points	3 months	2%	(5) points	3 months	(2)%
Casualty / Specialty Casualty	10	6	10	(10)	6	(10)
Multiline	5	6	5	(5)	6	(5)
Motor – U.S. business	5	3	2	(5)	3	(2)
Motor – Non-U.S. Proportional business	5	3	2	(5)	3	(2)
Motor – Non-U.S. Non-proportional business	10	12	10	(10)	12	(10)
Agriculture	5	3	2	(5)	3	(2)
Aviation / Space	5	3	5	(5)	3	(5)
Catastrophe	5	3	2	(5)	3	(2)
Credit / Surety	5	3	2	(5)	3	(2)
Engineering	10	6	5	(10)	6	(5)
Energy Onshore	5	3	2	(5)	3	(2)
Marine / Energy Offshore	5	3	5	(5)	3	(5)

Reserving lines selected sensitivity (in millions of U.S. dollars)	Higher <i>a priori</i> loss ratio	Higher loss development factors	Higher tail factors ^(*)	Lower <i>a priori</i> loss ratio	Lower loss development factors	Lower tail factors ^(*)
Property / Specialty Property	\$ 10	\$ 20	\$ –	\$ (10)	\$ (15)	\$ –
Casualty / Specialty Casualty	200	135	110	(200)	(125)	(130)
Multiline	10	20	15	(10)	(15)	(15)
Motor – U.S. business	5	10	–	(5)	(10)	(5)
Motor – Non-U.S. Proportional business	–	15	–	–	–	–
Motor – Non-U.S. Non-proportional business	20	50	45	(20)	(45)	(45)
Agriculture	–	5	–	–	–	–
Aviation / Space	15	35	15	(15)	(25)	(10)
Catastrophe	–	–	–	–	–	–
Credit / Surety	15	25	–	(15)	(10)	–
Engineering	15	40	15	(15)	(30)	(15)
Energy Onshore	–	–	–	–	–	–
Marine / Energy Offshore	5	15	5	(5)	(10)	–

^(*) Tail factors are defined as aggregate development factors after 10 years from the inception of an underwriting year.

Some reserving lines show little sensitivity to *a priori* loss ratio, loss development factor or tail factor as the Company may use reserving methods such as the Expected Loss Ratio method in several of its reserving cells within those lines. It is not appropriate to add together the total impact for a specific factor or the total impact for a specific reserving line as the lines of business are not perfectly correlated.

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Case reserves are reported to the Company by its cedants, while ACRs and IBNR are estimated by the Company. The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR) and the total net loss reserves recorded as of December 31, 2006 by reserving line for the Company's non-life operations (in millions of U.S. dollars):

Reserving lines	Case reserves	ACRs	IBNR reserves	Total gross loss reserves recorded	Ceded loss reserves	Total net loss reserves recorded
Property / Specialty Property	\$ 476	\$ 3	\$ 295	\$ 774	\$ —	\$ 774
Casualty / Specialty Casualty	793	111	1,821	2,725	(45)	2,680
Multiline	77	11	122	210	(2)	208
Motor — U.S. business	63	2	70	135	—	135
Motor — Non-U.S. Proportional business	165	—	31	196	(17)	179
Motor — Non-U.S. Non-proportional business	386	9	483	878	(3)	875
Agriculture	12	4	111	127	—	127
Aviation / Space	210	7	195	412	(32)	380
Catastrophe	256	127	41	424	—	424
Credit / Surety	185	1	90	276	—	276
Engineering	131	5	193	329	(9)	320
Energy Onshore	48	9	18	75	(1)	74
Marine / Energy Offshore	90	4	79	173	(20)	153
Other	55	1	81	137	(10)	127
Total non-life reserves	\$ 2,947	\$ 294	\$ 3,630	\$ 6,871	\$ (139)	\$ 6,732

The net loss reserves represent the Company's best estimate of future losses and loss expense amounts. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect the Company's expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current estimate range. Management believes that the recorded loss reserves represent its best estimate of future liabilities based on information available as of December 31, 2006. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined. The Company estimates its net loss reserves using single actuarial point estimates. Ranges around these actuarial point estimates are developed using stochastic simulations and techniques and provide an indication as to the degree of variability of the loss reserves. The Company interprets

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the ranges produced by these techniques as confidence intervals around the Company's best estimates for each Non-life sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no guarantee that the final settlement of the loss reserves will fall within these ranges. The actuarial point estimates recorded by the Company and the range of estimates around these point estimates at December 31, 2006, were as follows for each Non-life sub-segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
Net Non-life segment loss reserves:			
U.S. P&C	\$ 2,172	\$ 2,435	\$ 1,732
Global (Non-U.S.) P&C	2,259	2,395	1,964
Worldwide Specialty	2,295	2,321	2,048

It is not appropriate to add together the ranges of each sub-segment in an effort to determine a high and low range around the Company's total Non-life carried loss reserves.

Included in the business that is considered to have a long reporting tail is the Company's exposure to asbestos and environmental claims. The Company's net reserves for unpaid losses and loss expenses as of December 31, 2006 included \$95 million that represents an estimate of its net ultimate liability for asbestos and environmental claims. The majority of this loss and loss expense reserve relates to U.S. casualty exposures arising from business written by PartnerRe SA and PartnerRe U.S. (See Note 4 to Consolidated Financial Statements.) Ultimate loss estimates for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company's potential losses for these claims. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in estimating asbestos and environmental claims are not likely to be resolved in the near future. There can be no assurance that the loss reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurance that the reserves established by the Company will be adequate. The Company does, however, actively evaluate potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its loss and loss expense estimates.

Life Policy Benefits

Liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by cedants, supplemented by the Company's actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty. Future policy benefit reserves for annuity and universal life products are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and critical illness claims in the process of settlement, and claims that have been incurred but not yet reported. Interest rate assumptions used to estimate liabilities for policy benefits for life and annuity contracts at December 31, 2006 ranged from 1.0% to 4.9%. Actual experience in a particular period may vary from the assumed experience and, consequently, may affect the Company's operating results in future periods.

The Life segment reported net favorable development for prior accident years during the year ended December 31, 2006 of \$12 million. The net favorable development was primarily related to the refinement of the Company's reserving methodologies related to certain proportional guaranteed minimum death benefit treaties and the receipt of additional reported loss information from its cedants. The Life segment reported no development on prior accident years during the years ended December 31, 2005 and 2004.

Premiums and Acquisition Costs

The Company provides proportional and non-proportional reinsurance coverage to cedants (insurance companies). In most cases, cedants seek protection for business that they have not yet written at the time they enter into reinsurance agreements and have to estimate the volume of premiums they will cede to the Company. Reporting delays are inherent in the reinsurance industry and vary in length by reinsurance market (country of cedant) and type of treaty. As delays can vary from a few weeks to a year or sometimes longer, the Company produces accounting estimates to report premiums and acquisition costs until it receives the cedants' actual results. Approximately 44% of the Company's reported net premiums written for 2006, 2005 and 2004 were based upon estimates.

Under proportional treaties, which represented 67% of gross premiums written for the year December 31, 2006, the Company shares proportionally in both the premiums and losses of the cedant and pays the cedant a commission to cover the cedant's acquisition costs. Under this type of treaty, the Company's ultimate premiums written and earned and acquisition costs are not known at the inception of the treaty and must be estimated until the cedant reports its actual results to the Company. Under non-proportional treaties, which represented 33% of gross premiums written for the year December 31, 2006, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio and receives a fixed or minimum premium, which is subject to upward adjustment depending on the premium volume written by the cedant.

Reported premiums written and earned and acquisition costs on proportional treaties are generally based upon reports received from cedants and brokers, supplemented by the Company's own estimates of premiums written and acquisition costs for which ceding company reports have not been received. Premium and acquisition cost estimates are determined at the individual treaty level. The determination of estimates requires a review of the Company's experience with cedants, familiarity with each geographic market, a thorough understanding of the individual characteristics of each line of business, and the ability to project the impact of current economic indicators on the volume of business written and ceded by the Company's cedants. Estimates for premiums and acquisition costs are updated continuously as new information is received from the cedants. Differences between such estimates and actual amounts are recorded in the period in which estimates are changed or the actual amounts are determined.

The magnitude and impact of a change in premium estimate differs for proportional and non-proportional treaties. Non-proportional treaties generally include a fixed minimum premium and an adjustment premium, which is generally less than 5% of the fixed minimum premium. While fixed minimum premiums require no estimation, adjustment premiums are estimated and could be subject to changes in estimates. Although proportional treaties may be subject to larger changes in premium estimates, as the Company generally receives

cedant statements in arrears and must estimate all premiums for periods ranging from one month to more than one year (depending on the frequency of cedant statements), the pre-tax impact is mitigated by changes in the cedant's related reported losses. The impact of the change in estimate on premiums earned and pre-tax results varies depending on when the change becomes known during the risk period and the underlying profitability of the treaty. For the year ended December 31, 2006, the Company recorded reductions of \$22 million and \$40 million of net premiums written and net premiums earned, respectively, related to changes in premium estimates of prior year reported premiums. These reductions, after the corresponding adjustments to acquisition costs and losses and loss expenses, decreased pre-tax income by approximately \$9 million.

A 5% increase (decrease) in net premium written estimates and the corresponding acquisition costs for all of the Company's Non-life non-proportional treaties would increase (decrease) the 2006 pre-tax income by approximately \$21 million, assuming the changes become known at the mid-point of the risk period.

For proportional treaties, the impact of a change in net premium written estimates on pre-tax income varies depending on the losses and loss expenses and acquisition costs of the treaty affected by the change. For example, a 5% increase (decrease) in net premiums written and the corresponding acquisition costs in 2006 across all Non-life proportional treaties would increase (decrease) pre-tax income by approximately \$12 million, assuming the 2006 reported technical ratio and that the changes become known at the mid-point of the risk period.

A 1% increase (decrease) in acquisition costs for all of the Company's Non-life treaties (both proportional and non-proportional) for the year ended December 31, 2006, would decrease (increase) pre-tax income by approximately \$4 million, assuming no change in premium estimates and that the changes become known at the mid-point of the risk period.

Other-than-Temporary Impairment of Investments

The Company regularly evaluates the fair value of its investments to determine whether a decline in fair value below the amortized cost basis (original cost basis for equities) is other-than-temporary. If the decline in fair value is judged to be other-than-temporary, the amortized cost of the individual security is written down to fair value as its new cost basis, and the amount of the write-down is included as a realized investment loss in the Consolidated Statements of Operations, which reduces net income in the period in which the determination of other-than-temporary impairment is made. In contrast, temporary losses are recorded as unrealized investment losses, which do not impact net income, but reduce accumulated other comprehensive income in the Consolidated Balance Sheets, except for those related to trading securities, which are recorded immediately as realized losses in net income.

To determine whether securities with unrealized investment losses are impaired, the Company evaluates, for each specific issuer or security, whether events have occurred that are likely to prevent the Company from recovering its investment in the security. In the determination of other-than-temporary impairment, the Company considers several factors and circumstances, including general economic and financial market conditions, the issuer's overall financial condition, the issuer's credit and financial strength ratings, general market conditions in the industry or geographic region in which the issuer operates, the length of time for which the fair value of an issuer's securities remains below cost or amortized cost on a continuous basis, and other factors that may raise doubt about the issuer's ability to continue as a going concern. During 2006, 2005 and 2004, the Company recorded other-than-temporary impairment charges of \$27 million, \$8 million and \$11 million, respectively.

As of December 31, 2006, the Company held more than 500 investment positions that carried total gross unrealized losses of \$88 million, including \$51 million on securities that carried unrealized losses for more than 12 continuous months. Most unrealized losses were caused by increases in interest rates since the Company's purchase of the investments, and the Company intends to hold these investments until recovery. Also in Management's judgment, the Company had no significant unrealized losses caused by other factors or circumstances, including an issuer's specific corporate risk or due to industry or geographic risk, for which an other-than-temporary impairment charge has not been taken. If the Company had written down 10% of all securities that were in an unrealized loss position for more than 12 continuous months at December 31, 2006, net income for 2006 would have been reduced by \$5 million, pre-tax. However, there would be no change in the Company's carrying value of investments, comprehensive income or shareholders' equity, as the realization of the unrealized market value depreciation would transfer the loss from the accumulated other comprehensive income section of the Consolidated Balance Sheet to net income on the Consolidated Statement of Operations and retained earnings on the Consolidated Balance Sheet. See Financial Condition, Liquidity and Capital Resources.

Income Taxes

FASB Statement No. 109 "Accounting for Income Taxes" (SFAS 109) provides that a deferred tax asset or liability is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. SFAS 109 also establishes procedures to assess whether a valuation allowance should be established for deferred tax assets. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Management must use its judgment in considering the relative impact of negative and positive evidence.

The Company has estimated the future tax effects attributed to temporary differences and has a deferred tax asset at December 31, 2006 of \$165 million. The most significant components of the deferred tax asset relate to loss reserve discounting for tax purposes in the United States and operating tax loss carryforwards in France. At December 31, 2006, the deferred tax asset relating to the French tax loss carryforward was \$63 million, which is subject to an indefinite carryforward period. The change in valuation allowance related to tax loss carryforwards resulted in a tax (benefit) charge of \$(0.8) million, \$(15.5) million and \$16.3 million for the years ended December 31, 2006, 2005 and 2004, respectively.

The Company has projected future taxable income in the tax jurisdictions in which the deferred tax assets arise. These projections are based on Management's projections of premium and investment income, and technical and expense ratios. Based on these projections, Management evaluates the need for a valuation allowance. A 10% reduction in the deferred tax asset of \$165 million as of December 31, 2006 would result in a \$16 million charge to net income and a corresponding reduction in total assets.

The deferred tax liabilities as of December 31, 2006 were \$88 million. In accordance with SFAS 109, the Company has assumed that the future reversal of deferred tax liabilities will result in an increase in taxes payable in future years. Underlying this assumption is an expectation that the Company will continue to be subject to taxation in the various tax jurisdictions and the Company will continue to generate taxable revenues in excess of deductions. A 10% reduction in the deferred tax liability as of December 31, 2006 would result in a tax benefit of \$9 million booked to net income and a corresponding reduction in total liabilities. See New Accounting Pronouncements below for a discussion on the impact of the adoption of FIN 48.

Goodwill

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 142 requires that the Company make an annual assessment as to whether the value of the Company's goodwill asset is impaired. This assessment is performed at the reporting unit level. The Company has established September 30 as the date for performing the Company's annual impairment test. Impairment, which can be either partial or full, is based on a fair value analysis by individual reporting unit. Based upon the Company's assessment at the reporting unit level, there was no impairment of its goodwill asset of \$430 million as of December 31, 2006.

In making an assessment of the value of its goodwill, the Company uses both market based and non-market based valuations. Assumptions underlying these valuations include an analysis of the Company's stock price relative to both its book value and its net income in addition to forecasts of future cash flows and future profits. Significant changes in the data underlying these assumptions could result in an assessment of impairment of the Company's goodwill asset. In addition, if the current economic environment and/or the Company's financial performance were to deteriorate significantly, this could lead to an impairment of goodwill, the write-off of which would be recorded against net income in the period such deterioration occurred. If a 10% decline in the fair value of the reporting units occurred, this would not result in an impairment of the goodwill asset at December 31, 2006.

Valuation of Certain Derivative Financial Instruments

As part of its ART operations, the Company utilizes non-traded derivatives. The changes in fair value of these derivatives are recorded in other income in the Consolidated Statements of Operations and are included in the determination of net income in the period in which they are recorded. The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, such as the timing of future cash flows of reference securities, credit spreads and general levels of interest rates. The Company uses its best estimate of assumptions to estimate the fair value of its derivative positions. Significant changes in the data underlying these assumptions could result in a significantly different valuation of the derivatives and significant adjustments to net income in the period in which the Company makes the adjustment.

On aggregate, the Company is not significantly exposed to changes in the valuation of its total return and interest rate swap portfolio due to changes in the general level of interest rates. However, at December 31, 2006, the Company estimated that a 100 basis point increase or decrease in all risk spread assumptions used in the Company's internal valuation models would result in an \$11 million decrease or increase, respectively, in the fair value of its total return and interest rate swap portfolio.

For weather derivatives, the Company develops assumptions for weather measurements as of the valuation date of the derivative and for probable future weather observations based on forecasts and statistical analysis of historical data. At December 31, 2006, the Company estimated that the valuation of its outstanding weather derivative contract could either increase or decrease by up to \$1 million based on historical and forecast weather patterns known as of that date.

Results of Operations

The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of the Company's report on form 10-K for

a complete list of the Company's risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.

The Company's reporting currency is the U.S. dollar. The Company's subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company's operations is performed in foreign currencies, fluctuations in foreign exchange rates may affect year over year comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(j) to Consolidated Financial Statements for a discussion on translation of foreign currencies.

The foreign exchange fluctuations for the principal currencies in which the Company transacts business were as follows:

- the U.S. dollar strengthened, on average, against the euro, British pound, Swiss franc and Japanese yen, while it weakened against the Canadian dollar, in 2006 compared to 2005;
- the U.S. dollar weakened, on average, against these currencies in 2005 compared to 2004; and
- the U.S. dollar weakened against these currencies, except for the Japanese Yen, at December 31, 2006 compared to December 31, 2005.

Overview

The Company measures its performance in several ways. Among the performance measures accepted under U.S. GAAP is diluted net income per share, a measure that focuses on the return provided to the Company's common shareholders. Diluted net income per share is obtained by dividing net income available to common shareholders by the weighted average number of common and common share equivalents outstanding. As the effect of dilutive securities would have been antidilutive in 2005 due to the Company's reported net loss, the fully diluted per share figure for the year ended December 31, 2005 was compiled using the basic weighted average number of common shares outstanding.

As the Company's reinsurance operations are exposed to low-frequency high-severity risk events, results for certain years may include unusually low loss experience, while results for other years may include significant catastrophic losses. For example, the Company's results for 2006 included no significant catastrophic loss, while 2005 and 2004 included losses from large catastrophic events. To the extent that losses related to large catastrophic events affect the year over year comparison of the Company's results, their impact has been quantified and discussed in each of the relevant sections.

Net income or loss, preferred dividends, net income or loss available to common shareholders and diluted net income or loss per share for the years ended December 31, 2006, 2005 and 2004 were as follows (in millions of U.S. dollars, except per share data):

	For the year ended December 31, 2006	For the year ended December 31, 2005	For the year ended December 31, 2004
Net income (loss)	\$ 749	\$ (51)	\$ 492
Less: preferred dividends	34	35	21
Net income (loss) available to common shareholders	\$ 715	\$ (86)	\$ 471
Diluted net income (loss) per share	\$ 12.37	\$ (1.56)	\$ 8.71

Management's Discussion and Analysis of Financial Condition and Results of Operation

Net income, net income available to common shareholders and diluted net income per share for 2006 have increased significantly compared to 2005, primarily as a result of a lower level of large catastrophic losses in 2006. Results for 2005 included pre-tax losses, net of reinstatement and additional premiums, of \$900 million related to European winterstorm Erwin, the Central European floods, and Hurricanes Katrina, Rita and Wilma (jointly referred to as the large 2005 catastrophic loss events).

The decrease in net income, net income available to common shareholders and diluted net income per share in 2005 compared to 2004 was primarily attributable to the unprecedented amount of large catastrophic losses for the Company and the industry during 2005. While the results for 2004 included the impact of four Atlantic hurricanes and the Indian Ocean tsunami, totaling \$176 million, net of reinstatement and additional premiums, the amount of large catastrophic losses increased to \$900 million in 2005.

The following tables reflect the combined impact of the 2004 and 2005 large catastrophic losses on the Company's pre-tax net income by segments and sub-segments for the years ended December 31, 2005 and 2004 (in millions of U.S. dollars). While 2006 had no large catastrophic losses, the Company incurred additional reserve development of \$22 million, net of reinstatement and additional premiums of \$9 million, related to the large 2005 catastrophic loss events. The impact of this development on the Company's pre-tax net income for 2006 will be discussed as part of the net prior year loss development of each segment and sub-segment below.

2005 Calendar Year

Segment or sub-segment	Net losses and loss expenses	Acquisition costs	Reinstatement or additional premiums earned	Impact on pre-tax net income
U.S. P&C	\$ (128)	\$ —	\$ —	\$ (128)
Global (Non-U.S.) P&C	(61)	—	—	(61)
Worldwide Specialty	(741)	(2)	48	(695)
Non-life segment	\$ (930)	\$ (2)	\$ 48	\$ (884)
ART	(29)	—	13	(16)
Life	—	—	—	—
Total	\$ (959)	\$ (2)	\$ 61	\$ (900)

2004 Calendar Year

Segment or sub-segment	Net losses and loss expenses	Acquisition costs	Reinstatement premiums earned	Impact on pre-tax net income
U.S. P&C	\$ (49)	\$ —	\$ —	\$ (49)
Global (Non-U.S.) P&C	(34)	—	—	(34)
Worldwide Specialty	(85)	—	5	(80)
Non-life segment	\$ (168)	\$ —	\$ 5	\$ (163)
ART	(8)	—	—	(8)
Life	(5)	—	—	(5)
Total	\$ (181)	\$ —	\$ 5	\$ (176)

Management's Discussion and Analysis of Financial Condition and Results of Operation

Preferred share dividends did not change significantly between 2006 and 2005. Preferred share dividends increased in 2005 after the Company issued Series D cumulative preferred shares (Series D preferred shares) in the fourth quarter of 2004. In the same quarter, the Company settled the purchase contracts associated with its PEPS units in exchange for newly issued common shares of the Company and the Company purchased and cancelled the Series B cumulative preferred shares (Series B preferred shares) that were part of its PEPS units. The increase in preferred share dividends during 2005 is largely offset by a decrease in interest expense related to the Series B preferred shares.

Review of Net Income (Loss)

Management analyzes the Company's net income (loss) in three parts: underwriting result, net investment income and other components of net income. Underwriting result consists of net premiums earned and other income less losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Investment income includes interest and dividends, net of investment expenses, generated by the Company's investment portfolio, as well as interest income generated on funds held and certain ART transactions. Other components of net income include net realized investment gains and losses, interest expense, net foreign exchange gains and losses, income tax expense or benefit and interest in earnings of equity investments.

The components of net income (loss) income for the years ended December 31, 2006, 2005 and 2004 were as follows (in millions of U.S. dollars):

	For the year ended December 31, 2006	% Change 2006 over 2005	For the year ended December 31, 2005	% Change 2005 over 2004	For the year ended December 31, 2004
Underwriting result:					
Non-life	\$ 484	NM	\$ (497)	NM	\$ 196
ART	21	159%	8	NM	(4)
Life	(22)	(33)	(33)	(31)%	(48)
Corporate expenses	(62)	22	(51)	21	(42)
Net investment income	449	23	365	22	298
Net realized investment gains	47	(77)	207	76	117
Interest expense	(61)	87	(33)	(19)	(41)
Net foreign exchange (losses) gains	(24)	555	(4)	NM	17
Income tax expense	(95)	316	(23)	203	(7)
Interest in earnings of equity investments	12	23	10	54	6
Net income (loss)	\$ 749	NM	\$ (51)	NM	\$ 492

NM: not meaningful

Underwriting result is a key measurement that the Company uses to manage and evaluate its segments and sub-segments, as it is a primary measure of underlying profitability for the Company's core reinsurance operations, separate from the investment results. The Company believes that in order to enhance the understanding of its profitability, it is useful for investors to evaluate the components of net income separately and in the aggregate. Underwriting result should not be considered a substitute for net income as it does not reflect the overall profitability of the business, which is also impacted by investment results and other items.

2006 over 2005

The underwriting result for the Non-life segment increased by \$981 million, from a loss of \$497 million in 2005 to a gain of \$484 million in 2006. The increase was principally attributable to:

- a decrease in the level of large catastrophic losses of \$884 million, net of reinstatement premiums, for the U.S. P&C sub-segment (\$128 million), Global (Non-U.S.) P&C sub-segment (\$61 million) and Worldwide Specialty sub-segment (\$695 million);
- an increase of approximately \$91 million resulting from the normal fluctuations in profitability between periods; and
- an increase of \$22 million in net favorable reserve development on prior accident years, from \$231 million in 2005 to \$253 million in 2006, including net adverse development of \$25 million (net of reinstatement premiums of \$4 million) related to the large 2005 catastrophic loss events. The components of the net favorable loss development on prior accident year losses are described in more detail in the discussion of individual sub-segments in the next section; and was partially offset by
- an increase in other operating expenses of \$16 million, resulting primarily from higher bonus accruals in 2006.

Underwriting result for the ART segment increased by \$13 million, from \$8 million in 2005 to \$21 million in 2006. While 2005 included a net underwriting loss of \$16 million related to the large catastrophic losses, 2006 included one large loss of \$6 million, as well as net favorable loss development of \$3 million (net of additional premiums) related to the 2005 hurricanes. This segment also benefited in 2006 from the early termination of a number of longer term contracts, which led to accelerated profit recognition for the terminated contracts, and stronger results on weather products, explaining most of the growth in underwriting result for this segment.

Underwriting result for the Life segment improved from a loss of \$33 million in 2005 to a loss of \$22 million in 2006, primarily due to net favorable reserve development of \$12 million in 2006, partially offset by higher operating expenses, resulting principally from higher bonus accruals in 2006.

Corporate expenses increased by \$11 million, from \$51 million in 2005 to \$62 million in 2006. The net increase in operating expenses resulted primarily from an increase in personnel costs of \$12 million, including bonus accruals and stock-based compensation expense, partially offset by decreases in consulting and professional fees and other costs. Bonuses are tied to results and the bonus accruals were minimal in 2005 as a result of negative operating results.

The Company reported net investment income of \$449 million in 2006 compared to \$365 million in 2005. The 23% increase in net investment income was primarily attributable to the increase in the asset base resulting from the investment of the Company's significant cash flows from operations, which totaled \$492 million after the purchase of approximately \$390 million of equity trading securities in 2006, and a full year of net investment income on cash proceeds of \$549 million from the Company's capital raises in October 2005. The higher interest rates prevailing during 2006 relative to 2005 for the U.S. dollar, euro and other currencies also contributed to the increase in net investment income.

Net realized investment gains decreased by \$160 million, from \$207 million in 2005 to \$47 million in 2006. Realized investment gains and losses are generally a function of multiple factors, with the most significant being the prevailing interest rates and equity

market conditions, the timing of disposition of fixed maturities and equity securities, and charges for the recognition of other-than-temporary impairments in the Company's investment portfolio. Although the sale of equity securities generated net realized investment gains in 2006, net realized investment gains on equity securities were \$71 million lower than 2005. Following a rise in interest rates during 2006, the majority of the Company's fixed income securities decreased in value compared to December 31, 2005, and sales generated \$53 million in net realized investment losses and other-than-temporary impairments, compared to net realized investment gains of \$25 million in 2005.

Interest expense increased by \$28 million in 2006 compared to 2005 due to a full year of interest on the \$400 million long-term debt issued by the Company in October 2005. In addition, the Company incurred interest expense of \$6 million upon the redemption of its trust preferred securities in December 2006, representing the unamortized portion of the trust preferred securities' issuance costs. The Company also incurred interest on debt related to both its capital efficient notes (issued on November 7, 2006) and trust preferred securities for a limited period of time prior to the trust preferred securities' redemption on December 21, 2006.

Foreign exchange losses were \$24 million and \$4 million in 2006 and 2005, respectively. The Company hedges a significant portion of its currency risk exposure, as discussed in the Quantitative and Qualitative Disclosures about Market Risk. The increase in the foreign exchange loss in 2006 is largely a function of (1) the comparative interest rate differential between the functional currency of the reporting unit and the currency being hedged, which increased the cost of hedging instruments used by the Company; (2) currency movements against the Company's functional currencies for unhedged positions; and (3) the difference between the period-end foreign exchange rates, which are used to revalue the balance sheet, and the average foreign exchange rates, which are used to revalue the income statement.

Income tax expense increased by \$72 million from \$23 million in 2005 to \$95 million in 2006. The increase in income tax expense is primarily a result of the increase in pre-tax income and the geography (or tax jurisdiction) distribution of that income. The Company's taxable entities generated a higher pre-tax income and tax expense in 2006 compared to 2005. In addition, the 2005 tax expense included the reduction of \$15 million in the valuation allowance in Switzerland. Management concluded in 2005 that it was appropriate to release the valuation allowance as a result of the positive evidence, under SFAS 109, of the ability of the Swiss operations to generate significant taxable income in 2005 despite an unprecedented level of losses in the industry. The Company also updated, in 2005, its in-depth analysis of various tax exposures and, based upon its analysis, tax reserves were reduced by \$16 million.

2005 over 2004

The underwriting result for the Non-life segment decreased by \$693 million, from a gain of \$196 million in 2004 to a loss of \$497 million in 2005. The decrease was principally attributable to:

- an increase in the level of large catastrophic losses of \$721 million, net of reinstatement premiums, for the U.S. P&C sub-segment (\$79 million), Global (Non-U.S.) P&C sub-segment (\$27 million) and Worldwide Specialty sub-segment (\$615 million);
- a decrease of approximately \$73 million resulting from a decrease volume of business and the normal fluctuations in profitability between periods; and was partially offset by
- an increase of \$92 million in net favorable reserve development on prior accident years, from \$139 million in 2004 to \$231 million in 2005; and

- a decrease in other operating expenses of \$9 million, resulting primarily from lower bonus accruals in 2005.

Underwriting result for the ART segment increased in 2005 despite an increase of \$8 million of large catastrophic losses (net of additional premiums). While the weather line returned to profitability in 2005, following incurred realized and unrealized losses on weather derivative instruments due to unusual weather patterns in Japan during 2004, the structured risk transfer line incurred losses on the 2005 hurricanes, which mitigated the positive impact of the weather and principal finance lines.

Underwriting result for the Life segment improved in 2005 primarily due to a \$5 million charge to reduce deferred acquisition costs on annuity treaties retained in the sale of PartnerRe Life Insurance Company of the U.S., as well as a \$5 million loss on the Indian Ocean tsunami which were included in the 2004 underwriting results.

Corporate expenses increased by \$9 million, from \$42 million during 2004 to \$51 million during 2005. The increase resulted primarily from an increase of \$7 million in equity-based compensation expenses as a result of the adoption in 2003, on a prospective basis, of the fair value method of accounting for equity-based awards. Addition of staff in corporate departments and increases in other infrastructure costs were more than offset by reductions in bonus accruals of \$8 million during 2005.

The Company reported net investment income of \$365 million in 2005 compared to \$298 million in 2004. The increase in investment income is primarily attributable to investment of the Company's significant cash flows from operations, which amounted to \$1,032 million in 2005 and \$1,264 million in 2004. In addition, net cash proceeds of \$549 million from the Company's capital raises in October 2005 also contributed to the growth in net investment income. Changes in average foreign exchange rates contributed approximately 1% of the increase as a result of the decline of the U.S. dollar, on average, against the euro and other currencies during the year.

Net realized investment gains increased by \$90 million, from \$117 million during 2004 to \$207 million during 2005, primarily as a result of realized gains within the Company's equity portfolio.

Interest expense decreased by \$8 million in 2005 compared to 2004 as distributions on the Series B preferred shares, which amounted to \$11 million per year and were presented as interest expense, ended in the fourth quarter of 2004. This decrease was partially offset by interest expense of \$3 million related to the \$400 million long-term debt issued in October 2005.

The reduction of net foreign exchange from a gain of \$17 million in 2004, to a loss of \$4 million in 2005 is explained by the combined effect of the fluctuation of the U.S. dollar against the euro and other currencies from 2004 to 2005, as well as the Company's hedging activities.

Income tax expense increased by \$16 million, from \$7 million during 2004 to \$23 million during 2005, primarily as a result of a change in the geography of pre-tax income (loss). The Company's taxable entities generated a higher pre-tax income and tax expense during 2005 than 2004, as a significant portion of the large catastrophic losses were incurred by a non-taxable entity in 2005. This was partially offset by a reduction, in 2005, of \$15 million in the valuation allowance in Switzerland and the reduction of tax reserves of \$16 million as the results of the Company's in-depth analysis of various tax exposures. The 2004 tax expense was net of a tax recovery in the amount of \$6 million related to the settlement of a

tax arbitration in France and a favorable adjustment of \$6 million, net of valuation allowance, resulting from adjustments to prior year income tax returns in Switzerland.

Results by Segment

The Company monitors the performance of its underwriting operations in three segments, Non-life, ART and Life. The Non-life segment is further divided into three sub-segments, U.S. P&C, Global (Non-U.S.) P&C and Worldwide Specialty. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company's segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 19 to Consolidated Financial Statements.

Segment results are shown net of intercompany transactions. Business reported in the Global (Non-U.S.) P&C and Worldwide Specialty sub-segments and the Life segment is, to a significant extent, denominated in foreign currencies and is reported in U.S. dollars at the weighted average foreign exchange rates for each year. The U.S. dollar has fluctuated against the euro and other currencies during each of the three years presented and this should be considered when making year over year comparisons.

Non-life Segment

U.S. P&C

The technical result of the U.S. P&C sub-segment has fluctuated in the last three years reflecting varying levels of large loss events and development on prior years' reserves, which distorted year-to-year comparisons as discussed below. This sub-segment includes the U.S. casualty line, which represented approximately 68%, 69% and 65% of net premiums written for 2006, 2005 and 2004, respectively. This line typically tends to have a higher loss ratio and a lower technical result, due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of technical result.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Gross premiums written	\$ 843	3%	\$ 820	(17)%	\$ 991
Net premiums written	843	3	819	(17)	990
Net premiums earned	\$ 850	3	\$ 828	(7)	\$ 893
Losses and loss expenses	(612)	(20)	(764)	9	(699)
Acquisition costs	(212)	6	(200)	(2)	(204)
Technical result ⁽¹⁾	\$ 26	NM	\$ (136)	>1000	\$ (10)
Loss ratio ⁽²⁾	72.1%		92.2%		78.2%
Acquisition ratio ⁽³⁾	24.9		24.2		22.8
Technical ratio ⁽⁴⁾	97.0%		116.4%		101.0%

NM: not meaningful

⁽¹⁾ Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.

⁽²⁾ Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.

⁽³⁾ Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.

⁽⁴⁾ Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

U.S. P&C (continued)

Premiums

The U.S. P&C sub-segment represented 23%, 23% and 26% of total net premiums written in 2006, 2005, and 2004, respectively.

2006 over 2005

Gross and net premiums written and net premiums earned were 3% higher in 2006 compared to 2005. The property line had an increase in net premiums written and earned in 2006, while the motor line had a decrease and the casualty line was mainly flat. In addition to new treaties in the property and casualty lines, cedants reported fewer downward premium adjustments in 2006 in the motor line than in the same period in 2005.

While there were noticeable differences in market conditions by line of business in 2006, the market continued to provide profitable opportunities. The property line was the line most affected by the 2005 hurricanes, and catastrophe-exposed business benefited from improvements in pricing and terms and conditions during the 2006 renewals. Short-tail lines not exposed to catastrophes continued to see competitive conditions. While the decrease in the motor line was due to treaty cancellations given the prevailing market conditions, the casualty line saw relatively stable market conditions. Notwithstanding the sustained competition in this sub-segment, as well as the higher risk retention by cedants, the Company was able to pursue business that met its profitability objectives.

2005 over 2004

The decrease in gross and net premiums written and net premiums earned in 2005 over 2004 resulted from all lines but was more evident in the motor and casualty lines. The Company observed increased competition in the short-tail motor and property lines, as primary companies retained more risk and reinsurers were competing for a declining amount of business. Although pricing and terms and conditions remained fairly stable in 2005 for the long-tail casualty line, the Company's net premiums written also decreased for this line. Approximately a third of the decline in net premiums written for this sub-segment resulted from reduced premium estimates from cedants for prior underwriting years, while the remainder resulted from timing of renewals, lower renewal premiums due to the increased risk retention by cedants, the cancellation of programs (or non-renewals) where the renewal terms did not meet the Company's profitability objectives and increased competition among reinsurers.

Losses and loss expenses and loss ratio

2006 over 2005

The losses and loss expenses and loss ratio reported for 2006 reflected a) no large catastrophic losses; b) net adverse development on prior accident years of \$6 million, or 0.7 points on the loss ratio of this sub-segment, including a net adverse loss development of \$11 million related to the 2005 hurricanes; and c) an increase in the book of business and exposure as evidenced by the increase in net premiums earned. The net adverse loss development of \$6 million included net adverse loss development for prior accident years of \$15 million in the property and motor lines, partially offset by net favorable development of \$9 million in the casualty line. The net adverse loss development during 2006 on the 2005 hurricanes was partially offset by loss reductions driven by lower than expected loss activity. Other than for losses related to the 2005 hurricanes, loss information provided by cedants in 2006 for prior accident years in this sub-segment included no individually significant losses but a series of attritional losses. Upon consideration of the attritional loss information, the

Company increased its overall expected ultimate loss estimates for the property and motor lines (decreased for the casualty line), which had the net effect of increasing (decreasing for casualty line) prior year loss estimates.

The decrease of \$152 million in losses and loss expenses from 2005 to 2006 included:

- a decrease in large catastrophic losses of \$128 million; and
- a decrease of \$42 million in net adverse prior year development; and was partially offset by
- an increase in losses and loss expenses of approximately \$18 million resulting from a combination of the increase in the book of business and exposure, modestly lower profitability on the business written in 2005 and 2006 that was earned in 2006, and normal fluctuations in profitability between periods.

2005 over 2004

The losses and loss expenses and loss ratio reported in 2005 reflected a) losses related to the large 2005 catastrophic loss events of \$128 million or 15.5 points on the loss ratio of this sub-segment; b) net adverse loss development on prior accident years of \$48 million, or 5.8 points on the loss ratio; and c) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net adverse loss development of \$48 million included net adverse loss development for prior accident years in the casualty and motor lines of \$58 million, partially offset by net favorable loss development in the shorter-tail property line of \$10 million. The net adverse loss development in the casualty line in 2005 was primarily due to a revaluation of the loss development assumptions used by the Company to estimate future liabilities in a number of recent underwriting years on a limited number of treaties, predominantly in the specialty casualty line. In addition, but to a less significant degree, the Company observed the emergence of unforeseen loss activity in certain older underwriting years within the non-proportional casualty portfolio. The net adverse loss development for motor primarily reflects actual loss experience during 2005 being worse than expected. Loss information provided by cedants for prior accident years in 2005 for all lines in this sub-segment included no individually significant losses but a series of attritional losses. Based on the Company's assessment of this loss information, the Company increased its expected ultimate loss ratios for the casualty and motor lines (decreased for the property line), which had the net effect of increasing (decreasing for the property line) prior year loss estimates for this sub-segment.

The increase of \$65 million in losses and loss expenses from 2004 to 2005 is explained by:

- an increase in large catastrophic losses of \$79 million; and
- an increase of \$18 million in net adverse prior year development; and was partially offset by
- a decrease in losses and loss expenses of approximately \$32 million resulting from the decrease in the book of business and exposure.

Acquisition costs and acquisition ratio

2006 over 2005

The acquisition costs and acquisition ratio increased in 2006 compared to 2005 primarily as a result of a modest shift from non-proportional to proportional business, which generally carries higher acquisition costs and acquisition ratio.

U.S. P&C (continued)

2005 over 2004

While the Company's book of business and exposure declined in 2005 compared to 2004, the acquisition costs for 2005 did not change significantly. A shift from non-proportional business to proportional business, and reductions of acquisition costs in 2004 on treaties with experience credits in the form of sliding scale and profit commission adjustments, resulted in a lower acquisition ratio in 2004 than 2005.

Technical result and technical ratio

2006 over 2005

The increase of \$162 million in the technical result and the corresponding decrease in the technical ratio from 2005 compared to 2006 was primarily attributable to a reduction in large catastrophic losses of \$128 million, a reduction in net adverse prior year development of \$42 million, partially offset by a decrease of approximately \$8 million resulting from the normal fluctuations in profitability between periods.

2005 over 2004

The decrease of \$126 million in the technical result and the corresponding increase in the technical ratio from 2004 compared to 2005 was explained by an increase of \$79 million in the level of large catastrophic losses, an increase of \$18 million in net adverse prior year development and a reduction of approximately \$29 million resulting from premiums adjustments and the normal fluctuations in profitability between periods.

2007 Outlook

During the January 1, 2007 renewals, the Company saw diverse market conditions. Pricing improved for catastrophe-exposed business compared to 2006, while terms and conditions weakened and pricing declined for all other lines as a result of the competitive market conditions and increased risk retention by cedants. The Company's book of business was slightly reduced at the January 1, 2007 renewals in this sub-segment. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects a slight decline in gross and net premiums written and net premiums earned for this sub-segment in 2007.

Global (Non-U.S.) P&C

The technical result of the Global (Non-U.S.) P&C sub-segment has fluctuated in the last three years, reflecting varying levels of large loss events and development on prior years' reserves, which distorted year-to-year comparisons as discussed below. The Global (Non-U.S.) P&C sub-segment is composed of short-tail business, in the form of property and proportional motor business, that represented approximately 78% of net premiums written for 2006 in this sub-segment, and long-tail business, in the form of casualty and non-proportional motor business, that represented the balance of net premiums written.

Management's Discussion and Analysis of Financial Condition and Results of Operation

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Gross premiums written	\$ 763	(9)%	\$ 837	(11)%	\$ 944
Net premiums written	760	(9)	835	(12)	945
Net premiums earned	\$ 775	(10)	\$ 860	(7)	\$ 929
Losses and loss expenses	(505)	(21)	(637)	(13)	(730)
Acquisition costs	(210)	(3)	(217)	(9)	(238)
Technical result	\$ 60	1,000	\$ 6	NM	\$ (39)
Loss ratio	65.1%		74.1%		78.6%
Acquisition ratio	27.1		25.3		25.6
Technical ratio	92.2%		99.4%		104.2%

NM: not meaningful

Premiums

The Global (Non-U.S.) P&C sub-segment represented 21%, 23% and 24% of total net premiums written in 2006, 2005 and 2004, respectively.

2006 over 2005

The decline in gross and net premiums written and net premiums earned in 2006 resulted from the motor and casualty lines and was partially offset by a slight increase in the property line. Competitive market conditions, as well as increases in risk retention by cedants prevailed in 2006 for this sub-segment, which reduced the opportunities for growth. In addition to the continued increased risk retention by cedants, the reduction in the motor line resulted from the Company's decision to non-renew treaties that did not meet the Company's profitability objectives. The Company has remained selective in an increasingly competitive environment and has chosen to retain only that business that met its profitability objectives, rather than focusing on premium volume. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 also contributed to the decrease in net premiums written in this sub-segment, as premiums denominated in currencies that have depreciated against the U.S. dollar were converted into U.S. dollars at a lower weighted average exchange rate. Without the negative contribution of foreign exchange, gross and net premiums written would have declined by 6% and net premiums earned would have declined by 9%.

2005 over 2004

The decline in gross and net premiums written and net premiums earned in 2005 resulted from all lines in this sub-segment, but was more pronounced in the casualty line. Increased competition and increased risk retention by cedants were the principal reasons for the decrease in premium volume in this sub-segment. The weakening of the U.S. dollar, on average, in 2005 compared to 2004 partially offset the decrease in net premiums written in this sub-segment. Without the positive contribution of foreign exchange, gross and net premiums written would have declined by 16% and net premiums earned would have declined by 11%.

Global (Non-U.S.) P&C (continued)**Losses and loss expenses and loss ratio****2006 over 2005**

The losses and loss expenses and loss ratio reported in 2006 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of \$66 million, or 8.6 points on the loss ratio of this sub-segment, including \$6 million of net favorable loss development on the large 2005 catastrophic loss events; and c) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net favorable loss development of \$66 million, which included net favorable development of \$79 million in the property and casualty lines, partially offset by net adverse development of \$13 million in the motor and other lines, resulted from a reassessment of the loss development assumptions used by the Company to estimate future liabilities due to what it believed were favorable experience trends in these lines of business (adverse experience trends for the motor line), as losses reported by cedants during 2006 for prior accident years, and for treaties where the risk period expired, were lower (higher for the motor line) than the Company expected. Loss information provided by cedants in 2006 for prior accident years included no individually significant losses, but a series of attritional losses. Based on the Company's assessment of this loss information, the Company decreased its expected ultimate loss ratios for the property and casualty lines (increased for the motor line), which had the net effect of decreasing (increasing for the motor line) prior year loss estimates for this sub-segment.

The decrease of \$132 million in losses and loss expenses from 2005 to 2006 included:

- a decrease in losses and loss expenses of approximately \$72 million resulting from a combination of effect of the decrease in the book of business and exposure, modestly lower profitability on the business written in 2005 and 2006 that was earned in 2006, and normal fluctuations in profitability between periods; and
- a decrease in large catastrophic losses of \$61 million; and was partially offset by
- a decrease of \$1 million in net favorable prior year development.

2005 over 2004

The losses and loss expenses and loss ratio reported in 2005 reflected a) losses related to the large 2005 catastrophic loss events of \$61 million, or 7.1 points on the loss ratio of this sub-segment; b) net favorable loss development on prior accident years of \$67 million, or 7.9 points on the loss ratio; and c) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net favorable loss development of \$67 million included net favorable loss development for prior accident years in the property and casualty lines of \$76 million, partially offset by net adverse loss development in the motor line of \$9 million. The net favorable loss development was primarily due to favorable loss emergence, as losses reported by cedants during 2005 for prior accident years and for treaties where the risk period expired were lower (higher for motor line) than the Company expected. Loss information provided by cedants in 2005 for prior accident years for all lines in this sub-segment included no individually significant losses but a series of attritional losses. Based on the Company's assessment of this loss information, the Company decreased its expected ultimate loss ratios for the property and casualty lines (increased for the motor line), which had the net effect of decreasing the level of prior year loss estimates for this sub-segment.

The decrease of \$93 million in losses and loss expenses and loss ratio from 2004 to 2005 is explained by:

- an increase of \$91 million in the level of net favorable prior year development; and
- a decrease in losses and loss expenses of approximately \$29 million, resulting from the decrease in the book of business and exposure; and was partially offset by
- an increase in large catastrophic losses of \$27 million.

Acquisition costs and acquisition ratio

2006 over 2005

The decrease in acquisition costs in 2006 compared to 2005 was primarily due to the reduction in the Company's book of business and exposure, as evidenced by the 10% decrease in net premiums earned. This was partially offset by a higher commission rate and sliding scale commissions due to improving loss experience and increased competition in this sub-segment. The increase in the related acquisition ratio results from the commission adjustments and increased competition.

2005 over 2004

The decrease in acquisition costs in 2005 compared to 2004 was due to the reduction in the Company's book of business and exposure. The acquisition ratio was comparable for both years.

Technical result and technical ratio

2006 over 2005

The increase of \$54 million in the technical result and the corresponding decrease in the technical ratio from 2005 to 2006 was primarily explained by a decrease of \$61 million in large catastrophic losses, partially offset by a decrease of profitability of approximately \$6 million resulting from a combination of the reduction in the book of business and exposure, and a higher *a priori* loss ratio in 2006 reflecting compressed margins as pricing is not keeping up with loss cost trends and a reduction in net favorable prior year development of \$1 million.

2005 over 2004

The increase of \$45 million in the technical result and the corresponding decrease in the technical ratio from 2004 to 2005 was explained by an increase of \$91 million in net favorable prior year development, partially offset by an increase of \$27 million in the level of large catastrophic losses, and a reduction of approximately \$19 million in profitability resulting from normal fluctuations in profitability between periods.

2007 Outlook

During the January 1, 2007 renewals, the Company observed a continuation of the trend by cedants to increase their retentions and reinsurers to increase their competitive behavior. Terms and conditions weakened and pricing declined in several markets as a result of the increased competition and the Company's book of business was slightly reduced at the January 1, 2007 renewals in this sub-segment. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects a slight decline in gross and net premiums written and net premiums earned for this sub-segment in 2007.

Worldwide Specialty

The Worldwide Specialty sub-segment is usually the most profitable sub-segment; however, it is important to note that this sub-segment is exposed to volatility resulting from catastrophic and other large losses, and thus, profitability in any one year is not necessarily

Management's Discussion and Analysis of Financial Condition and Results of Operation

Worldwide Specialty (continued)

predictive of future profitability. The results of 2006 and 2005 demonstrate this volatility, as 2006 had an unusually low level of large catastrophic losses and 2005 contained an unprecedented level of large catastrophic losses. This impacted the technical result and ratio for this sub-segment and distorted year-to-year comparisons as discussed below.

The following table provides the components of the technical result and the corresponding ratios for this sub-segment (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Gross premiums written	\$ 1,586	3%	\$ 1,533	—%	\$ 1,531
Net premiums written	1,564	4	1,501	(1)	1,509
Net premiums earned	\$ 1,524	5	\$ 1,456	(3)	\$ 1,500
Losses and loss expenses	(618)	(54)	(1,334)	79	(744)
Acquisition costs	(307)	—	(308)	(5)	(323)
Technical result	\$ 599	NM	\$ (186)	NM	\$ 433
Loss ratio	40.5%		91.6%		49.6%
Acquisition ratio	20.2		21.2		21.6
Technical ratio	60.7%		112.8%		71.2%

NM: not meaningful

Premiums

The Worldwide Specialty sub-segment represented 42%, 42% and 39% of total net premiums written in 2006, 2005 and 2004, respectively.

2006 over 2005

Gross and net premiums written and net premiums earned increased by 3%, 4% and 5%, respectively, in 2006 compared to 2005. While 2005 included \$48 million of reinstatement premiums and \$11 million of back-up covers related to the large catastrophic events, 2006 included no reinstatement premiums or back-up covers. The Company observed improvements in pricing and terms and conditions since the third quarter of 2005 for catastrophe-exposed lines, such as the catastrophe, energy and marine lines. In response to the level of demand and attractive risk-adjusted pricing, Management increased the allocation of capacity to the catastrophe-exposed lines, which also resulted in growth in premiums written in 2006 compared to 2005. The agriculture, engineering and specialty property lines also increased in 2006, while higher cedant retention and increased competition resulted in a decrease in premiums written for the other lines of business in this sub-segment. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 impeded growth in net premiums written in this sub-segment, as premiums denominated in currencies that have depreciated against the U.S. dollar were converted into U.S. dollars at a lower weighted average exchange rate. Without the negative contribution of foreign exchange, gross and net premiums written would have increased by 5% and 6%, respectively.

2005 over 2004

Following the large 2005 catastrophic losses, reinstatement premiums of \$48 million and back-up covers of \$11 million were recorded in the catastrophe line in this sub-segment, which slowed the decline in net premiums written. While the 2005 events reversed the price competition in catastrophe-exposed lines (generally short-tail lines), the decline in pricing, and net premiums written, continued in other lines in this sub-segment. The weakening of the U.S. dollar, on average, in 2005 compared to 2004 partially offset the decrease in net

premiums written in this sub-segment. Without the positive contribution of foreign exchange, gross and net premiums written would have declined by 2% and 3%, respectively, and net premiums earned would have declined by 4%.

Losses and loss expenses and loss ratio

2006 over 2005

The losses and loss expenses and loss ratio reported in 2006 for this sub-segment reflected a) no large catastrophic losses; and b) net favorable loss development on prior accident years in the amount of \$193 million, or 12.6 points on the loss ratio of this sub-segment, including net adverse loss development of \$24 million related to the large 2005 catastrophic losses. The net favorable loss development of \$193 million in 2006 included net favorable loss development for all lines of business with the exception of the catastrophe line, which reported a net adverse loss development of \$25 million. The net adverse loss development on the large 2005 catastrophic loss events included \$20 million of an additional IBNR reserve established by the Company as a result of a general concern given recent litigation developments and evolving out of court settlement trends that may affect some of the Company's cedants in the future. Excluding the net adverse development on the large 2005 catastrophic losses, the net favorable loss development for this sub-segment was primarily due to net favorable loss emergence, as losses reported by cedants during 2006 for prior accident years, including treaties where the risk period expired, were lower than the Company expected. Other than for losses related to the 2005 hurricanes, loss information provided by cedants in 2006 for prior accident years included no individually significant losses, but a series of attritional losses. Based on the Company's assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, except for the catastrophe line, which had the net effect of decreasing (increasing for the catastrophe line) the level of prior year loss estimates.

The decrease of \$716 million in losses and loss expenses from 2005 to 2006 included:

- a decrease in large catastrophic losses of \$741 million; and was partially offset by
- a decrease of \$19 million in net favorable prior year development; and
- an increase in losses and loss expenses of approximately \$6 million resulting from the combination of the increase in the book of business and exposure and normal fluctuations in profitability between periods.

2005 over 2004

The losses and loss expenses and loss ratio reported in 2005 reflected a) losses related to the large 2005 catastrophic loss events in the amount of \$741 million or 49.4 points on the loss ratio of this sub-segment (the loss ratio was adjusted for related reinstatement premiums); b) net favorable loss development on prior accident years in the amount of \$212 million, or 14.5 points on the loss ratio; and c) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net favorable loss development of \$212 million included net favorable loss development in all lines, with the exception of net adverse loss development for the agriculture line of \$10 million. The net favorable loss development was primarily due to favorable loss emergence, as losses reported by cedants during 2005 for prior accident years, and for treaties where the risk period expired, were lower (higher for agriculture) than the Company expected. Loss information provided by cedants in 2005 for prior accident years for all lines included no individually significant losses, but a series of attritional losses. Based on the Company's assessment of this loss information, the Company has decreased its expected ultimate loss ratios for all lines (increased for the agriculture line), which had the net effect of decreasing the level of prior year loss estimates (increasing for the agriculture line).

Worldwide Specialty (continued)

The increase of \$590 million in losses and loss expenses and loss ratio from 2004 to 2005 is explained by:

- an increase in large catastrophic losses of \$656 million; and was partially offset by
- a decrease in losses and loss expenses of approximately \$47 million, resulting from the decrease in the book of business and exposure; and
- an increase of \$19 million in net favorable prior year development.

Acquisition costs and acquisition ratio

2006 over 2005

The decrease in acquisition costs and acquisition ratio in 2006 compared to 2005 was primarily attributable to a) adjustments for certain treaties in the third quarter of 2005, which resulted in higher acquisition costs for 2005, as well as b) normal shifts between lines of business that carry different acquisition ratios.

2005 over 2004

The decrease in acquisition costs in 2005 compared to 2004 resulted from the reduction in the Company's book of business and exposure, as evidenced by the decrease in net premiums earned, and shifts in the mix of business as certain lines carry lower acquisition costs. Although the acquisition ratio is flat, two trends offset each other in 2005. The increase in net favorable prior year loss development resulted in increased sliding scale commissions and profit commission adjustments, which increased the acquisition ratio. Reinstatement premiums received by the Company following Hurricanes Katrina, Rita and Wilma carried lower acquisition costs than the average for this sub-segment, which had the effect of decreasing the acquisition ratio.

Technical result and technical ratio

2006 over 2005

The increase of \$785 million in the technical result and the corresponding decrease in the technical ratio from 2005 to 2006 was primarily explained by a decrease of \$695 million in large catastrophic losses, and an increase in profitability of approximately \$109 million resulting from higher net premiums earned for the wind-exposed lines, which suffered no large catastrophic losses in 2006, partially offset by a reduction in net favorable prior year development of \$19 million.

2005 over 2004

The decrease of \$619 million in the technical result and the corresponding increase in the technical ratio from 2004 to 2005 was explained by an increase of \$615 million in the level of large catastrophic losses, net of reinstatement premiums, and a reduction of approximately \$23 million resulting from normal fluctuations in profitability between periods, partially offset by an increase of \$19 million in net favorable prior year development.

2007 Outlook

During the January 1, 2007 renewals, the Company observed a continuation of the trend by cedants to increase their retentions. Terms and conditions weakened and pricing declined in several markets, as a result of increased competition, and the Company's book of business was slightly reduced at the January 1, 2007 renewals in this sub-segment. For catastrophe-exposed lines, such as catastrophe, energy and marine, the Company observed improvements in pricing, as well as increased risk retention by cedants. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects a slight decline in gross and net premiums written and net premiums earned for this sub-segment in 2007.

ART Segment

The ART segment is comprised of structured risk transfer reinsurance, principal finance (previously referred to as structured finance), weather-related products and strategic investments, including the interest in earnings of the Company's equity investment in Channel Re Holdings. The new name for the principal finance unit reflects the expansion of this unit into project finance and real estate related asset classes, in addition to the structured finance asset class.

As revenues in this segment are recorded either as premiums or other income (in the case of derivative contracts and contracts that do not qualify for reinsurance accounting), premiums alone are not a representative measure of activity in ART. This segment is very transaction driven, and revenues and profit trends will be uneven, especially given the relatively small size of this segment. Accordingly, profitability or growth in any year is not necessarily predictive of future profitability or growth.

The Company's share of the results of Channel Re Holdings amounted to \$12 million, \$10 million and \$6 million for the years ended December 31, 2006, 2005 and 2004, respectively. The Company records income on its investment in Channel Re Holdings on a one-quarter lag. The 2006 and 2005 results are not comparable to 2004, as 2004 represented results for an eight-month period from February 2004, the date of the Company's acquisition of an ownership interest in Channel Re Holdings, to September 30, 2004.

The following table provides the components of the underwriting result and the interest in earnings of equity investments for this segment (in millions of U.S. dollars):

	2006	2005	2004
Gross premiums written	\$ 35	\$ 27	\$ 5
Net premiums written	35	27	5
Net premiums earned	\$ 31	\$ 25	\$ 6
Losses and loss expenses	(13)	(32)	(7)
Acquisition costs	(3)	(3)	(1)
Technical result	\$ 15	\$ (10)	\$ (2)
Other income	24	31	11
Other operating expenses	(18)	(13)	(13)
Underwriting result	\$ 21	\$ 8	\$ (4)
Interest in earnings of equity investments	\$ 12	\$ 10	\$ 6

2006 over 2005

The ART segment had good growth in underwriting result during 2006 compared to 2005, despite continued difficult market conditions. Underwriting result increased by \$13 million, from \$8 million in 2005 to \$21 million in 2006. While the 2005 results were adversely impacted by \$16 million, net of additional premiums, related to the large catastrophic losses, the corresponding period of 2006 included one large loss of \$6 million, as well as net favorable loss development of \$3 million (net of additional premiums) related to the 2005 hurricanes. This segment also benefited from the early termination of a number of longer term contracts, which led to accelerated profit recognition for the terminated contracts, and

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ART Segment (continued)

stronger results on weather products. All lines of business were profitable in 2006, with the structured risk transfer and the Company's interest in the earnings of Channel Re Holdings generating the largest contribution to pre-tax net income.

2005 over 2004

The ART segment had good growth in underwriting result during 2005 compared to 2004, despite market conditions that impeded opportunities. Low interest rates, which tend to reduce the attractiveness of structured risk transfer business for clients, and low credit spreads, which reduced the opportunities in the principal finance business, were prevalent in both years.

Underwriting result increased in 2005 compared to 2004, despite a higher level of large catastrophic losses of \$8 million, net of additional premiums. While the weather line returned to profitability in 2005, following incurred realized and unrealized losses on weather derivative instruments due to unusual weather patterns in Japan during 2004, the structured risk transfer line incurred losses on the 2005 hurricanes, which mitigated the positive impact of the weather and principal finance lines. Except for the structured risk transfer line, all lines of business were profitable in 2005, with the weather products and the Company's interest in the earnings of Channel Re Holdings generating the largest contribution to pre-tax net income.

2007 Outlook

The Company expects that current interest rates and tight credit spreads will continue to impede growth in the structured risk transfer and principal finance lines, as well as the growth in the Company's earnings from Channel Re Holdings. The Company intends to balance these trends by cautiously exploring new business initiatives in related risk categories (including project finance and real estate related asset classes) that should contribute to growth over time.

Life Segment

The following table provides the components of the allocated underwriting result for this segment (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Gross premiums written	\$ 507	13%	\$ 448	8%	\$ 417
Net premiums written	487	12	434	7	404
Net premiums earned	\$ 487	13	\$ 430	6	\$ 406
Life policy benefits	(363)	14	(320)	8	(296)
Acquisition costs	(117)	(3)	(120)	(12)	(136)
Technical result	\$ 7	NM	\$ (10)	(61)	\$ (26)
Other operating expenses	(29)	28	(23)	2	(22)
Net investment income	51	8	48	8	44
Allocated underwriting result ⁽¹⁾	\$ 29	98	\$ 15	NM	\$ (4)

NM: not meaningful

⁽¹⁾ Allocated underwriting result is defined as net premiums earned and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.

Premiums

The Life segment represented 13%, 12% and 11% of total net premiums written in 2006, 2005 and 2004, respectively.

2006 over 2005

The increase in gross and net premiums written and net premiums earned during 2006 compared to 2005 was attributable to growth in all lines of business, but was more evident in the mortality line. Growth in the mortality line resulted from intrinsic growth in the business written by the Company's cedants, which resulted in more volume ceded to the Company on existing treaties, and new business generated by the Company. The longevity line reported a modest increase of 1% resulting from the Company not writing any new treaties in 2006 for this line of business. Furthermore, the U.S. dollar strengthened, on average, in 2006 compared to 2005 and premiums denominated in currencies that have depreciated against the U.S. dollar were converted into U.S. dollars at a lower weighted average exchange rate. Without the negative contribution of foreign exchange, gross and net premiums written and net premiums earned would have increased by 14%, 13% and 14%, respectively.

2005 over 2004

The increases in gross and net premiums written and net premiums earned during 2005 compared to 2004 resulted primarily from three factors. First, the Company increased its book of mortality business at the end of 2004, which resulted in higher net premiums earned in 2005. Second, the Company experienced growth in mortality lines, partially offset by a reduction in longevity and health products in 2005. Finally, the U.S. dollar weakened, on average, in 2005 compared to 2004. Without the positive contribution of foreign exchange, gross and net premiums written and net premiums earned would have increased by 6%, 5% and 4%, respectively.

Life policy benefits***2006 over 2005***

Life policy benefits increased by \$43 million, or 14%, in 2006 compared to 2005. This was primarily attributable to the increase in the book of business and exposure, as evidenced by the 13% increase in net premiums earned for this segment. Life policy benefits in 2006 included net favorable prior year reserve development of \$12 million. The net favorable reserve development included favorable development of \$17 million in the mortality line, partially offset by adverse development of \$5 million in the longevity line. The favorable development in the mortality line was related to the refinement of the Company's reserving methodologies related to certain proportional guaranteed minimum death benefit treaties and the receipt of additional reported loss information from its cedants, while the adverse development in the longevity line was related to higher losses reported by cedants.

2005 over 2004

The increase in life policy benefits in 2005 compared to 2004 resulted primarily from the growth in the Company's book of business and exposure, as evidenced by the increase in net premiums earned. The comparison was also affected by a reclassification made in 2004 for one large treaty where the cedant reported a reduction in life policy benefits and an equivalent increase in acquisition costs. This reclassification affected the comparison of life policy benefits and acquisition costs for the years 2005 and 2004. The Indian Ocean tsunami resulted in additional life policy benefits of \$5 million in 2004.

Life Segment (continued)

Acquisition costs

2006 over 2005

The decrease of \$3 million, or 3%, in acquisition costs in 2006 compared to 2005 was primarily attributable to shifts in the mix of business.

2005 over 2004

In 2004, acquisition costs included a \$5 million charge to reduce deferred acquisition costs on annuity treaties retained in the sale of PartnerRe Life Insurance Company of the U.S. A prolonged period of low interest rates had a negative effect on these treaties, and resulted in a charge reflecting the actual experience to date as well as a revised projection of future results given updated assumptions. Without the effect of this charge and the reclassification discussed above, which increased acquisition costs in 2004, there would have been an increase in acquisition costs in 2005 compared to 2004. A shift in the mix of business for this segment in 2005 resulted in a higher proportion of mortality business, which tends to carry higher acquisition costs in the early years of the treaties.

Net investment income

2006 over 2005

Net investment income for 2006 increased by 8% for this segment compared to 2005, resulting primarily from the growth in the book of business and higher net investment income reported in 2006 by a cedant on a longevity treaty.

2005 over 2004

The increase in net investment income for 2005 compared to 2004 is also primarily attributable to the growth in the book of business.

Allocated underwriting result

2006 over 2005

The increase of \$14 million in allocated underwriting result in 2006 compared to 2005 was primarily attributable to the \$12 million of net favorable prior year development recorded in 2006, and the increase in net investment income allocated to this segment in 2006, partially offset by higher operating expenses, resulting principally from higher bonus accruals in 2006.

2005 over 2004

The increase of \$19 million in allocated underwriting result in 2005 compared to 2004 was primarily attributable to the \$5 million life policy benefits related to the Indian Ocean tsunami in 2004, the \$5 million charge taken in 2004 to reduce deferred acquisition costs, and the increase of \$4 million in net investment income allocated to this segment in 2005.

2007 Outlook

Based on pricing indications and renewal information received from cedants and brokers, and assuming constant foreign exchange rates, Management expects slight growth in gross and net premiums written and net premiums earned for this segment in 2007.

Management's Discussion and Analysis of Financial Condition and Results of Operation
Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the years ended December 31, 2006, 2005 and 2004 was as follows:

	2006	2005	2004
Non-life			
Property and Casualty			
Property	19%	19%	19%
Casualty	19	19	21
Motor	6	8	10
Worldwide Specialty			
Agriculture	5	3	4
Aviation / Space	5	6	6
Catastrophe	11	11	9
Credit / Surety	6	7	6
Engineering	5	4	5
Energy	2	1	1
Marine	3	3	2
Specialty property	2	2	3
Specialty casualty	3	4	3
ART	1	1	—
Life	13	12	11
Total	100%	100%	100%

There were modest shifts in the distribution of net premiums written by line and segment in 2006, 2005 and 2004, which reflected the Company's response to existing market conditions as discussed below. Additionally, the distribution of net premiums written may also be affected by the timing of renewals of treaties or the shift in treaty structure from a proportional to non-proportional basis, which can significantly reduce premiums written. Foreign exchange fluctuations affected the comparison for all lines.

- **Casualty:** increased competition, increased risk retention from cedants and lower cedant premium estimates for prior years are the principal reasons for the decrease in casualty premium volume in 2005.
- **Motor:** the decrease in both 2006 and 2005 resulted from higher risk retention by cedants, prevailing market conditions and Management's decision not to renew certain treaties in the U.S. P&C and Global (Non-U.S.) P&C sub-segments when the profitability did not meet the Company's objectives.
- **Catastrophe:** the catastrophe line benefited from improvements in pricing and terms and conditions following the 2004 and 2005 hurricanes. In response to the level of demand and attractive risk-adjusted pricing, Management increased the allocation of capacity to the catastrophe line, which also resulted in growth in premiums written during 2006 (after adjustment for reinstatement premiums in 2005). Non-life reinstatement premiums of \$48 million related to the 2005 hurricanes and European winterstorm Erwin resulted in an increase in premium volume in 2005.
- **Life:** as part of its diversification strategy, the Company continues to steadily increase the proportion of its life portfolio.

2007 Outlook

During the January 1, 2007 renewals, the Company observed a continuation of the trend by cedants to increase their retentions. Terms and conditions weakened and pricing declined in several markets, as a result of the increased competition and the Company's book of business was slightly reduced at the January 1, 2007 renewals. Based on renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects the premium distribution by line in 2007 to be similar to 2006.

Premium Distribution by Treaty Type

The Company typically writes business on either a proportional or non-proportional basis. On proportional business, the Company shares proportionally in both the premiums and losses of the cedant. On non-proportional business, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio. In both proportional and non-proportional business, the Company typically reinsures a large group of primary insurance contracts written by the ceding company. In addition, the Company writes a small percentage of its business on a facultative basis. Facultative arrangements are generally specific to an individual risk and can be written on either a proportional or non-proportional basis. Generally, the Company has more influence over pricing, as well as terms and conditions, in non-proportional and facultative arrangements.

The distribution of gross premiums written by treaty type for the years ended December 31, 2006, 2005 and 2004 was as follows:

	2006	2005	2004
Non-life Segment			
Proportional	51%	50%	53%
Non-Proportional	29	32	29
Facultative	5	5	7
ART Segment			
Non-Proportional	1	1	—
Life Segment			
Proportional	13	11	10
Non-Proportional	1	1	1
Total	100%	100%	100%

The distribution of gross premiums written by treaty type is affected by changes in the allocation of capacity among lines of business, as well as reinstatement premiums related to large catastrophic losses, which originate from non-proportional treaties. In addition, changes in average foreign exchange rates affect the year-to-year comparisons for all treaty types.

Non-life Segment

The 2005 period included \$48 million of non-proportional reinstatement premiums related to the large 2005 catastrophic losses, which accounted for the modest shift in the distribution of gross premiums by treaty type for 2005 compared to 2004.

Life Segment

The increase in the percentage of proportional gross premiums written for the Life segment resulted from the increase in the Company's mortality business.

Management's Discussion and Analysis of Financial Condition and Results of Operation

2007 Outlook

The Company observed during the January 1, 2007 renewals that cedants continue to increase their retention levels, which in certain cases results in a shift from seeking reinsurance coverage written on a proportional basis to a non-proportional basis. Based on renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects that increased retention by cedants will result in a slight shift from a proportional basis to a non-proportional basis in 2007 for the Non-life segment.

Premium Distribution by Geographic Region

The geographic distribution of gross premiums written for the years ended December 31, 2006, 2005 and 2004 was as follows:

	2006	2005	2004
North America	43%	41%	40%
Europe	42	46	45
Asia, Australia and New Zealand	8	8	9
Latin America, Caribbean and Africa	7	5	6
Total	100%	100%	100%

The distribution of gross premiums for all non-U.S. regions was affected by foreign exchange fluctuations and distorts the year-to-year comparisons. In 2006, Management increased the allocation of capacity to areas exposed to U.S. wind as U.S. wind-exposed lines showed improvements in pricing and terms and conditions following the 2004 and 2005 hurricanes. This resulted in growth of premiums written in North America in 2006. In 2005, gross premiums written included \$59 million of reinstatement premiums for the Non-life and ART segments related to the 2005 hurricanes, which increased the distribution in North America compared to 2004.

2007 Outlook

Based on January 1, 2007 renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects the distribution of gross premiums written by geographic region in 2007 to be similar to 2006.

Premium Distribution by Production Source

The Company generates its gross premiums written both through brokers and through direct relationships with cedants. The percentage of gross premiums written by source for the years ended December 31, 2006, 2005 and 2004 was as follows:

	2006	2005	2004
Broker	69%	63%	64%
Direct	31%	37%	36%

The shift from direct to broker in 2006 compared to 2005 and 2004 reflected the increase of gross premiums written in North America, where premiums are written predominantly on a broker basis, and a modest shift of gross premiums written from direct to broker for the rest of the world in 2006.

Management's Discussion and Analysis of Financial Condition and Results of Operation
2007 Outlook

Based on January 1, 2007 renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2007 renewals continue throughout the year, Management expects the production source of gross premiums written in 2007 to be similar to 2006.

Investment Income

The table below provides net investment income by asset source for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Fixed maturities	\$ 334	16%	\$ 288	17%	\$ 246
Short-term investments, trading securities, cash and cash equivalents	61	141	26	221	8
Equities	33	21	27	38	20
Funds held and other	40	(1)	41	—	41
Investment expenses	(19)	13	(17)	4	(17)
Net investment income	\$ 449	23%	\$ 365	22%	\$ 298

2006 over 2005

Net investment income increased in 2006 compared to 2005 for the following reasons:

- net investment income from fixed maturities, short-term investments, trading securities, and cash and cash equivalents increased in 2006 compared to 2005, primarily due to an increase in the asset base resulting from the reinvestment of cash flows from operations of \$492 million generated in 2006, after the purchase of approximately \$390 million of trading securities, cash proceeds of \$549 million received from the Company's capital raises in October 2005, as well as higher interest rates in 2006; and
- net investment income from equity securities increased in 2006 compared to 2005, primarily due to an increase in the average asset base during the year, partially offset by a decrease in allocation to equity securities during the second quarter of 2006; partially reduced by
- a decrease in investment income on funds held, as the funds held asset base at the beginning of 2006 was \$129 million lower than at the beginning of 2005; and
- an increase in investment expenses resulting from the increase in the asset base.

The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 had minimal effect on the increase in net investment income.

2005 over 2004

Net investment income increased in 2005 compared to 2004 for the following reasons:

- net investment income from fixed maturities, equities, short-term investments, trading securities, and cash and cash equivalents increased in 2005 compared to 2004, primarily due to the increase in the asset base resulting from positive cash flows from operations of \$1,264 million for 2004 and \$1,032 million for 2005. Cash flows from 2004 generated a full year of net investment income in 2005, while cash flows from 2005 were generated during the year and had a smaller positive impact on 2005's net investment income;

- after incurring large catastrophic losses in 2005, the Company received \$549 million of additional capitalization in October 2005. At December 31, 2005, a significant portion of these funds was invested in cash equivalents and this contributed to the increase in the Company's net investment income for this category of assets in 2005;
- the Company converted its entire MBS portfolio into cash and invested in MBS TBA dollar rolls during 2004, which resulted in the Company holding over \$1.5 billion in cash at June 30, 2004 and September 30, 2004. While holding MBS TBA dollar roll instruments, the Company received a total return similar to what it would have if it had held a long position in the MBS portfolio. In accordance with U.S. GAAP, the Company recorded the total return on MBS TBA dollar rolls as realized gains. If the Company had instead held a long MBS portfolio, it would have recorded approximately \$6 million higher net investment income (and correspondingly lower realized gains); and
- the weakening of the U.S. dollar, on average, in 2005 compared to 2004 contributed to the increase in net investment income. Without the positive contribution of foreign exchange, net investment income would have increased by 21%.

2007 Outlook

Current economic indicators continue to suggest moderate global economic growth. Assuming constant foreign exchange rates, the Company expects that the combination of the following items should contribute to higher net investment income in 2007 compared to 2006:

- higher interest rates during 2006, which are expected to persist during 2007;
- larger asset base at December 31, 2006; and
- expected positive cash flows from operations generated during 2007, despite continuing expected claim payments on the large 2005 catastrophic loss events, although at a lower level than in 2006.

Net Realized Investment Gains

The Company's portfolio managers have dual investment objectives of optimizing current investment income and achieving capital appreciation. To meet these objectives, it is often desirable to buy and sell securities to take advantage of changing market conditions and to reposition the investment portfolios. Accordingly, recognition of realized gains and losses is considered by the Company to be a normal consequence of its ongoing investment management activities.

Proceeds from the sale of investments classified as available for sale for 2006, 2005 and 2004 were \$13,550 million, \$9,968 million and \$7,299 million, respectively. Realized investment gains and losses on securities classified as available for sale for the years ended December 31, 2006, 2005 and 2004 were as follows (in millions of U.S. dollars):

	2006	2005	2004
Gross realized gains	\$ 268	\$ 294	\$ 154
Gross realized losses excluding other-than-temporary impairments	(205)	(101)	(53)
Other-than-temporary impairments	(27)	(8)	(11)
Total net realized investment gains on available for sale securities	\$ 36	\$ 185	\$ 90

Management's Discussion and Analysis of Financial Condition and Results of Operation

The components of net realized investment gains or losses for the years ended December 31, 2006, 2005 and 2004 were as follows (in millions of U.S. dollars):

	2006	2005	2004
Net realized investment gains on available for sale securities, excluding other-than-temporary impairments	\$ 63	\$ 193	\$ 101
Other-than-temporary impairments	(27)	(8)	(11)
Net realized investment gains on trading securities	22	15	8
Change in net unrealized investment gains or losses on trading securities	11	2	(2)
Net realized and unrealized investment gains or losses on equity securities sold but not yet purchased	(10)	(10)	—
Net realized and unrealized investment gains (losses) on designated hedging activities	10	—	—
Net realized and unrealized (losses) gains on other invested assets	(1)	3	29
Other realized and unrealized investment (losses) gains	(21)	12	(8)
Total net realized investment gains	\$ 47	\$ 207	\$ 117

Realized investment gains and losses are generally a function of multiple factors, with the most significant being the prevailing interest rates, equity market conditions, the timing of disposition of fixed maturities and equity securities, and charges for the recognition of other-than-temporary impairments in the Company's investment portfolio.

Following an overall rise in interest rates during 2006 compared to 2005, the majority of the Company's fixed income securities decreased in value and sales of fixed income securities generated more realized investment losses than realized investment gains. Although the Company's equity securities also experienced net realized investment losses in the difficult capital market environment prevailing during the second quarter of 2006, the equity portfolios benefited from a favorable environment during the first, third and fourth quarters of 2006 and generated more realized investment gains than realized investment losses, albeit at a lower level than in 2005. The realization of the unrealized market value appreciation or depreciation does not change the Company's shareholders' equity, as it merely transfers the gain or loss from the accumulated other comprehensive income section of the Consolidated Balance Sheet to net income on the Consolidated Statement of Operations and retained earnings on the Consolidated Balance Sheet.

During the years ended December 31, 2006, 2005 and 2004, the Company recorded charges for other-than-temporary impairments relating to its investment portfolio of \$27 million, \$8 million and \$11 million, respectively. Typically, the Company considers impairment to have occurred when events have occurred that are likely to prevent the Company from recovering its investment in the security. The increase in 2006 is mainly due to a sustained higher interest rate environment relative to 2005, leading to larger unrealized losses on the Company's fixed income portfolios. Approximately 60% of the impairments recorded in 2006 and 2005 related to securities of the industrial and manufacturing sector, while the balance was related to securities of the banking and finance sector. Approximately 48% of

the impairments recorded in 2004 related to securities of the banking and finance sector, while the balance was spread over many sectors.

Other-than-temporary impairments are recorded as realized investment losses in the Consolidated Statements of Operations, which reduces net income and net income per share. Temporary losses are recorded as unrealized investment losses, which do not impact net income and net income per share but reduce accumulated other comprehensive income in the Consolidated Balance Sheet, except for those related to trading securities, which are recorded immediately as realized investment losses. (See Critical Accounting Policies and Estimates – Other-than-Temporary Impairment of Investments above, Financial Condition, Liquidity and Capital Resources – Investments below and Note 2(f) to Consolidated Financial Statements).

Other Operating Expenses

Other operating expenses were as follows (in millions of U.S. dollars):

	2006	% Change 2006 over 2005	2005	% Change 2005 over 2004	2004
Other operating expenses	\$ 310	14%	\$ 272	–%	\$ 271

Other operating expenses are comprised primarily of personnel and infrastructure costs and represented 8.4%, 7.5% and 7.3% of total net premiums earned (both life and non-life) in 2006, 2005 and 2004, respectively.

2006 over 2005

The overall increase of 14% for 2006 consisted primarily of increases in personnel costs of \$41 million, including bonus accruals and stock-based compensation expense, and \$2 million in consulting and professional fees, partially offset by decreases of \$5 million in fixed asset depreciation and other costs. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 impeded growth of other operating expenses. Without the contribution of foreign exchange, other operating expenses would have increased by 15% in 2006 compared to 2005. The ratio of operating expenses to net premiums earned increased in 2006 primarily because of higher compensation expenses, which are tied to the results of the Company.

2005 over 2004

Although operating expenses were nearly flat in 2005 compared to 2004, increases in salaries, stock-based compensation, IT asset depreciation and rent and facilities totaling \$22 million were offset by reductions in bonus accruals and consulting fees of \$21 million. The ratio of operating expenses to net premiums earned increased in 2005 because net premiums earned decreased in 2005.

Other Income

Other income for the years ended December 31, 2006, 2005 and 2004 was \$24 million, \$35 million and \$17 million, respectively, and primarily reflected income on the Company's ART contracts that were accounted for using the deposit accounting method or were considered to be derivatives. See the discussion of the ART segment included in the section Review of Net Income (Loss) above.

Other income also included approximately \$4 million and \$6 million in 2005 and 2004, respectively, relating to a Non-life treaty that was accounted for using the deposit accounting method.

Financial Condition, Liquidity and Capital Resources

Investments

The total of investments and cash and cash equivalents was \$10.7 billion at December 31, 2006, compared to \$9.6 billion at December 31, 2005. The major factors influencing the increase in 2006 were:

- net cash provided by operating activities of \$882 million, after excluding \$390 million net purchases of trading securities;
- net proceeds of \$36 million from the issuance of the capital efficient notes, the redemption of the trust preferred securities, less associated financing costs, and \$10 million contract fees related to the forward sale agreement;
- net issuance of the Company's common shares under the Company's equity plans of \$17 million;
- increase in the market value (realized and unrealized) of the investment portfolio of \$12 million resulting from the increase in market value of the equity portfolio of \$106 million, offset by the decrease in market value of the fixed income portfolio of \$94 million;
- increase in net payable for securities purchased, including equity securities sold but not yet repurchased, of \$10 million; and
- other factors, the primary one being the net positive influence of the effect of a weaker U.S. dollar relative to the euro and other currencies as it relates to the conversion of invested assets and cash balances into U.S. dollars, amounting to approximately \$268 million; offset by
- dividend payments on common and preferred shares totaling \$125 million.

The Company employs a prudent investment philosophy. It maintains a high-quality, well-balanced and liquid portfolio having the dual objectives of optimizing current investment income and achieving capital appreciation. The Company's invested assets are comprised of total investments, cash and cash equivalents and accrued investment income. From a risk management perspective, the Company allocates its invested assets into two categories: liability funds and capital funds. Liability funds represent invested assets supporting the net reinsurance liabilities, defined as the Company's operating and reinsurance liabilities net of reinsurance assets, and are invested entirely in high-quality fixed income securities. The preservation of liquidity and protection of capital are the primary investment objectives for these assets. The portfolio managers are required to adhere to investment guidelines as to minimum ratings and issuer and sector concentration limitations. Liability funds are invested in a way that generally matches them to the corresponding liabilities in terms of both duration and currency composition to protect the Company against changes in interest and foreign exchange rates. Capital funds represent the capital of the Company and contain most of the asset classes typically viewed as offering a higher risk and higher return profile, subject to risk assumption and portfolio diversification guidelines, which include issuer and sector concentration limitations. Capital funds may be invested in investment-grade and below investment-grade fixed income securities, preferred and common stocks, private equity investments, and convertible fixed-income securities. The Company believes that an allocation of a portion of its investments to equities is both prudent and desirable, as it helps to achieve broader asset diversification (lower risk) and maximizes the portfolio's total return over time.

The Company's investment strategy allows the use of derivative instruments such as futures contracts, credit default swaps, written covered call options and foreign exchange forward contracts, subject to strict limitations. Derivative instruments may be used to replicate investment positions or to manage currency and market exposures and duration risk that would be allowed under the Company's investment policy if implemented in other ways. The Company may also use written covered call options to enhance the investment performance of the equity portfolios, under strict guidelines and limitations. The Company's investment strategy also allows, to a limited extent, the use of equity short sales, which represent sales of securities not owned at the time of the sale. These short sales are incorporated within a market neutral strategy, which involves holding long equity securities and a close-to-equal dollar amount of offsetting short equity securities. The objective of the market neutral strategy is to neutralize any effects from the stock market as a whole and to generate absolute positive returns.

At December 31, 2006, the liability funds totaled \$6.6 billion and were comprised of cash and cash equivalents and high-quality fixed income securities. The capital funds, which totaled \$4.2 billion, were comprised of cash and cash equivalents, investment-grade and below investment-grade fixed income securities, preferred and common stocks, private equity investments, and convertible fixed income securities. At December 31, 2006 and 2005, approximately 96% and 94%, respectively, of the fixed income securities were rated investment-grade (BBB- or higher) by Standard & Poor's (or estimated equivalent).

Approximately 96% of the invested assets currently held by the Company are publicly traded and, accordingly, market valuations for such securities are readily available. For those securities not publicly traded (4% of the Company's invested assets or approximately \$423 million), consisting primarily of its investment in Channel Re Holdings and other investments in non-publicly traded companies, private placement equity investments, private equity funds, and other specialty asset classes, the valuation techniques depend on the nature of the individual asset. The valuation techniques used by the Company's investment managers are reviewed by the Company and are generally commensurate with standard valuation techniques for each asset class.

At December 31, 2006, the average duration of the Company's investment portfolio was 4.1 years, compared to 3.3 years at December 31, 2005. The Company increased the duration of its investment portfolio during 2006 to more closely match the natural duration of its liabilities. At December 31, 2006, the fixed maturities, short-term investments and cash and cash equivalents had an average yield to maturity at market of 4.9% compared to 4.5% at December 31, 2005, reflecting the increase in interest rates during 2006.

The Company's investment portfolio generated a total return of 7.8%, 0.8% and 9.1% for the years ended December 31, 2006, 2005 and 2004, respectively. Investment income and the increase in the market value of the equity portfolios as well as the weaker U.S. dollar during 2006 contributed to the positive total return. The total return was partially reduced by the impact of the increase in interest rates during the period.

For accounting purposes, the Company's investment portfolio is categorized according to two separate accounting classifications — available for sale and trading securities. For a description of the different accounting treatments afforded to these separate accounting classifications, see Note 2(f) to Consolidated Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operation

At December 31, 2006, investments classified as available for sale comprised approximately 94% of the Company's total investments (excluding other invested assets), with 6% being classified as trading securities.

Included in the available for sale category is the Company's portfolio of fixed maturity securities, comprised primarily of investment-grade securities issued by the U.S. government or U.S. government sponsored agencies, state and foreign governments, corporate debt securities, mortgage and asset-backed securities, short-term investments and equity securities. In addition, as part of its investment strategy, the Company invests a small percentage of its portfolio in below investment-grade bonds, which are also classified as available for sale.

The cost, gross unrealized gains, gross unrealized losses and fair value of investments classified as available for sale at December 31, 2006 and 2005, were as follows (in millions of U.S. dollars):

2006	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
- U.S. government	\$ 1,519	\$ 4	\$ (12)	\$ 1,511
- states or political subdivisions of states of the U.S.	1	—	—	1
- other foreign governments	1,554	18	(15)	1,557
- corporate	2,859	32	(26)	2,865
- mortgage/asset-backed securities	1,920	8	(26)	1,902
Total fixed maturities	7,853	62	(79)	7,836
Short-term investments	134	—	—	134
Equities	921	103	(9)	1,015
Total	\$ 8,908	\$ 165	\$ (88)	\$ 8,985
 2005	 Cost ⁽¹⁾	 Gross Unrealized Gains	 Gross Unrealized Losses	 Fair Value
Fixed maturities				
- U.S. government	\$ 923	\$ 2	\$ (10)	\$ 915
- states or political subdivisions of states of the U.S.	6	—	—	6
- other foreign governments	1,678	34	(9)	1,703
- corporate	2,558	37	(30)	2,565
- mortgage/asset-backed securities	1,518	1	(21)	1,498
Total fixed maturities	6,683	74	(70)	6,687
Short-term investments	231	—	—	231
Equities	1,246	99	(11)	1,334
Total	\$ 8,160	\$ 173	\$ (81)	\$ 8,252

⁽¹⁾ Cost is amortized cost for fixed maturities and short-term investments and original cost for equity securities, net of other-than-temporary impairments.

The following table presents the continuous periods during which the Company has held investment positions that were carried at an unrealized loss (excluding investments classified as trading securities) at December 31, 2006 (in millions of U.S. dollars):

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
- U.S. government	\$ 705	\$ (5)	\$ 298	\$ (7)	\$ 1,003	\$ (12)
- states or political subdivisions of states of the U.S.	—	—	1	—	1	—
- other foreign governments	1,043	(10)	173	(5)	1,216	(15)
- corporate	1,051	(12)	757	(14)	1,808	(26)
- mortgage/asset-backed securities	465	(3)	832	(23)	1,297	(26)
Total fixed maturities	3,264	(30)	2,061	(49)	5,325	(79)
Short-term investments	129	—	—	—	129	—
Equities	233	(7)	50	(2)	283	(9)
Total	\$ 3,626	\$ (37)	\$ 2,111	\$ (51)	\$ 5,737	\$ (88)

At December 31, 2006, the Company had more than 500 securities with gross unrealized losses. Total gross unrealized losses on fixed maturities were \$79 million at December 31, 2006, of which \$78 million were attributable to investment-grade securities and \$1 million were attributable to securities rated below investment-grade. The Company's investment security with the largest unrealized loss position at December 31, 2006, for which an other-than-temporary impairment charge has not been taken, had a gross unrealized loss of \$5.4 million, representing 6.4% of the amortized cost of the security, which is rated AAA. This unrealized loss, and the majority of the unrealized losses on fixed maturity securities classified as available for sale for which an other than temporary impairment change has not been taken, are due to increases in interest rates.

The Company recorded charges for other-than-temporary impairments relating to its investment portfolio of \$27 million (\$25 million related to fixed income securities), \$8 million and \$11 million, for 2006, 2005 and 2004 respectively. The increase is mainly due to a sustained higher interest rate environment in 2006 relative to 2005 and 2004, leading to larger unrealized losses on the Company's fixed income portfolios. See Note 2(f) to Consolidated Financial Statements for a discussion of the Company's accounting policies for investments and other-than-temporary impairments.

At December 31, 2006, the unrealized losses on the Company's U.S. and foreign government securities resulted from interest rate increases. The majority of the government securities are rated AAA, and the contractual terms of those investments do not permit the issuer to settle the securities at a price less than the par value of the investment. The Company's unrealized losses on investments in corporate bonds were also primarily due to interest rate increases. The large majority of the unrealized losses on the corporate bond investments related to investment-grade securities. The unrealized losses on these high quality corporate bonds were distributed across many industries, with the finance and industrial sectors contributing the largest portion of unrealized losses. The unrealized losses on the Company's investments in mortgage and asset-backed securities were also due to interest rate increases. Almost all the mortgage and asset-backed securities were issued by

agencies of the U.S. government, and therefore it is expected that the securities would not be settled at a price less than the amortized cost of the securities.

The Company's investments in equity securities consist primarily of investments in the common stock of companies across various industries and investments in private equity funds. The Company evaluated the equity issuers in relation to both severity and duration of the impairment. The largest equity security with an unrealized loss at December 31, 2006, for which an other-than-temporary impairment charge has not been taken, was an equity security (mutual fund) with an unrealized loss of \$1.9 million, representing 2% of the cost of the security.

The Company believes that these decreases in value are temporary under current accounting guidance, and additional analysis of individual securities for potential other-than-temporary impairments was carried out by the Company to validate its belief. The Company has the intent and ability to retain such investments for a period of time sufficient to allow for any recovery in fair value, and after considering the other-than-temporary impairment charges already taken, does not consider those investments to be other-than-temporarily impaired at December 31, 2006. At December 31, 2006, Management believed that the Company had no significant unrealized losses caused by other factors and circumstances, including an issuer's specific corporate risk or due to industry or geographic risk, for which an other-than-temporary impairment charge has not been taken.

The market value of the investments classified as trading securities was \$600 million and \$220 million at December 31, 2006 and December 31, 2005, respectively. The increase in the investment balance is due to a change in asset allocation whereby approximately \$200 million of U.S. Government and \$200 million of equity securities available for sale were sold by the Company during the fourth quarter to purchase equity trading securities given attractive equity markets. Included in the total market value of trading securities at December 31, 2006 was \$97 million related to convertible fixed income securities and \$503 million related to equity securities. At December 31, 2006 and 2005, the net unrealized investment gain on trading securities was approximately \$22 million and \$10 million, respectively.

Included in net payable for securities purchased at December 31, 2006 and 2005 was \$70 million and \$102 million, respectively, of equity securities sold but not yet purchased, which represent sales of securities not owned at the time of the sale. Included in the change in net unrealized investment gains (losses) on trading securities for the years ended December 31, 2006, 2005 and 2004, is a change in net unrealized investment gains (losses) on equity securities sold but not yet purchased of \$3 million gain, \$3 million loss and \$nil, respectively.

Rating Distribution

The following table provides a breakdown of the credit quality of the Company's fixed income securities at December 31, 2006:

Rating Category	% of Total Fixed Income Securities
AAA	69%
AA	4%
A	13%
BBB	10%
Below investment-grade/unrated	4%
	100%

Maturity Distribution

The distribution of available for sale fixed maturities and short-term investments at December 31, 2006, by contractual maturity, is shown below (in millions of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Amortized cost	Fair value
One year or less	\$ 852	\$ 849
More than one year through five years	2,685	2,678
More than five years through ten years	2,127	2,112
More than ten years	403	428
Subtotal	6,067	6,067
Mortgage/asset-backed securities	1,920	1,902
Total	\$ 7,987	\$ 7,969

The maturity distribution for those available for sale fixed maturities and short-term investments that were in an unrealized loss position at December 31, 2006, was as follows (in millions of U.S. dollars):

	Amortized cost	Fair value	Gross Unrealized Losses
One year or less	\$ 765	\$ 763	\$ (2)
More than one year through five years	1,765	1,742	(23)
More than five years through ten years	1,505	1,479	(26)
More than ten years	175	173	(2)
Subtotal	4,210	4,157	(53)
Mortgage/asset-backed securities	1,323	1,297	(26)
Total	\$ 5,533	\$ 5,454	\$ (79)

Funds Held by Reinsured Companies (Cedants)

The Company writes certain business on a funds held basis. As of December 31, 2006 and 2005, the Company recorded \$1,002 million and \$971 million, respectively, of funds held assets in its Consolidated Balance Sheets, representing 7% of the Company's total assets. Under such contractual arrangements, the cedant retains the net funds that would have otherwise been remitted to the Company and credits the net fund balance with investment income. In general, the purpose of the funds held balances is to provide cedants with additional security that the Company will honor its obligations. The Company is subject to the credit risk of the cedant in the event of insolvency or the cedant's failure to honor the value of the funds held balances for any other reason. However, the Company's credit risk is somewhat mitigated by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due.

Approximately 64% of the funds held assets at December 31, 2006 earned investment income based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized market index (e.g., LIBOR). Interest rates at December 31, 2006 ranged from 1.0% to 6.8%. Under these contractual arrangements, there are no specific assets linked to the funds held balances, and the Company is only exposed to the credit risk of the cedant.

With respect to the remaining 36% of the funds held assets at December 31, 2006, the Company receives an investment return based upon either the results of a pool of assets held by the cedant, or the investment return earned by the cedant on its entire investment portfolio. The Company does not legally own or directly control the investments underlying its funds held assets and only has recourse to the cedant for the receivable balances and no claim to the underlying securities that support the balances. Decisions as to purchases and sales of assets underlying the funds held balances are made by the cedant; in some circumstances, investment guidelines regarding the minimum credit quality of the underlying assets may be agreed upon between the cedant and the Company as part of the reinsurance agreement, or the Company may participate in an investment oversight committee regarding the investment of the net funds, but investment decisions are not otherwise influenced by the Company.

Within this portion of the funds held assets, the Company has several annuity treaties, which are structured so that the return on the funds held balances is tied to the performance of an underlying group of assets held by the cedant, including fluctuations in the market value of the underlying assets. One such treaty is a retrocessional agreement under which the Company receives more limited data than what is generally received under a direct reinsurance agreement. In these arrangements, the objective of the reinsurance agreement is to provide for the covered longevity risk and to earn a net investment return on an underlying pool of assets greater than is contractually due to the annuity holders. While the Company is also exposed to the creditworthiness of the cedant, the risk of loss to the Company is somewhat mitigated, as the Company generally has the ability to offset a shortfall in the funds held asset with amounts owed to the cedant. The Company also has non-life treaties in which the investment performance of the net funds held corresponds to

the interest income on the assets held by the cedant; however, the Company is not directly exposed to the underlying credit risk of these investments, as they serve only as collateral for the Company's receivables. That is, the amount owed to the Company is unaffected by changes in the market value of the investments underlying the funds.

In those cases where the Company is exposed to the credit or interest rate risk of an underlying pool of assets, the Company has applied the guidance of Derivatives Implementation Group (DIG) Issue No. B36 "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments". Accordingly, the Company has recognized as a realized gain or loss the value of the credit and/or interest rate derivative embedded within the funds held balance. In the case of the Company's annuity contracts, there is also generally a resulting offsetting adjustment to deferred acquisition costs related to this business. At December 31, 2006, the cumulative value of such embedded derivatives was determined to be a loss of approximately \$2 million, which is substantially offset by comparable but opposite adjustment to deferred acquisition costs.

Unpaid Losses and Loss Expenses

The Company establishes loss reserves to cover the estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that the Company writes. Loss reserves do not represent an exact calculation of the liability. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect the Company's expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. The Company believes that the recorded unpaid losses and loss expenses represent Management's best estimate of the cost to settle the ultimate liabilities based on information available at December 31, 2006. See Critical Accounting Policies and Estimates – Losses and Loss Expenses and Life Policy Benefits above for additional information concerning losses and loss expenses.

The Company's unpaid losses and loss expenses for its non-life operations are composed of the reserves for its Non-life and ART segments. At December 31, 2006 and 2005, the Company recorded gross non-life reserves for unpaid losses and loss expenses of \$6,871 million and \$6,738 million, respectively, and net non-life reserves for unpaid losses and loss expenses of \$6,732 million and \$6,552 million, respectively.

The following table provides a reconciliation of the net non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars):

	2006	2005	2004
Net liability at beginning of year	\$ 6,552	\$ 5,614	\$ 4,579
Net incurred losses related to:			
Current year	2,000	2,998	2,319
Prior years	(252)	(231)	(139)
	1,748	2,767	2,180
Net paid losses	(1,860)	(1,485)	(1,379)
Effects of foreign exchange rate changes	292	(344)	234
Net liability at end of year	\$ 6,732	\$ 6,552	\$ 5,614

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Net incurred losses for the years ended December 31, 2005 and 2004 (after retrocession but before reinstatement premiums) included large catastrophic losses of \$959 million and \$181 million, respectively, while the Company's net incurred losses for the year ended December 31, 2006 included no large catastrophic losses. See Critical Accounting Policies and Estimates – Losses and Loss Expenses and Life Policy Benefits and Results by Segment above for a discussion of losses and loss expenses and prior years' reserve developments.

The non-life ratio of paid losses to net premiums earned was 59%, 47% and 41% for the years ended December 31, 2006, 2005 and 2004, respectively, and the non-life ratio of paid losses to incurred losses was 106%, 54% and 63% for the years ended December 31, 2006, 2005 and 2004, respectively. The higher non-life ratio of paid losses to net premiums earned in 2006 resulted from payments on the large 2005 catastrophic loss events and the 2004 Atlantic hurricanes, which increased to \$576 million compared to \$182 million in 2005. The higher non-life ratio of paid losses to incurred losses in 2006 reflected the low large loss activity in 2006 compared to \$959 million of losses incurred for the large 2005 catastrophic loss events, and the increase in payments related to the large 2005 and 2004 catastrophic loss events in 2006 compared to 2005. As of December 31, 2006, approximately 88% and 69% of the Company's ultimate loss estimates related to the 2004 Atlantic hurricanes and the large 2005 catastrophic losses, respectively, were paid, the majority of which payments were made in 2006.

The Company's estimated losses resulting from Hurricane Katrina are subject to an unusual level of uncertainty arising out of these losses' extremely complex and unique causation and related coverage issues associated with the attribution of losses to wind or flood damage or other perils such as fire, business interruption or riot and civil commotion. For instance, many of the Company's cedants' underlying policies exclude flood damage; however, water damage directly related to wind damage may be covered. The Company expects that these issues will not be resolved for a considerable period of time. As a result of a general concern given recent litigation developments and the evolving out of court settlement trends that may affect some of the Company's cedants in the future, an additional IBNR reserve of \$20 million was established during 2006. These loss estimates will be reviewed continually and the ultimate liability may be in excess of, or less than, the amounts provided.

Policy Benefits for Life and Annuity Contracts

At December 31, 2006 and 2005, the Company recorded gross policy benefits for life and annuity contracts of \$1,431 million and \$1,224 million, respectively, and net policy benefits for life and annuity contracts of \$1,388 million and \$1,193 million, respectively.

The following table provides a reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars):

	2006	2005	2004
Net liability at beginning of year	\$ 1,193	\$ 1,248	\$ 1,139
Net incurred losses	363	320	296
Net paid losses	(278)	(266)	(257)
Effects of foreign exchange rate changes	110	(109)	70
Net liability at end of year	\$ 1,388	\$ 1,193	\$ 1,248

PartnerRe Ltd.
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Net incurred losses in 2006 included \$12 million of net favorable prior year development. See Results by Segment above for a discussion of life policy benefits and prior years' reserve developments.

The life ratio of paid losses to net premiums earned was 57%, 62% and 63% for the years ended December 31, 2006, 2005 and 2004, respectively, and the life ratio of paid losses to incurred losses was 76%, 83% and 87% for the years ended December 31, 2006, 2005 and 2004, respectively.

Contractual Obligations and Commitments

In the normal course of its business, the Company is a party to a variety of contractual obligations as summarized below. These contractual obligations are considered by the Company when assessing its liquidity requirements and the Company is confident in its ability to meet all of its obligations. Contractual obligations at December 31, 2006, were as follows (in millions of U.S. dollars):

	Total	< 1 year	1-3 years	3-5 years	> 5 years
Contractual obligations:					
Long-term debt – principal	\$ 620.0	\$ –	\$ 620.0	\$ –	\$ –
Long-term debt – interest	80.5	36.5	44.0	–	–
Operating leases	162.2	23.7	45.1	32.4	61.0
Other operating agreements	38.4	9.4	15.5	13.5	–
Contract fees under forward sale agreement	20.6	10.8	9.8	–	–
Unpaid losses and loss expenses ⁽¹⁾	6,870.8	1,857.5	1,823.6	1,021.3	2,168.4
Policy benefits for life and annuity contracts ⁽²⁾	2,056.8	220.9	253.9	215.4	1,366.6
Deposit liabilities ⁽²⁾	544.6	23.4	69.5	34.0	417.7
Other long-term liabilities:					
Series C cumulative preferred shares – principal ⁽³⁾	290.0	–	–	–	290.0
Series C cumulative preferred shares – dividends	NA	19.6	39.2	39.2	19.6 per annum
Series D cumulative preferred shares – principal ⁽³⁾	230.0	–	–	–	230.0
Series D cumulative preferred shares – dividends	NA	15.0	29.9	29.9	15.0 per annum
CENts – principal ⁽⁴⁾	250.0	–	–	–	250.0
CENts – interest	NA	16.1	32.2	32.2	16.1 per annum

NA: not applicable

⁽¹⁾ The Company's unpaid losses and loss expenses as of December 31, 2006 and are not fixed amounts payable pursuant to contractual commitments. The timing and amounts of actual loss payments related to these reserves might vary significantly from the Company's current estimate of the expected timing and amounts of loss payments based on many factors including large individual losses as well as general market conditions.

⁽²⁾ Policy benefits for life and annuity contracts and deposit liabilities recorded in the Company's Consolidated Balance Sheet at December 31, 2006 of \$1,431 million and \$351 million, respectively, are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

⁽³⁾ The Company's Series C and Series D preferred shares are perpetual and have no mandatory redemption requirement. See Note 13 to Consolidated Financial Statements for further information.

⁽⁴⁾ PartnerRe Finance II Inc. does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of \$257.6 million on its Consolidated Balance Sheets.

Due to the limited nature of the information presented above, it should not be considered indicative of the Company's liquidity or capital needs. See Liquidity below.

Shareholders' Equity and Capital Resources Management

Shareholders' equity at December 31, 2006 was \$3.8 billion, a 22% increase compared to \$3.1 billion at December 31, 2005. The major factors contributing to the increase in shareholders' equity in 2006 were:

- net income of \$749 million;
- a \$56 million positive effect of the currency translation adjustment resulting primarily from the translation of PartnerRe SA's financial statements into U.S. dollars;
- a net increase in common shares and additional paid-in capital of \$40 million, due to the issuance of common shares under the Company's equity plans and share-based compensation expense; offset by
- a \$20 million decrease in net unrealized gains and losses on investments, net of deferred taxes, recorded in shareholders' equity resulting from changes in fair value of investments due to the increase in interest rates, realization of net gains on sales of securities and other-than-temporary impairments, offset by the weakening of the U.S. dollar;
- a \$7 million decrease in accumulated other comprehensive income due to the adoption of FASB Statement No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans", representing the unfunded pension obligation related to the Company's defined benefit pension plans; and
- dividends declared on both the Company's common and preferred shares of \$125 million.

As part of its long-term strategy, the Company will continue to actively manage capital resources to support its operations throughout the reinsurance cycle and for the benefit of its shareholders, subject to the ability to maintain strong ratings from the major rating agencies and the unquestioned ability to pay claims as they arise. Generally, the Company seeks to increase its capital when its current capital position is not sufficient to support the volume of attractive business opportunities available. Conversely, the Company will seek to reduce its capital, through dividends or stock repurchases, when available business opportunities are insufficient to fully utilize the Company's capital at adequate returns.

Management uses growth in diluted book value per share as a prime measure of the value the Company is generating for its common shareholders, as Management believes that over time, growth in the Company's diluted book value per share should translate into growth in the Company's stock price. Diluted book value per share is calculated using the common shareholders' equity divided by the number of fully diluted shares outstanding. Diluted book value is impacted by the Company's net income and external factors such as interest rates, which can drive changes in unrealized gains or losses on its fixed income portfolio. In 2006, the Company's diluted book value per share increased by 26% from the December 31, 2005 diluted book value per share of \$44.57. Notwithstanding the interest rate increase in 2006 (which reduced the value of the Company's fixed income portfolio), the Company grew its diluted book value per share by \$11.50 to \$56.07 per common and common share equivalents outstanding at December 31, 2006.

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued \$250 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated Capital Efficient Notes (CENTs). The CENTs will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. Interest on the CENTs will be payable semi-annually commencing on June 1, 2007 to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%. PartnerRe Finance II may elect to defer one or more interest payments for up to ten years, although interest will continue to accrue and compound at the rate of interest applicable to the CENTs. The CENTs will be ranked as junior subordinated unsecured obligations of PartnerRe Finance II. The Company has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II under the CENTs. The Company's obligations under this guarantee are unsecured and will rank junior in priority of payments to the Company's current long-term debt. In December 2006, the Company used a portion of the net proceeds from the CENTs to effect the redemption of all of the \$200 million liquidation amount of the 7.90% trust preferred securities issued in 2001 by PartnerRe Capital Trust I and the remaining net proceeds were used for general corporate purposes. PartnerRe Finance II does not meet the consolidation requirements of FIN 46(R) — see Note 2(r) to Consolidated Financial Statements. Accordingly, the Company reflects the intercompany debt of \$257.6 million associated with the issuance of the CENTs on its Consolidated Balance Sheets. For purposes of discussion, the Company refers to both the CENTs and the related debt as the CENTs.

Subsequent to the large 2005 catastrophic loss events, the Company entered into capital transactions to raise long-term debt and equity. In October 2005, the Company issued 2,448,980 common shares for proceeds of \$149 million, net of underwriting discounts and other transaction costs. The Company used the proceeds of this capital issuance for general corporate purposes. In addition, the Company entered into a loan agreement with Citibank, N.A under which the Company borrowed \$400 million. The loan will mature in April 2009 and bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company will not be permitted to prepay the loan prior to its maturity, and the loan is not callable or puttable by the lender other than upon an event of default. The Company also entered into a forward sale agreement to sell up to approximately 6.7 million of its common shares prior to October 2008. See Off-Balance Sheet Arrangements for a discussion of the forward sale agreement.

During 2004, the Company issued \$230 million of 6.5% Series D cumulative redeemable preferred shares (Series D preferred shares). A portion of the net proceeds from the sale was used to repurchase common shares under an accelerated share repurchase agreement. The remaining net proceeds were used for general corporate purposes. Dividends on the Series D preferred shares are payable quarterly and are cumulative. The Series D preferred shares have no stated maturity and are redeemable at the option of the Company at any time after November 15, 2009. The Company also has \$290 million of 6.75% Series C cumulative redeemable preferred shares (Series C preferred shares). The Series C preferred shares have no stated maturity and are redeemable at the option of the Company at any time after May 8, 2008.

Management's Discussion and Analysis of Financial Condition and Results of Operation

The table below sets forth the capital structure of the Company at December 31, 2006 and 2005 (in millions of U.S. dollars):

	2006		2005	
Capital Structure:				
Long-term debt	\$	620	13%	\$ 620 16%
Capital efficient notes ⁽¹⁾		250	6	— —
Trust preferred securities, aggregate liquidation ⁽²⁾		—	—	200 5
6.75% Series C cumulative preferred shares, aggregate liquidation		290	6	290 7
6.5% Series D cumulative preferred shares, aggregate liquidation		230	5	230 6
Common shareholders' equity		3,266	70	2,573 66
Total Capital	\$	4,656	100%	\$ 3,913 100%

⁽¹⁾ PartnerRe Finance II, the issuer of the capital efficient notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of \$257.6 million on its Consolidated Balance Sheet at December 31, 2006.

⁽²⁾ The Trust that issued the securities and PartnerRe Finance I, which owns the Trust, do not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of \$206.2 million on its Consolidated Balance Sheet at December 31, 2005.

In 2005, the Company's Board of Directors approved an increase in the Company's stock repurchase authorization up to a maximum of 5 million common shares. From this authorization, 4,293,651 common shares remain eligible for repurchase. Unless terminated earlier by resolution of the Company's Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

During 2005, the Company repurchased in the open market 1.2 million of its common shares, for a total cost of \$75 million. No shares were repurchased in 2006.

In December 2004, the Company repurchased 2 million of its common shares at a total cost of approximately \$125.9 million. The shares were purchased from an investment bank under an accelerated share repurchase agreement at \$62.97 per share. The accelerated share repurchase agreement permitted the Company to repurchase the shares on December 30, 2004, while the investment bank purchased shares in the market during 2005. The final payment under the program of \$1.1 million was based on the volume weighted average daily market price of the Company's shares. The repurchased shares were cancelled and are no longer outstanding.

During 2004, the Company repurchased in the open market 0.9 million of its common shares pursuant to the share repurchase program at a total cost of \$48.5 million, or an average cost of \$53.06. The repurchased shares were cancelled and are no longer outstanding.

In December 2004, the Company issued 3.5 million of its common shares following the settlement of the purchase contract associated with the PEPS Units (see Note 12 to Consolidated Financial Statements).

Liquidity

Liquidity is a measure of the Company's ability to access sufficient cash flows to meet the short-term and long-term cash requirements of its business operations. Management believes that its significant cash flows from operations and high quality liquid investment

portfolio will provide sufficient liquidity for the foreseeable future. Cash and cash equivalents were \$989 million at December 31, 2006. Cash flows from operations in 2006 decreased to \$492 million, from \$1,032 million in 2005 and \$1,264 million in 2004. This decrease in cash flows from operations was primarily attributable to lower underwriting cash flows due to higher paid losses in 2006 compared to 2005 and to the change in asset allocation to purchase approximately \$390 million of equity trading securities (see Investments above), which are classified as operating cash outflows under U.S. GAAP.

The increase in paid losses related to higher payments on the large 2005 catastrophic loss events and the 2004 Atlantic hurricanes made in 2006 compared to payments on the 2004 Atlantic hurricanes made in 2005. Paid losses for 2006 included approximately \$576 million related to the large 2005 catastrophic loss events and the 2004 Atlantic hurricanes, while the 2005 period included approximately \$182 million of paid losses related to the 2004 Atlantic hurricanes. The decrease in underwriting cash flows was partially offset by an increase in cash receipts related to the 23% increase in net investment income during 2006. The growth in net investment income is a result of cumulative cash flows added to the portfolio over the past two years, including the proceeds received from the capital raises in the fourth quarter of 2005, as well as the contribution of rising interest rates.

The Company is a holding company with no operations or significant assets other than the capital stock of the Company's subsidiaries and other intercompany balances. The Company has cash outflows in the form of operating expenses, interest payments on its \$400 million long-term debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for the repurchase of its common shares under its share repurchase program. For the year ended December 31, 2006, corporate expenses were \$62 million, interest paid was \$23 million, common dividends paid were \$91 million in the form of quarterly dividends of \$0.40 per common share and preferred dividends paid were \$34 million. In addition, the Company paid approximately \$11 million of contract fees and interest related to its forward sale agreement in 2006. In January 2007, the Company announced that it was increasing its quarterly dividend to \$0.43 per common share or approximately \$98 million in total for 2007, assuming a constant number of common shares and a constant dividend rate, and it will pay approximately \$34 million in dividends for preferred shareholders. Since the Company's inception in 1993, the Company has increased common share dividends every year, representing a 12% compound annual growth rate over the period.

The Company relies primarily on cash dividends and payments from Partner Reinsurance, PartnerRe SA and PartnerRe U.S. to pay the operating expenses, interest expense, shareholder dividends and other obligations of the holding company that may arise from time to time. The Company expects future dividends and other permitted payments from these subsidiaries to be the principal source of its funds to pay expenses and dividends. Although the payment of dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and French laws and certain insurance statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business, there are currently no significant restrictions on the payment of dividends by the reinsurance subsidiaries, except for PartnerRe U.S. that has a statutory negative earned surplus and may not pay cash dividends without prior regulatory approval. (See Note 11 to Consolidated Financial Statements).

The reinsurance subsidiaries of the Company depend upon cash inflows from the collection of premiums as well as investment income and proceeds from the sales and maturities of investments to meet their obligations. Cash outflows are in the form of claims payments, purchase of investments, operating expenses, income tax payments, intercompany

payments as well as dividend payments to the holding company, and additionally, in the case of PartnerRe U.S. Holdings, interest payments on the long-term debt and the CENts. PartnerRe U.S. Holdings and its subsidiaries have \$220 million in third party debt as well as \$250 million of CENts outstanding. PartnerRe U.S. Holdings and its subsidiaries paid a total of approximately \$29 million of interest on the long-term debt and trust preferred securities (redeemed in December 2006) in 2006 but did not pay any interest on the CENts in 2006, as the first semi-annual interest payment will be made on June 1, 2007.

Historically, the operating subsidiaries of the Company have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of the business written by the Company, the seasonality in the timing of payments by cedants, the irregular timing of loss payments, the impact of a change in interest rates on the investment returns as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary significantly between periods. The Company expects an increase in cash flows from operations in 2007 compared to 2006 as the Company expects a decrease in paid losses in 2007, given that as of December 31, 2006, approximately 88% of the Company's 2004 Atlantic hurricane ultimate loss estimates and 69% of the Company's large 2005 catastrophic loss events ultimate loss estimates have been paid. Notwithstanding the continued high level of loss payments, the Company expects that annual positive cash flows from operating activities will be sufficient to cover claims payments through 2007, absent a series of unusual catastrophic events. In the unlikely event that paid losses accelerate beyond the ability to fund such payments from operating cash flows, the Company would use its cash balances available, liquidate a portion of its investment portfolio or arrange for financing.

The Company and its subsidiaries have access to a revolving line of credit of up to \$350 million as part of the Company's \$700 million syndicated unsecured credit facility. As of December 31, 2006, there were no borrowings under this line of credit.

Financial strength ratings and senior unsecured debt ratings represent the opinions of rating agencies on the Company's capacity to meet its obligations. In the event of a significant downgrade in ratings, the Company's ability to write business and to access the capital markets could be impacted. Some of the Company's reinsurance treaties contain special funding and termination clauses that are triggered in the event the Company or one of its subsidiaries is downgraded by one of the major rating agencies to levels specified in the treaties, or the Company's capital is significantly reduced. If such an event were to occur, the Company would be required, in certain instances, to post collateral in the form of letters of credit and/or trust accounts against existing outstanding losses, if any, related to the treaty. In a limited number of instances, the subject treaties could be cancelled retroactively or commuted by the cedant. (See Risk Factors in Item 1A of the Company's report on Form 10-K for financial strength ratings).

Credit Facilities

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured credit facilities. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may be used for liquidity purposes. Under the terms of certain reinsurance agreements, irrevocable letters of credit are issued on an unsecured basis in respect of cedants' reported loss and unearned premium reserves. (See Note 17 to Consolidated Financial Statements).

Included in the total credit facilities available to the Company at December 31, 2006, is a \$700 million syndicated, unsecured credit facility. This credit facility enables the Company to potentially increase the available credit from \$700 million to \$1 billion. Additionally, the

syndicated unsecured credit facility allows for an adjustment to the level of pricing should the Company experience a change in its senior unsecured debt ratings. The pricing grid provides the Company greater flexibility and simultaneously provides participants under the facility some price protection. As long as the Company maintains a minimum senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's, the pricing on the facility will not change significantly. The Company's senior unsecured debt ratings are currently A (negative outlook) and A2 (stable) by Standard & Poor's and Moody's, respectively.

Some of the credit facilities contain customary default, cross payment and acceleration provisions and require that the Company maintain certain covenants. The Company's breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under these facilities. In addition, the long-term debt and capital securities issued by the Company and its subsidiaries contain similar provisions. These include, but are not limited to, failure to make interest and principal payments, breaches of various covenants, payment defaults or acceleration of indebtedness, certain events of bankruptcy and changes in control of the Company. At December 31, 2006, the Company was in compliance with all required covenants, and no conditions of default existed related to the Company's credit facilities or any of its debt or capital securities.

Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it will sell approximately 6.7 million of its common shares to an affiliate of Citigroup Global Markets Inc., which affiliate is referred to as the forward counterparty. Under the forward sale agreement, the Company will deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008. The purchase price the Company will receive from the forward counterparty will vary depending upon the market price of its common shares over a 40 trading day period surrounding the maturity of the forward sale agreement in October 2008, subject to a maximum price per share of \$79.75 and a minimum price per share of \$59.53 as of December 31, 2006. If the Company elects to settle all or a portion of the forward sale agreement prior to its maturity, the Company will deliver common shares to the forward counterparty and will initially receive the present value of the minimum price per share, and the remaining payment, if any, due to the Company will be made at maturity of the agreement based on the excess of the market price of the Company's common shares over the minimum price per share at maturity of the contract. Settlement of the forward sale agreement may be accelerated by the forward counterparty upon the occurrence of certain events, and the maximum and minimum purchase prices will be reduced or increased quarterly depending on the amount of the Company's dividends.

Currency

The Company's reporting currency is the U.S. dollar. The Company has exposure to foreign currency risk due to both its ownership of PartnerRe SA, whose functional currency is the euro and to PartnerRe SA and Partner Reinsurance (including the Swiss branch) underwriting reinsurance exposures, collecting premiums and paying claims and other operating expenses in currencies other than the U.S. dollar and holding certain net assets in such currencies. The Company's most significant foreign currency exposure is to the euro.

At December 31, 2006, the value of the U.S. dollar weakened approximately 14% against the British pound, 11% against the euro, 8% against the Swiss franc and was mostly flat against the Canadian dollar and Japanese yen, compared to December 31, 2005. Since a

large proportion of the Company's assets and liabilities are expressed in these currencies, there was a net increase in the U.S. dollar value of the assets and liabilities denominated in these currencies in 2006.

Net foreign exchange gains and losses amounted to a loss of \$24 million, a loss of \$4 million and a gain of \$17 million for the years ended December 31, 2006, 2005 and 2004, respectively. See Review of Net Income (Loss) above. In accordance with SFAS 52, "Foreign Currency Translation", the foreign exchange gain or loss resulting from the translation of its subsidiaries' financial statements (expressed in the euro functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income in shareholders' equity.

Effects of Inflation

The effects of inflation are considered implicitly in pricing and estimating reserves for unpaid losses and loss expenses. The actual effects of inflation on the results of operations of the Company cannot be accurately known until claims are ultimately settled.

New Accounting Pronouncements

FIN 48

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48). The interpretation requires companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized is the amount that represents the largest amount of tax benefit for those items with a greater than 50% likelihood of being ultimately realized. A liability must be recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed under the interpretation. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed in tax returns and requires disclosure for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007. The adoption of FIN 48 is expected to reduce the Company's consolidated shareholders' equity by approximately \$5 million to \$10 million, with no material impact on net income.

SFAS 155

In February 2006, the FASB issued Statement No. 155 "Accounting for Certain Hybrid Financial Instruments — an amendment of FASB Statements No. 133 and 140" (SFAS 155). This Statement amends SFAS 133 and SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). This Statement resolves issues addressed in SFAS 133 DIG Issue No. D1 "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". It permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation;

clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

In January 2007, the FASB finalized SFAS 133 DIG Issue No. B40 "Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (Issue B40). Issue B40 determined criteria to evaluate whether a securitized interest in prepayable financial assets would not be subject to the bifurcation conditions in paragraph 13(b) of SFAS 133, thereby modifying the way beneficial interests in securitized financial assets are evaluated under SFAS 155.

SFAS 155 is effective for fiscal years that begin after September 15, 2006. The Company will adopt SFAS 155 as of January 1, 2007. Issue B40 is effective for all securitized interests in prepayable financial assets acquired by the Company after the adoption of SFAS 155. The adoption of SFAS 155 and Issue B40 are not expected to have a significant impact on the consolidated shareholders' equity or net income of the Company.

SFAS 157

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement requires disclosure of the fair value of financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels. Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements on the financial statements.

SFAS 157 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 157 on its consolidated shareholders' equity or net income.

SFAS 159

In February 2007, the FASB issued Statement No. 159 "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115" (SFAS 159). SFAS 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparisons between entities that elect different measurement attributes for similar assets and liabilities.

SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 159 on its consolidated shareholders' equity or net income.

Overview

Management believes that the Company is principally exposed to four types of market related risk: interest rate risk, foreign currency risk, credit risk and equity price risk. How these risks relate to the Company, and the process used to manage them, is discussed below.

As discussed previously in this report, the Company's investment philosophy distinguishes between assets that are generally matched against the estimated net reinsurance assets and liabilities (liability funds) and those assets that represent shareholder capital (capital funds). At December 31, 2006, liability funds represented 61% (or \$6.6 billion) of the Company's total invested assets. Liability funds are invested in a way that generally matches them to the corresponding liabilities in both duration and currency composition. This procedure seeks to protect the Company against changes in interest rates and foreign exchange rates. Although the focus of this discussion is to identify risk exposures that impact the market value of assets alone, it is important to recognize that the risks discussed herein are significantly mitigated to the extent that the Company's investment strategy allows market forces to influence the economic valuation of both assets and liabilities in generally the same way.

At December 31, 2006, capital funds represented 39% (or \$4.2 billion) of the Company's total invested assets. These assets represent shareholders' capital and are invested in a diversified portfolio with the objective of maximizing investment return, subject to prudent risk constraints. Capital funds contain most of the asset classes typically viewed as offering a higher risk, higher return profile such as preferred and common stocks, private equity investments and convertible and high-yield bonds, in addition to high-quality investment-grade securities. The Company's investment philosophy is to reduce foreign currency risk on capital funds by investing primarily in U.S. dollar denominated investments. In considering the market risk of capital funds, it is important to recognize the benefits of portfolio diversification. Although these asset classes in isolation may introduce more risk into the portfolio, market forces have a tendency to influence each class in different ways and at different times. Consequently, the aggregate risk introduced by a portfolio of these assets should be less than might be estimated by summing the individual risks.

The Company's investment strategy allows the use of derivative securities, subject to strict limitations. Derivative instruments may be used to hedge market risk, to enhance investment performance, or to replicate investment positions or market exposures that would be allowed under the Company's investment policy if implemented in other ways. The use of financial leverage, whether achieved through derivatives or margin borrowing, requires approval from the Finance and Risk Management Committee of the Board of Directors. The Company also imposes a high standard for the credit quality of counterparties in all derivative transactions. (See Note 2(k) and Note 2(l) to Consolidated Financial Statements for additional information concerning investment derivatives.)

The following comments address those areas where the Company believes it has exposure to material market risk in its operations.

Interest Rate Risk

The Company's fixed income portfolio is exposed to interest rate risk. Fluctuations in interest rates have a direct impact on the market valuation of these securities. As interest rates rise, market values of fixed income portfolios fall, and vice versa. The Company manages interest rate risk on liability funds by constructing bond portfolios in which the economic impact of a general interest rate shift is comparable to the impact on the related liabilities. This process involves matching the duration of the investment portfolio to the estimated duration of the liabilities. For loss reserves and policy benefits related to non-life and traditional life business, the estimated duration of the Company's liabilities is based on projected claims payout patterns. For policy benefits related to annuity business, the Company estimates duration based on its commitment to annuitants. The Company believes that this matching process mitigates the overall interest rate risk on an economic basis.

While this matching of duration insulates the Company from the economic impact of interest rate changes, changes in interest rates do impact the reported U.S. GAAP shareholders' equity of the Company. The Company's liabilities are carried at their nominal value, which is not adjusted for changes in interest rates; however, the Company's invested assets are carried at fair market value, which are adjusted for such changes. As a result, an increase in interest rates will result in a decrease in the fair value of the Company's investments and a corresponding decrease, net of applicable taxes, in the Company's shareholders' equity. A decrease in interest rates would have the opposite effect.

As discussed above, a portion of the fixed income portfolio is designated as capital funds. The Company manages the exposure to interest rate volatility on capital funds by choosing a duration profile that it believes will optimize the risk-reward relationship.

At December 31, 2006, the Company held approximately \$1,902 million of its total invested assets in mortgage/asset-backed securities. These assets are exposed to prepayment risk, the adverse impact of which is more evident in a declining interest rate environment.

At December 31, 2006, the Company estimates that the hypothetical case of an immediate 100 basis point adverse parallel shift in global bond curves would result in an approximately 3.4% (or approximately \$360 million) decrease in fair value of investments exposed to interest rates, or approximately 3.3% and 9.4% decrease of the total invested assets and shareholders' equity of the Company, respectively. This change does not take into account taxes or the corresponding change in the economic value of its reinsurance liabilities, which, as noted above, would substantially offset the economic impact on invested assets, although the offset would not be reflected in the Company's Consolidated Balance Sheets.

As discussed above, the Company strives to match the foreign currency exposure in its fixed income portfolio to its multicurrency liabilities. The Company believes that this matching process creates a diversification benefit. Consequently, the exact market value effect of a change in interest rates will depend on which countries experience interest rate changes and the foreign currency mix of the Company's fixed income portfolio at the time of the interest rate changes. See Foreign Currency Risk.

Interest rate movements also affect the economic value of the Company's outstanding debt obligations and preferred securities in the same way that they affect the Company's fixed income investments, and this can result in a liability whose economic value is different from the value reported on the Consolidated Balance Sheet. The Company believes that the economic fair value of its outstanding fixed-rate debt, capital efficient notes and preferred securities at December 31, 2006, was as follows (in millions of U.S. dollars):

	Carrying Value	Fair Value
Long-term debt	\$ 620	\$ 621
Capital efficient notes ⁽¹⁾	250	251
Series C cumulative preferred shares	290	295
Series D cumulative preferred shares	230	232

⁽¹⁾ *PartnerRe Finance II, the issuer of the capital efficient notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of \$257.6 million on its Consolidated Balance Sheet. The fair value of the capital efficient notes was based on the initial issuance of \$250 million from PartnerRe Finance II.*

The fair value of the long-term debt and the capital efficient notes has been calculated as the present value of estimated future cash flows using a discount rate reflective of current market interest rates. For the Company's Series C and Series D cumulative preferred shares, fair value is based on quoted market prices, while carrying value is based on the liquidation value of the securities.

Foreign Currency Risk

Through its multinational reinsurance operations, the Company conducts business in a variety of non-U.S. currencies, with the principal exposures being the euro, British pound, Swiss franc, Canadian dollar and Japanese yen. As the Company's reporting currency is the U.S. dollar, foreign exchange rate fluctuations may materially impact the Company's Consolidated Financial Statements.

The Company is generally able to match its liability funds against its net reinsurance liabilities both by currency and duration to protect the Company against foreign exchange and interest rate risks. However, a natural offset does not exist for all currencies. For the non-U.S. dollar currencies for which the Company deems the net asset or liability exposures to be material, the Company employs a hedging strategy utilizing foreign exchange forward contracts and other derivative financial instruments, as appropriate, to ensure that its liability funds are matched by currency. (See Note 2(k) to Consolidated Financial Statements for additional information about the Company's currency hedging activities). The Company does not hedge currencies for which its asset or liability exposures are not material or where it is unable or impractical to do so. In such cases, the Company is exposed to foreign currency risk. However, the Company does not believe that the foreign currency risks corresponding to these unhedged positions are material.

The Company maintains capital funds primarily in U.S. dollar investments. To the extent that capital funds are invested in non-U.S. dollar currencies, the Company is exposed to foreign currency risk. This exposure is not hedged since the foreign currency risk is part of the Company's total expected return on these investments. However, the Company does not believe that the foreign currency risks corresponding to these unhedged positions are material.

Quantitative and Qualitative Disclosures about Market Risk

The table below summarizes the Company's gross and net exposure on its December 31, 2006 Consolidated Balance Sheet to foreign currency as well as the associated foreign currency derivatives the Company has put in place to manage this exposure (in millions of U.S. dollars):

	euro	GBP	CAD	CHF	JPY	Other	Total ⁽¹⁾
Invested assets	\$ 1,986	\$ 406	\$ 490	\$ 1	\$ —	\$ 263	\$ 3,146
Other net liabilities	(1,983)	(269)	(369)	(140)	(37)	(431)	(3,229)
Total foreign currency risk	3	137	121	(139)	(37)	(168)	(83)
Total derivative amount	347	(130)	47	151	37	171	623
Net foreign currency exposure	\$ 350	\$ 7	\$ 168	\$ 12	\$ —	\$ 3	\$ 540

⁽¹⁾ As the U.S. dollar is the Company's reporting currency, there is no currency risk attached to the U.S. dollar and it is excluded from this table. The U.S. dollar accounted for the difference between the Company's total foreign currency risk in this table and the invested assets and other net liabilities on the Company's Consolidated Balance Sheet.

The above numbers include the Company's investment in PartnerRe SA, whose functional currency is the euro, and its Canadian branch, whose functional currency is the Canadian dollar, both of which the Company does not hedge, partially offset by net short or long exposures in certain currencies.

Assuming all other variables are held constant and disregarding any tax effects, a 10% change in the U.S. dollar relative to the other currencies held by the Company would result in a \$54 million change in the net assets held by the Company, inclusive of the effect of the derivative hedges.

Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed income securities. The Company controls this exposure by emphasizing investment-grade credit quality in the fixed income securities it purchases. At December 31, 2006, approximately 69% of the Company's fixed income portfolio was rated AAA (or equivalent rating), 86% was rated A- or better and 4% of the Company's fixed income portfolio was rated below investment-grade. The Company believes this high-quality concentration reduces its exposure to credit risk on fixed income investments to an acceptable level. At December 31, 2006, the Company is not exposed to any significant credit concentration risk on its investments, excluding debt securities issued by the U.S. and other AAA-rated sovereign governments. The Company keeps cash and cash equivalents in several banks and may keep up to \$500 million, excluding custodial accounts, at any point in time in any one bank.

To a lesser extent, the Company also has credit risk exposure as a party to foreign currency forward contracts and other derivative contracts. To mitigate this risk, the Company monitors its exposure by counterparty and ensures that counterparties to these contracts are high-credit-quality international banks or counterparties. These contracts are generally of short duration (approximately 90 days) and settle on a net basis, which means that the Company is exposed to the movement of one currency against the other as opposed to the notional amount of the contracts. At December 31, 2006, the Company's absolute notional value of foreign exchange forward contracts was \$1,132 million, while the net value of those contracts was a receivable of \$5 million.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and in the business written by the Company's ART segment. Loss experience in these lines of business is cyclical and is affected by the state of the general economic environment. The Company provides its clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the reinsurance provided and, accordingly, the Company is exposed to the credit risk of those credits. As with all of the Company's business, these risks are subject to rigorous underwriting and pricing standards. In addition, the Company strives to mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps. At December 31, 2006, the notional value of the Company's credit default swaps and total return and interest rate swaps was \$288 million and \$315 million, respectively, while the fair value of those credit default swaps and total return and interest rate swaps (the Company's net liabilities or assets) was an unrealized loss of \$2.0 million and \$0.3 million, respectively.

The Company is subject to the credit risk of its cedants in the event of their insolvency or their failure to honor the value of the funds held balances due to the Company. However, the Company's credit risk is somewhat mitigated by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to cedants for losses payable and other amounts contractually due. Funds held balances for which the Company receives an investment return based upon either the results of a pool of assets held by the cedant or the investment return earned by the cedant on its investment portfolio are exposed to an additional layer of credit risk. The Company is also exposed to a limited extent to the underlying financial market risk of the pool of assets, inasmuch as the underlying policies may have guaranteed minimum returns.

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency. See Risk Factors in the Company's report on form 10-K for detailed information on two brokers that accounted for more than 10% of the Company's gross premiums written for the year ended December 31, 2006.

The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. Reinsurance balances receivable from the Company's clients at December 31, 2006 were \$1,574 million, including balances both currently due and accrued. The Company believes that credit risk exposure related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the vast majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Provisions are made for amounts considered potentially uncollectible. The allowance for uncollectible reinsurance balances receivable was \$9 million at December 31, 2006.

The Company does not rely heavily on retrocessional reinsurance, but does require its reinsurers to have adequate financial strength. The Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis. Provisions are made for amounts considered potentially uncollectible. The balance of reinsurance recoverable on paid and unpaid losses was \$169 million which is net of the allowance provided for uncollectible reinsurance recoverable of \$11 million at December 31, 2006.

Equity Price Risk

The Company invests a portion of its capital funds in marketable equity securities classified as available for sale (fair market value of \$1,015 million at December 31, 2006). The Company also holds marketable equity securities classified as trading securities (fair market value of \$503 million at December 31, 2006). These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. Net payable for securities purchased includes equity securities sold but not yet purchased in the amount of \$70 million at December 31, 2006, which represent sales of securities not owned at the time of sale. These obligations, which consist of the obligation to purchase the securities arising from such transactions, are also exposed to equity price risk. The Company reviews these assets on a regular basis to ensure that diversification strategies to manage this equity risk continue to be in place. The Company believes that the effects of diversification and the relatively small size of the existing investments in equities relative to total investments mitigate its exposure to equity price risk. The Company estimates that its equity investment portfolio has a beta versus the S&P 500 Index of approximately 0.79. Beta measures the response of an individual stock's performance relative to a market return, where a beta of 1 would be an equivalent return to the index. Given the estimated beta for the Company's equity portfolio, a 10% movement in the S&P 500 Index would result in an approximately 7.9% (or approximately \$118 million without taking into account taxes) increase or decrease in the market value of the Company's equity portfolio, or approximately 1.1% and 3.1% increase or decrease of the total invested assets and shareholders' equity of the Company, respectively.

PartnerRe Ltd.
Consolidated Balance Sheets

(Expressed in thousands of U.S. dollars, except parenthetical share and per share data)

December 31, 2005	December 31, 2006	
		Assets
		Investments:
\$ 6,686,822	\$ 7,835,680	Fixed maturities, available for sale, at fair value (amortized cost: 2006, \$7,852,798; 2005, \$6,682,243)
230,933	133,751	Short-term investments, available for sale, at fair value (amortized cost: 2006, \$133,872; 2005, \$231,442)
1,334,374	1,015,144	Equities, available for sale, at fair value (cost: 2006, \$920,913; 2005, \$1,246,192)
220,311	599,972	Trading securities, at fair value (cost: 2006, \$578,445; 2005, \$210,432)
104,920	105,390	Other invested assets
8,577,360	9,689,937	Total investments
1,001,378	988,788	Cash and cash equivalents, at fair value, which approximates amortized cost
143,548	157,923	Accrued investment income
1,493,507	1,573,566	Reinsurance balances receivable
217,948	168,840	Reinsurance recoverable on paid and unpaid losses
970,614	1,002,402	Funds held by reinsured companies
437,741	542,698	Deferred acquisition costs
289,459	306,212	Deposit assets
87,667	17,826	Net tax assets
429,519	429,519	Goodwill
95,389	70,514	Other assets
\$ 13,744,130	\$ 14,948,225	Total assets
		Liabilities
\$ 6,737,661	\$ 6,870,785	Unpaid losses and loss expenses
1,223,871	1,430,691	Policy benefits for life and annuity contracts
1,136,233	1,215,624	Unearned premiums
127,607	115,897	Reinsurance balances payable
25,110	17,213	Ceded premiums payable
18,910	21,257	Funds held under reinsurance treaties
333,820	350,763	Deposit liabilities
93,318	90,331	Net payable for securities purchased
128,627	172,212	Accounts payable, accrued expenses and other
620,000	620,000	Long-term debt
—	257,605	Debt related to capital efficient notes
206,186	—	Debt related to trust preferred securities
10,651,343	11,162,378	Total liabilities
		Shareholders' Equity
56,730	57,076	Common shares (par value \$1.00, issued and outstanding: 2006, 57,076,312; 2005, 56,730,195)
11,600	11,600	Series C cumulative preferred shares (par value \$1.00, issued and outstanding: 2006 and 2005, 11,600,000; aggregate liquidation preference: 2006 and 2005, \$290,000,000)
9,200	9,200	Series D cumulative preferred shares (par value \$1.00, issued and outstanding: 2006 and 2005, 9,200,000; aggregate liquidation preference: 2006 and 2005, \$230,000,000)
1,373,992	1,413,977	Additional paid-in capital
(107)	—	Deferred compensation
		Accumulated other comprehensive income:
77,049	56,913	Net unrealized gains on investments (net of tax of: 2006, \$15,429; 2005, \$13,639)
12,614	68,734	Currency translation adjustment
—	(7,277)	Unfunded pension obligation (net of tax of: 2006, \$2,122; 2005, \$nil)
1,551,709	2,175,624	Retained earnings
3,092,787	3,785,847	Total shareholders' equity
\$ 13,744,130	\$ 14,948,225	Total liabilities and shareholders' equity

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.
Consolidated Statements of Operations and Comprehensive Income

(Expressed in thousands of U.S. dollars, except share and per share data)

For the year ended December 31, 2004	For the year ended December 31, 2005	For the year ended December 31, 2006	
			Revenues
\$ 3,887,516	\$ 3,665,238	\$ 3,733,920	Gross premiums written
\$ 3,852,672	\$ 3,615,878	\$ 3,689,548	Net premiums written
(118,932)	(16,689)	(22,280)	Increase in unearned premiums
3,733,740	3,599,189	3,667,268	Net premiums earned
297,997	364,508	449,401	Net investment income
117,339	206,874	47,160	Net realized investment gains
17,293	34,920	23,555	Other income
4,166,369	4,205,491	4,187,384	Total revenues
			Expenses
2,475,743	3,086,730	2,111,337	Losses and loss expenses and life policy benefits
901,554	848,714	849,241	Acquisition costs
271,331	271,504	309,544	Other operating expenses
40,744	32,869	61,387	Interest expense
(16,586)	3,543	23,204	Net foreign exchange (gains) losses
3,672,786	4,243,360	3,354,713	Total expenses
493,583	(37,869)	832,671	Income (loss) before taxes and interest in earnings of equity investments
7,560	22,924	95,305	Income tax expense
6,330	9,729	11,966	Interest in earnings of equity investments
\$ 492,353	\$ (51,064)	\$ 749,332	Net income (loss)
21,485	34,525	34,525	Preferred dividends
\$ 470,868	\$ (85,589)	\$ 714,807	Net income (loss) available to common shareholders
			Comprehensive income (loss), net of tax
\$ 492,353	\$ (51,064)	\$ 749,332	Net income (loss)
28,083	(117,526)	(20,136)	Change in net unrealized gains or losses on investments
55,853	(59,896)	56,120	Change in currency translation adjustment
—	—	(418)	Unfunded pension obligation, net of tax
\$ 576,289	\$ (228,486)	\$ 784,898	Comprehensive income (loss)
			Per share data
			Net income (loss) per common share:
\$ 8.80	\$ (1.56)	\$ 12.58	Basic net income (loss)
\$ 8.71	\$ (1.56)	\$ 12.37	Diluted net income (loss)
53,490,844	54,951,198	56,822,496	Weighted average number of common shares outstanding
54,047,439	54,951,198	57,802,787	Weighted average number of common and common share equivalents outstanding
\$ 1.36	\$ 1.52	\$ 1.60	Dividends declared per common share

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.
Consolidated Statements of Shareholders' Equity
(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2004	For the year ended December 31, 2005	For the year ended December 31, 2006	
			Common shares
\$ 53,742	\$ 54,854	\$ 56,730	Balance at beginning of year
4,026	3,118	346	Issue of common shares
(2,914)	(1,242)	—	Repurchase of common shares
54,854	56,730	57,076	Balance at end of year
			Preferred shares
11,600	20,800	20,800	Balance at beginning of year
9,200	—	—	Issue of preferred shares
20,800	20,800	20,800	Balance at end of year
			Additional paid-in capital
1,023,167	1,288,292	1,373,992	Balance at beginning of year
227,264	161,021	40,092	Issue of common shares
(170,440)	(75,321)	—	Repurchase of common shares
(4,780)	—	—	Issue and adjustment of purchase contract for common shares
—	—	(107)	Reclassification of deferred compensation under SFAS 123(R)
213,081	—	—	Issue of preferred shares
1,288,292	1,373,992	1,413,977	Balance at end of year
			Deferred compensation
(125)	(199)	(107)	Balance at beginning of year
(276)	—	—	Issue of restricted common shares
202	92	—	Amortization of deferred compensation
—	—	107	Reclassification of deferred compensation under SFAS 123(R)
(199)	(107)	—	Balance at end of year
			Accumulated other comprehensive income
183,149	267,085	89,663	Balance at beginning of year
28,083	(117,526)	(20,136)	Net unrealized gains (losses) on investments, net of tax
55,853	(59,896)	56,120	Currency translation adjustment
—	—	—	Unfunded pension obligation, net of tax
—	—	(418)	Change in unfunded obligation, net of tax
—	—	(6,859)	Transition adjustment to apply SFAS 158
267,085	89,663	118,370	Balance at end of year
			Retained earnings
1,322,859	1,721,032	1,551,709	Balance at beginning of year
492,353	(51,064)	749,332	Net income (loss)
(72,695)	(83,734)	(90,892)	Dividends on common shares
(21,485)	(34,525)	(34,525)	Dividends on preferred shares
1,721,032	1,551,709	2,175,624	Balance at end of year
\$ 3,351,864	\$ 3,092,787	\$ 3,785,847	Total shareholders' equity

See accompanying Notes to Consolidated Financial Statements.

PartnerRe Ltd.
Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

For the year ended December 31, 2004	For the year ended December 31, 2005	For the year ended December 31, 2006	
			Cash flows from operating activities
\$ 492,353	\$ (51,064)	\$ 749,332	Net income (loss)
			Adjustments to reconcile net income (loss) to net cash provided by operating activities:
40,188	42,220	22,311	Amortization of net premium on investments
(117,339)	(206,874)	(47,160)	Net realized investment gains
			Changes in:
118,932	16,689	22,280	Unearned premiums, net
(80,086)	(117,519)	(12,328)	Net reinsurance balances
820,249	1,380,315	(73,617)	Unpaid losses and loss expenses including life policy benefits
(715)	13,784	71,614	Net tax assets
(5,709)	(50,656)	126,469	Other changes in operating assets and liabilities
14,237	(4,365)	(390,470)	Net sales (purchases) of trading securities
(18,314)	9,423	23,343	Other, net
1,263,796	1,031,953	491,774	Net cash provided by operating activities
			Cash flows from investing activities
6,296,146	4,832,037	3,897,715	Sales of fixed maturities
565,532	695,389	731,133	Redemptions of fixed maturities
(8,016,220)	(5,921,427)	(5,620,788)	Purchases of fixed maturities
48,387	218,386	27,532	Sales of short-term investments
39,052	90,571	295,005	Redemptions of short-term investments
(69,803)	(525,518)	(209,743)	Purchases of short-term investments
661,571	4,839,440	9,669,692	Sales of equities
(866,290)	(5,054,471)	(9,236,119)	Purchases of equities
(27,915)	(13,861)	8,689	Other, net
(1,369,540)	(839,454)	(436,884)	Net cash used in investing activities
			Cash flows from financing activities
(92,270)	(118,924)	(125,417)	Cash dividends paid to shareholders
(152,514)	102,440	17,225	(Repurchase) issue of common shares, net
—	—	(9,594)	Contract fees on forward sale agreement
—	—	244,096	Issue of capital efficient notes, net
—	—	(200,000)	Redemption of trust preferred securities, net
—	400,000	—	Issue of long-term debt
222,281	—	—	Issue of preferred shares
(4,780)	—	—	Adjustment on purchase contract for common shares
(27,283)	383,516	(73,690)	Net cash (used in) provided by financing activities
10,338	(10,640)	6,210	Effect of foreign exchange rate changes on cash
(122,689)	565,375	(12,590)	(Decrease) increase in cash and cash equivalents
558,692	436,003	1,001,378	Cash and cash equivalents — beginning of year
\$ 436,003	\$ 1,001,378	\$ 988,788	Cash and cash equivalents — end of year
			Supplemental cash flow information:
\$ 14,730	\$ 21,139	\$ 26,869	Taxes paid
\$ 40,575	\$ 29,248	\$ 51,759	Interest paid

See accompanying Notes to Consolidated Financial Statements.

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its principal wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance), PartnerRe SA and Partner Reinsurance Company of the U.S. (PartnerRe U.S.). Risks reinsured include, but are not limited to property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, other lines, life/annuity and health and alternative risk products. The Company's alternative risk products include weather and credit protection to financial, industrial and service companies on a worldwide basis.

The Company was incorporated in August 1993 under the laws of Bermuda. The Company commenced operations in November 1993 upon completion of the sale of common shares and warrants pursuant to subscription agreements and an initial public offering. In July 1997, the Company completed the acquisition of SAFR (subsequently renamed PartnerRe SA), and in December 1998, the Company completed the acquisition of the reinsurance operations of Winterthur Group (Winterthur Re).

In 2004, the Company formed two operating subsidiaries in Ireland, Partner Reinsurance Ireland Limited (Partner Reinsurance Ireland) and PartnerRe Ireland Insurance Limited (PartnerRe Ireland Insurance). Both companies became operational in 2005.

2. Significant Accounting Policies

The Company's Consolidated Financial Statements have been prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP). The Consolidated Financial Statements include the accounts of the Company and its subsidiaries, including those that meet the consolidation requirements of variable interest entities (VIEs). Intercompany accounts and transactions have been eliminated. The Company assesses the consolidation of VIEs based on whether the Company is the primary beneficiary of the entity in accordance with FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities" (FIN 46(R)). See Note 2(r) and Note 12 for additional information concerning FIN 46(R). Entities in which the Company has an ownership of more than 20% and less than 50% of the voting shares are accounted for using the equity method. (See Note 3(i) and Note 21 for additional information concerning the Company's equity ownership in Channel Re Holdings Ltd. (Channel Re Holdings)).

The preparation of financial statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. While Management believes that the amounts included in the Consolidated Financial Statements reflect its best estimates and assumptions, actual results could differ from those estimates. The Company's principal estimates include:

- Unpaid losses and loss expenses;
- Policy benefits for life and annuity contracts;
- Gross and net premiums written and net premiums earned;
- Recoverability of deferred acquisition costs;
- Determination of other-than-temporary impairments of investments;
- Recoverability of tax loss carry-forwards;
- Valuation of goodwill; and
- Valuation of other invested assets, including certain derivative financial instruments.

(a)

Premiums

Gross premiums written and earned are based upon reports received from ceding companies, supplemented by the Company's own estimates of premiums written and earned for which ceding company reports have not been received. Differences between such estimates and actual amounts are recorded in the period in which the estimates are changed or the actual amounts are determined. Net premiums written and earned are presented net of ceded premiums, which represent the cost of retrocessional protection purchased by the Company. Premiums are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which is generally one to two years. Specifically, for U.S. and European wind risks, premiums are earned commensurate with the seasonality of the underlying exposure. Unearned premiums represent the portion of premiums written which is applicable to the unexpired risks under contracts in force. Premiums related to individual life and annuity business are recorded over the premium-paying period on the underlying policies. Premiums on annuity and universal life policies for which there is no significant mortality or critical illness risk are accounted for in a manner consistent with accounting for interest-bearing financial instruments and are not reported as revenues, but rather as direct deposits to the contract. Amounts assessed against annuity and universal life policyholders are recognized as revenue in the period assessed.

(b)

Losses and Loss Expenses and Life Policy Benefits

The Company's non-life operations are composed of its Non-life and Alternative Risk Transfer (ART) segments. The liability for unpaid losses and loss expenses for non-life operations includes amounts determined from loss reports on individual treaties (case reserves), additional case reserves when the Company's loss estimate is higher than reported by the cedants (ACRs) and amounts for losses incurred but not yet reported to the Company (IBNR). Such reserves are estimated by Management based upon reports received from ceding companies, supplemented by the Company's own actuarial estimates of reserves for which ceding company reports have not been received, and based on the Company's own historical experience. To the extent that the Company's own historical experience is inadequate for estimating reserves, such estimates may be determined based upon industry experience and Management's judgment. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided. Any adjustments are reflected in the periods in which they become known.

The liabilities for policy benefits for ordinary life and accident and health policies have been established based upon information reported by ceding companies, supplemented by the Company's actuarial estimates of mortality, critical illness, persistency and future investment income, with appropriate provision to reflect uncertainty. Future policy benefit reserves for annuity and universal life products are carried at their accumulated values. Reserves for policy claims and benefits include both mortality and critical illness claims in the process of settlement, and claims that have been incurred but not yet reported. Interest rate assumptions used to estimate liabilities for policy benefits for life and annuity contracts at December 31, 2006 and 2005 ranged from 1.0% to 4.9% in 2006 and 1.5% to 5.5% in 2005, respectively. Actual experience in a particular period may vary from the assumed experience and, where warranted, the assumptions and the related reserve estimates are revised accordingly. Any revisions are recorded in the period they are determined, which may affect the Company's operating results in future periods.

(c) Deferred Acquisition Costs

Acquisition costs, primarily brokerage fees, commissions and excise taxes, which vary directly with, and are primarily related to, the acquisition of reinsurance contracts, are capitalized and charged to expense as the related premium is earned. Anticipated losses and loss expenses, other costs and investment income related to these premiums are considered in determining the recoverability of deferred acquisition costs. Acquisition costs related to individual life and annuity business are deferred and amortized over the premium-paying periods in proportion to anticipated premium income, allowing for lapses, terminations and anticipated investment income. Acquisition costs related to universal life and single premium annuity contracts for which there is no significant mortality or critical illness risk are deferred and amortized over the lives of the policies as a percentage of the estimated gross profits expected to be realized on the policies.

(d) Funds Held by Reinsured Companies (Cedants)

The Company writes certain business on a funds held basis. Under such contractual arrangements, the cedant retains the premiums that would have otherwise been paid to the Company and the Company earns interest on these funds. With the exception of those arrangements discussed below, the Company generally earns investment income on the funds held balances based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized index (e.g., LIBOR). Interest rates at December 31, 2006 and 2005, ranged from 1.0% to 6.8% in 2006 and 1.5% to 6.4% in 2005, with the exception of one treaty in 2005, which earned 9.3%.

In certain circumstances, the Company may receive an investment return based upon either the result of a pool of assets held by the cedant, generally used to collateralize the funds held balance, or the investment return earned by the cedant on its entire investment portfolio. This is most common in the Company's life reinsurance business. In these arrangements, gross investment returns are typically reflected in net investment income with a corresponding increase or decrease (net of a spread) being recorded as life policy benefits in the Company's Consolidated Statements of Operations. In these arrangements, the Company is exposed, to a limited extent, to the underlying credit risk of the pool of assets inasmuch as the underlying life policies may have guaranteed minimum returns. In such cases, an embedded derivative exists under Statement of Financial Accounting Standards (SFAS) 133 Derivatives Implementation Group (DIG) Issue No. B36 "Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments" (Issue B36). The fair value of these derivatives is recorded by the Company as an increase or decrease to the funds held balance, which is substantially offset by a comparable but opposite adjustment to deferred acquisition costs.

(e) Deposit Assets and Liabilities

In the normal course of its operations, the Company enters into certain contracts that do not meet the risk transfer provisions of SFAS No. 113 "Accounting and Reporting for Reinsurance of Short-Duration and Long-Duration Contracts". These contracts are accounted for using the deposit accounting method in accordance with Statement of Position 98-7 "Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk". For those contracts, the Company originally records deposit liabilities for an amount equivalent to the consideration received. The consideration to be retained by the Company, irrespective of the experience of the contracts, is earned over the expected settlement period of the contracts, with any unearned portion recorded as a component of deposit liabilities. Actuarial studies are used to estimate the final liabilities

under these contracts and the appropriate accretion rates to increase or decrease the liabilities over the term of the contracts. The change for the period is recorded in other income in the Consolidated Statements of Operations.

Under some of these contracts, cedants retain the assets on a funds held basis. In those cases, the Company records those assets as deposit assets and records the related income in other income in the Consolidated Statements of Operations.

(f)

Investments

Fixed maturities, short-term and equity investments that are classified as available for sale are carried at fair value, based on quoted market prices, with the difference between cost or amortized cost and fair value, net of the effect of taxes, included as a separate component of accumulated other comprehensive income in the Consolidated Balance Sheets. Short-term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase. Investment purchases and sales are recorded on a trade-date basis.

Fixed maturities, short-term and equity investments that are bought and held principally for the purpose of selling in the near term are classified as trading securities and are carried at fair value, based on quoted market prices, with the changes in fair value included in net realized investment gains and losses in the Consolidated Statements of Operations.

The Company also uses equity short sales, which are sales of securities that are not owned by the Company at the time of the sale. The obligations arising from such transactions are carried at fair value, based on quoted market prices, in net payable for securities purchased in the Consolidated Balance Sheets, with the changes in fair value included in net realized investment gains and losses in the Consolidated Statements of Operations.

Other invested assets consist primarily of investments in non-publicly traded companies (principally Channel Re Holdings—see Note 3(i) and Note 21), private placement equity investments, private placement bond investments, derivative financial instruments and other specialty asset classes. The investment in Channel Re Holdings is accounted for using the equity method. The Company's share of Channel Re Holdings' net income and other comprehensive income is reported in the Company's net income and accumulated other comprehensive income, respectively, on a one-quarter lag. The Company calculates its share of Channel Re Holdings' net income and other comprehensive income on the basis of the Company's ownership percentage of Channel Re Holdings' common shares currently outstanding. Other investments are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company's investment managers are reviewed by the Company and are generally commensurate with standard valuation techniques for each asset class.

Net investment income includes interest and dividend income, amortization of premiums and discounts on fixed maturities and short-term investments and investment income on funds held, and is net of investment expenses, dividend expenses relating to equity short sales and withholding taxes. Investment income is recognized when earned. Realized gains and losses on the disposal of investments are determined on a first-in, first-out basis.

The Company evaluates the fair value of its investments on a periodic basis to determine whether a decline in fair value below the amortized cost basis (original cost basis for equities) is other-than-temporary. Effective January 1, 2006, the Company applied FASB Staff Position FAS 115-1 and FAS 124-1 "The Meaning of Other-Than-Temporary

Impairment and Its Application to Certain Investments" to determine when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of the impairment loss. If the decline in fair value is judged to be other-than-temporary, the amortized cost of the individual security is written down to fair value and a new cost basis is established, with the amount of the write-down included as a realized investment loss in the period in which the determination of other-than-temporary impairment is made. The difference between the new cost basis established and the maturity (or par) value of the investment is accreted to net investment income over the remaining period of time to contractual maturity. While the cost basis cannot be adjusted upward through net income if the value of the security subsequently increases, the cost basis may be written down again if further other-than-temporary impairments are determined.

(g) Cash and Cash Equivalents

Cash equivalents are carried at fair value and include debt securities that, at purchase, have a maturity of three months or less.

(h) Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets acquired of PartnerRe SA and Winterthur Re. SFAS No. 142 "Goodwill and Other Intangible Assets", requires that the Company perform, at a minimum, an annual valuation of its goodwill asset to test it for impairment. The Company has established September 30 as the date for performing its annual impairment test. If, as a result of the assessment, the Company determines that the value of its goodwill asset is impaired, goodwill will be written down in the period in which the determination is made. Neither the Company's initial valuation nor its subsequent valuations has indicated any impairment of the Company's goodwill asset.

(i) Income Taxes

Certain subsidiaries and branches of the Company operate in jurisdictions where they are subject to taxation. Current and deferred income taxes are charged or credited to net income, or, in certain cases, to accumulated other comprehensive income, based upon enacted tax laws and rates applicable in the relevant jurisdiction in the period in which the tax becomes accruable or realizable. Deferred income taxes are provided for all temporary differences between the bases of assets and liabilities used in the Consolidated Balance Sheets and those used in the various jurisdictional tax returns. When Management's assessment indicates that it is more likely than not that deferred income tax assets will not be realized, a valuation allowance is recorded against the deferred tax assets. The Company also establishes tax liabilities related to tax years that are open to audit when such liabilities are probable and reasonably estimable.

(j) Translation of Foreign Currencies

The reporting currency of the Company is the U.S. dollar. The national currencies of the Company's subsidiaries are generally their functional currencies, except for the Bermuda subsidiaries or branches, whose functional currency is the U.S. dollar. In translating the financial statements of those subsidiaries whose functional currency is other than the U.S. dollar, assets and liabilities are converted into U.S. dollars using the rates of exchange in effect at the balance sheet dates, and revenues and expenses are converted using the weighted average foreign exchange rates for the period. The effect of translation adjustments are reported in the Consolidated Balance Sheets as currency translation adjustment, a separate component of accumulated other comprehensive income.

In recording foreign currency transactions, revenue and expense items are converted into the functional currency at the weighted average rates of exchange for the period. Assets and liabilities originating in currencies other than the functional currency are translated into the

functional currency at the rates of exchange in effect at the balance sheet dates. The resulting foreign exchange gains or losses are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The Company records realized and unrealized foreign exchange gains and losses that are covered by designated hedges in net realized investment gains and losses in the Consolidated Statements of Operations (see Note 2(k)).

(k) Derivatives Used in Hedging Activities

SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133), as amended on January 1, 2001, requires the recognition of all derivative financial instruments, including embedded derivative instruments, as either assets or liabilities in the Consolidated Balance Sheets and measurement of those instruments at fair value. The accounting for gains and losses associated with changes in the fair value of a derivative and the effect on the Consolidated Financial Statements depends on its hedge designation and whether the hedge is highly effective in achieving offsetting changes in the fair value of the asset or liability being hedged.

The Company utilizes derivative financial instruments as part of its overall currency risk management strategy. On the date the Company enters into a derivative contract, Management designates whether the derivative is to be used as a hedge of an identified underlying exposure (a designated hedge). As part of its overall strategy to manage the level of currency exposure, the Company uses currency derivatives to hedge the fair value of certain available for sale fixed income securities related to the Company's liability funds (funds representing invested assets supporting net reinsurance liabilities, defined as the Company's operating and reinsurance liabilities net of reinsurance assets). These derivatives have been designated as fair value hedges under SFAS 133, and accordingly, the changes in fair value of the derivative and the hedged item related to foreign currency are recognized in net realized investment gains and losses in the Consolidated Statements of Operations. Derivatives employed by the Company to hedge currency exposure related to other reinsurance assets and liabilities are not designated as hedges under SFAS 133. The changes in fair value of the non-designated hedges and the other reinsurance assets and liabilities are recognized in net foreign exchange gains and losses in the Consolidated Statements of Operations.

The Company formally documents all relationships between designated hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. In this documentation, the Company specifically identifies the asset, liability, firm commitment or forecasted transaction that has been designated as a hedged item and states how the hedging instrument is expected to hedge the risks related to the hedged item. The Company formally measures effectiveness of its designated hedging relationships, both at the hedge inception and on an ongoing basis. The Company assesses the effectiveness of its designated hedges using the period-to-period dollar offset method on an individual currency basis. If the ratio obtained with this method is within the range of 80% to 125%, the Company considers the hedge effective under SFAS 133. The time value component of the designated fair value hedges is excluded from the assessment of hedge effectiveness.

The Company will discontinue hedge accounting prospectively if it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item. To the extent that the Company in the future chooses to discontinue hedge accounting related to its fair value hedge of currency risk related to its available for sale fixed income securities (liability funds) because, based on Management's assessment, the derivative no

longer qualifies as an effective fair value hedge, the derivative will continue to be carried in the Consolidated Balance Sheets at its fair value, with changes in its fair value recognized in current period net income, and changes in the fair value of the underlying available for sale fixed income securities due to currency movements will be recorded as a component of accumulated other comprehensive income.

(l) Investment Related Derivatives

The Company's investment strategy allows for the use of derivative instruments, subject to strict limitations. The Company utilizes various derivative instruments such as futures contracts, credit default swaps, written covered call options, foreign currency option contracts and foreign exchange forward contracts for the purpose of replicating investment positions, managing market exposure and duration risks, or enhancing investment performance. These instruments are recorded at fair value as assets and liabilities in the Consolidated Balance Sheets and changes in fair value are included in net realized investment gains and losses in the Consolidated Statements of Operations. The fair values of those derivatives are based on quoted market prices, or internal valuation models where quoted market prices are not available. Margin balances required by counterparties, which are equal to a percentage of the total value of open futures contracts, are included in cash and cash equivalents.

(m) Weather Derivatives

As a part of the Company's ART operations, the Company has entered into weather related transactions that are structured as insurance, reinsurance or derivatives. When those transactions are determined to be derivatives, they are recorded at fair value with the changes in fair value reported in other income in the Consolidated Statements of Operations. The Company uses internal valuation models to estimate the fair value of these derivatives.

(n) Total Return and Interest Rate Swaps

As a part of the Company's ART operations, the Company has entered into total return and interest rate swaps. Income related to these swaps and any fair value adjustments on the swaps are included in other income in the Consolidated Statements of Operations. The Company records these swaps at fair value, based on quoted market prices. Where such valuations are not available, the Company uses internal valuation models to estimate fair value.

(o) Net Income per Common Share

Diluted net income per common share is defined as net income available to common shareholders divided by the weighted average number of common and common share equivalents outstanding, calculated using the treasury stock method for all potentially dilutive securities. Net income available to common shareholders is defined as net income less preferred share dividends. When the effect of dilutive securities would be anti-dilutive, these securities are excluded from the calculation of diluted net income per share. Basic net income per share is defined as net income available to common shareholders divided by the weighted average number of common shares outstanding for the period, giving no effect to dilutive securities.

(p) Share-Based Compensation

The Company currently uses five types of share-based compensation: stock options, restricted shares (RS), restricted share units (RSU), stock appreciation rights (SAR) and shares issued under the Company's employee stock purchase plans. The Company adopted the fair value provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" (SFAS 123), as amended by SFAS No. 148 "Accounting for Stock-Based Compensation—Transition and Disclosure" (SFAS 148), in 2003 and elected to use the prospective transition method as described in SFAS 123, which resulted in the expensing of options granted subsequent to January 1, 2003.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123(R)), using the modified prospective method. Under both SFAS 123 and SFAS 123(R), the fair value of the compensation cost is measured at grant date and is expensed over the period for which the employee is required to provide services in exchange for the award. SFAS 123(R), however, requires that forfeiture benefits be estimated at the time of grant and incorporated in the determination of share-based compensation costs. For awards issued prior to the adoption of SFAS 123(R), forfeiture benefits are recognized when employees leave the Company. SFAS 123(R) also differs from SFAS 123 in that it requires that awards granted to employees who are eligible for retirement and do not have to provide additional services be expensed at the date of grant.

(q) Pensions

Effective December 31, 2006, the Company adopted SFAS 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" (SFAS 158). This statement requires an entity to, among other things: (a) recognize an asset or a liability in the Consolidated Balance Sheets for the funded status of defined benefit plans that are overfunded or underfunded, respectively, measured as the difference between the fair value of plan assets and the pension obligation; (b) recognize changes in the funded status of defined benefit plans in the year in which the changes occur as a component of other comprehensive income, net of tax; and (c) measure defined benefit plan assets and obligations as of the date of the employer's balance sheet date (see Note 9).

(r) Variable Interest Entities

FIN 46(R) requires a variable interest entity to be consolidated by a company if that company is subject to a majority of the risk of loss from the variable interest entity's activities or is entitled to receive a majority of the entity's residual returns or both. A variable interest entity is a corporation, partnership, trust or any other legal structure used for business purposes that either (a) does not have equity investors with voting rights or (b) has equity investors that do not provide sufficient financial resources for the entity to support its activities. The Company has determined that PartnerRe Finance II, which issued the capital efficient notes (CENTs), PartnerRe Capital Trust I (the Trust), which issued the Company's trust preferred securities and PartnerRe Finance I, which owns the Trust, do not meet the consolidation requirements of FIN 46(R). As a result, the Company has not consolidated the Trust and PartnerRe Finance I or II and has reflected the debt related to the trust preferred securities and capital efficient notes issued by the Company to PartnerRe Finance I and II, respectively, as liabilities in the Consolidated Balance Sheets (see Note 12). The interest on the debt related to the trust preferred securities and CENTs is reported as interest expense in the Consolidated Statements of Operations.

(s) Segment Reporting

The Company monitors the performance of its underwriting operations in three segments, Non-life, ART and Life. The Non-life segment is further divided into three sub-segments, U.S. Property and Casualty (U.S. P&C), Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C) and Worldwide Specialty. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. These segments and sub-segments were determined in accordance with SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information". See Note 19.

(t) Recent Accounting Pronouncements

FIN 48

In June 2006, the FASB issued Interpretation No. 48, "Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109" (FIN 48). The interpretation requires companies to recognize the tax benefits of uncertain tax positions only where the position is "more likely than not" to be sustained assuming examination by tax authorities. The amount recognized is the amount that represents the largest amount of tax benefit for those items with a greater than 50% likelihood of being ultimately realized. A liability must be recognized for any tax benefit (along with any interest and penalty, if applicable) claimed in a tax return in excess of the amount allowed under the interpretation. FIN 48 requires a tabular reconciliation of the change in the aggregate unrecognized tax benefits claimed in tax returns and requires disclosure for those uncertain tax positions where it is reasonably possible that the estimate of the tax benefit will change significantly in the next 12 months. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN 48 as of January 1, 2007. The adoption of FIN 48 is expected to reduce the Company's consolidated shareholders' equity by approximately \$5 million to \$10 million, with no material impact on net income.

SFAS 155

In February 2006, the FASB issued Statement No. 155 "Accounting for Certain Hybrid Financial Instruments—an amendment of FASB Statements No. 133 and 140" (SFAS 155). This Statement amends SFAS 133 and SFAS No. 140 "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities" (SFAS 140). This Statement resolves issues addressed in SFAS 133 DIG Issue No. D1 "Application of Statement 133 to Beneficial Interests in Securitized Financial Assets". It permits fair value remeasurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation; clarifies which interest-only strips and principal-only strips are not subject to the requirements of SFAS 133; establishes a requirement to evaluate interests in securitized financial assets to identify interests that are freestanding derivatives or that are hybrid financial instruments that contain an embedded derivative requiring bifurcation; clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives; and amends SFAS 140 to eliminate the prohibition on a qualifying special-purpose entity from holding a derivative financial instrument that pertains to a beneficial interest other than another derivative financial instrument.

In January 2007, the FASB finalized SFAS 133 DIG Issue No. B40 "Embedded Derivatives: Application of Paragraph 13(b) to Securitized Interests in Prepayable Financial Assets" (Issue B40). Issue B40 determined criteria to evaluate whether a securitized interest in prepayable financial assets would not be subject to the bifurcation conditions in paragraph 13(b) of SFAS 133, thereby modifying the way beneficial interests in securitized financial assets are evaluated under SFAS 155.

SFAS 155 is effective for fiscal years that begin after September 15, 2006. The Company will adopt SFAS 155 as of January 1, 2007. Issue B40 is effective for all securitized interests in prepayable financial assets acquired by the Company after the adoption of SFAS 155. The adoption of SFAS 155 and Issue B40 are not expected to have a significant impact on the consolidated shareholders' equity or net income of the Company.

SFAS 157

In September 2006, the FASB issued Statement No. 157, "Fair Value Measurements" (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards. The statement requires disclosure of the fair value of financial instruments according to a fair value hierarchy that prioritizes the information used to measure fair value into three broad levels. Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for both recurring and non-recurring fair value measurements and the effects of the measurements on the financial statements.

SFAS 157 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 157 on its consolidated shareholders' equity or net income.

SFAS 159

In February 2007, the FASB issued Statement No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115 (SFAS 159)." SFAS 159 allows entities to choose, at specified election dates, to measure eligible financial assets and liabilities at fair value that are not otherwise required to be measured at fair value. If a company elects the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in current earnings. SFAS 159 also establishes presentation and disclosure requirements designed to draw comparisons between entities that elect different measurement attributes for similar assets and liabilities.

SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of the adoption of SFAS 159 on its consolidated shareholders' equity or net income.

3. Investments

(a) Fixed Maturities, Equities and Short-Term Investments Available for Sale

The cost, fair value, gross unrealized gains and gross unrealized losses on investments classified as available for sale at December 31, 2006 and 2005, were as follows (in thousands of U.S. dollars):

2006	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
- U.S. government	\$ 1,518,405	\$ 3,896	\$ (11,905)	\$ 1,510,396
- states or political subdivisions of states of the U.S.	1,334	—	(45)	1,289
- other foreign governments	1,553,830	18,380	(15,703)	1,556,507
- corporate	2,859,268	32,349	(25,863)	2,865,754
- mortgage/asset-backed securities	1,919,961	7,536	(25,763)	1,901,734
Total fixed maturities	7,852,798	62,161	(79,279)	7,835,680
Short-term investments	133,872	—	(121)	133,751
Equities	920,913	103,178	(8,947)	1,015,144
Total	\$ 8,907,583	\$ 165,339	\$ (88,347)	\$ 8,984,575
2005	Cost ⁽¹⁾	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
- U.S. government	\$ 922,652	\$ 2,245	\$ (10,142)	\$ 914,755
- states or political subdivisions of states of the U.S.	6,074	—	(111)	5,963
- other foreign governments	1,677,807	33,274	(8,363)	1,702,718
- corporate	2,557,926	37,271	(29,819)	2,565,378
- mortgage/asset-backed securities	1,517,784	1,372	(21,148)	1,498,008
Total fixed maturities	6,682,243	74,162	(69,583)	6,686,822
Short-term investments	231,442	5	(514)	230,933
Equities	1,246,192	99,269	(11,087)	1,334,374
Total	\$ 8,159,877	\$ 173,436	\$ (81,184)	\$ 8,252,129

⁽¹⁾ Cost is amortized cost for fixed maturities and short-term investments and original cost for equity securities, net of other-than-temporary impairments.

PartnerRe Ltd.
Notes to Consolidated Financial Statements

The following tables present the continuous periods during which the Company has held investment positions classified as available for sale that were carried at an unrealized loss at December 31, 2006 and 2005 (in millions of U.S. dollars):

2006	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities						
- U.S. government	\$ 704.5	\$ (5.2)	\$ 297.9	\$ (6.7)	\$ 1,002.4	\$ (11.9)
- states or political subdivisions of states of the U.S.	—	—	1.3	—	1.3	—
- other foreign governments	1,042.9	(10.4)	173.2	(5.3)	1,216.1	(15.7)
- corporate	1,051.3	(11.6)	756.7	(14.3)	1,808.0	(25.9)
- mortgage/asset-backed securities	465.5	(2.6)	831.5	(23.2)	1,297.0	(25.8)
Total fixed maturities	3,264.2	(29.8)	2,060.6	(49.5)	5,324.8	(79.3)
Short-term investments	129.5	(0.1)	—	—	129.5	(0.1)
Equities	232.7	(7.3)	50.0	(1.6)	282.7	(8.9)
Total	\$ 3,626.4	\$ (37.2)	\$ 2,110.6	\$ (51.1)	\$ 5,737.0	\$ (88.3)

2005	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Fixed maturities						
- U.S. government	\$ 530.6	\$ (6.0)	\$ 161.7	\$ (4.1)	\$ 692.3	\$ (10.1)
- states or political subdivisions of states of the U.S.	4.6	(0.1)	1.3	—	5.9	(0.1)
- other foreign governments	909.6	(8.3)	2.0	(0.1)	911.6	(8.4)
- corporate	1,092.8	(17.2)	367.1	(12.6)	1,459.9	(29.8)
- mortgage/asset-backed securities	1,230.9	(18.0)	131.2	(3.2)	1,362.1	(21.2)
Total fixed maturities	3,768.5	(49.6)	663.3	(20.0)	4,431.8	(69.6)
Short-term investments	227.6	(0.5)	—	—	227.6	(0.5)
Equities	452.9	(9.4)	54.8	(1.7)	507.7	(11.1)
Total	\$ 4,449.0	\$ (59.5)	\$ 718.1	\$ (21.7)	\$ 5,167.1	\$ (81.2)

The Company's investment security with the largest unrealized loss position at December 31, 2006 and 2005, for which an other-than-temporary impairment charge has not been taken, had a gross unrealized loss of \$5.4 million and \$3.0 million, representing 6.4% and 1.9%, respectively, of the amortized cost of the security, which is rated AAA. This unrealized loss and the majority of the total unrealized losses related to fixed maturity securities for which an other-than-temporary impairment charge has not been taken, are due to changes in interest rates. Typically, as interest rates rise, market values of fixed maturity portfolios fall, and vice versa. The majority of the fixed maturity securities with unrealized losses at December 31, 2006 were rated AAA. As of December 31, 2006 and 2005, the Company had no significant unrealized losses caused by other factors or circumstances, including an issuer's specific corporate risk or due to industry or geographic risk, for which an other-than-temporary impairment charge has not been taken.

(b) Maturity Distribution of Available for Sale Securities

The distribution of available for sale fixed maturities and short-term investments at December 31, 2006 by contractual maturity is shown below (in thousands of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
One year or less	\$ 851,464	\$ 849,181
More than one year through five years	2,685,228	2,678,035
More than five years through ten years	2,126,576	2,112,432
More than ten years	403,441	428,049
Subtotal	6,066,709	6,067,697
Mortgage/asset-backed securities	1,919,961	1,901,734
Total	\$ 7,986,670	\$ 7,969,431

(c) Change in Net Unrealized Gains (Losses) on Investments

The analysis of the change in net unrealized gains (losses) on investments net of applicable taxes, reflected in accumulated other comprehensive income for the years ended December 31, 2006, 2005 and 2004, is as follows (in thousands of U.S. dollars):

	2006	2005	2004
Fixed maturities	\$ (21,697)	\$ (107,318)	\$ 9,740
Short-term investments	388	(512)	(33)
Equities	6,049	(35,589)	24,518
Other investments	(3,086)	(897)	(641)
	(18,346)	(144,316)	33,584
(Increase) decrease in tax liability	(1,790)	26,790	(5,501)
Net change reflected in accumulated other comprehensive income	\$ (20,136)	\$ (117,526)	\$ 28,083

(d) Realized Gains (Losses) on Investments

Proceeds from the sale of investments classified as available for sale for the years ended December 31, 2006, 2005 and 2004 were \$13,550.3 million, \$9,968.0 million and \$7,299.4 million, respectively. Realized investment gains and losses on securities classified as available for sale for the years ended December 31, 2006, 2005 and 2004 were as follows (in thousands of U.S. dollars):

	2006	2005	2004
Gross realized gains	\$ 268,265	\$ 294,038	\$ 153,670
Gross realized losses excluding other-than-temporary impairments	(205,216)	(100,842)	(52,858)
Other-than-temporary impairments	(26,561)	(8,120)	(10,528)
Total net realized investment gains on available for sale securities	\$ 36,488	\$ 185,076	\$ 90,284

The components of the net realized investments gains on available for sale securities for the years ended December 31, 2006, 2005 and 2004 were as follows (in thousands of U.S. dollars):

	2006	2005	2004
Fixed maturities	\$ (52,794)	\$ 25,317	\$ 25,441
Equities	89,310	159,821	64,821
Short-term investments	(28)	(62)	22
Total net realized investment gains on available for sale securities	\$ 36,488	\$ 185,076	\$ 90,284

The following table is a reconciliation of the net realized investment gains on available for sale securities to the net realized investment gains for the years ended December 31, 2006, 2005 and 2004 in the Consolidated Statements of Operations (in thousands of U.S. dollars):

	2006	2005	2004
Net realized investment gains on available for sale securities	\$ 36,488	\$ 185,076	\$ 90,284
Net realized investment gains on trading securities	21,685	14,436	8,254
Change in net unrealized investment gains (losses) on trading securities	11,359	1,994	(1,641)
Net realized and unrealized investment gains (losses) on equity securities sold but not yet purchased	(10,484)	(10,312)	—
Net realized and unrealized investment gains (losses) on designated hedging activities	10,645	275	(278)
Net realized and unrealized (losses) gains on other invested assets	(1,242)	3,465	29,389
Other realized and unrealized investment (losses) gains	(21,291)	11,940	(8,669)
Total net realized investment gains	\$ 47,160	\$ 206,874	\$ 117,339

For the years ended December 31, 2006, 2005 and 2004, the Company recorded a net gain of \$0.6 million, a net loss of \$2.8 million and a net loss of \$1.5 million, respectively, in net realized investment gains and losses in the Consolidated Statements of Operations, representing the ineffectiveness of its designated fair value hedging activities.

(e) Net Investment Income

The components of net investment income for the years ended December 31, 2006, 2005 and 2004 were as follows (in thousands of U.S. dollars):

	2006	2005	2004
Fixed maturities	\$ 333,888	\$ 287,994	\$ 245,937
Short-term investments, trading securities, cash and cash equivalents	61,453	25,465	7,943
Equities	33,163	27,400	19,899
Funds held and other	40,446	40,987	40,940
Investment expenses	(19,549)	(17,338)	(16,722)
Net investment income	\$ 449,401	\$ 364,508	\$ 297,997

(f) Trading Securities

At December 31, 2006 and 2005, the net unrealized investment gains on trading securities were approximately \$21.5 million and \$9.9 million, respectively. For the years ended December 31, 2006, 2005 and 2004, the change in net unrealized investment gains and losses on trading securities (including the impact of foreign exchange) resulted in a net gain of \$11.4 million, a net gain of \$2.0 million and a net loss of \$1.6 million, respectively, being recognized in net realized investment gains and losses in the Consolidated Statements of Operations.

(g) Pledged Assets

At December 31, 2006 and 2005, approximately \$46.8 million and \$50.2 million, respectively, of cash and cash equivalents and approximately \$1,206.1 million and \$1,135.7 million, respectively, of available for sale securities were deposited, pledged or held in escrow accounts to support long-term debt, or in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws.

(h) Net Payable for Securities Purchased

Included in net payable for securities purchased at December 31, 2006 and 2005 were gross payable and receivable balances for unsettled trades and equity securities sold but not yet purchased, which represent sales of securities not owned at the time of the sale. The components of net payable for securities purchased at December 31, 2006 and 2005 were as follows (in thousands of U.S. dollars):

	2006	2005
Receivable for securities sold	\$ 116,061	\$ 175,249
Payable for securities purchased	(136,145)	(166,590)
Equity securities sold but not yet purchased	(70,247)	(101,977)
Net payable for securities purchased	\$ (90,331)	\$ (93,318)

(i) Other invested assets

Other invested assets primarily include the Company's investment in Channel Re Holdings, a non-publicly traded financial guaranty reinsurer based in Bermuda, which assumed a portfolio of in-force business from MBIA, and which participates in new MBIA reinsurance treaties and provides facultative reinsurance support to MBIA. The Company's investment represents 20% of the common stock of Channel Reinsurance Ltd., which is a subsidiary and the primary asset of Channel Re Holdings. The Company's share of Channel Re Holdings, net income was \$11.7 million, \$9.4 million and \$6.0 million for the years ended December 31, 2006, 2005 and 2004 respectively (See Note 21).

4. Unpaid Losses and Loss Expenses and Policy Benefits for Life and Annuity Contracts

(a) Unpaid Losses and Loss Expenses

The Company's unpaid losses and loss expenses for its non-life operations are composed of the reserves for its Non-life and ART segments.

Unpaid losses and loss expenses are categorized into three types of reserves: reported outstanding loss reserves (case reserves), additional case reserves (ACRs) and incurred but not reported (IBNR) reserves. Case reserves represent unpaid losses reported by the Company's cedants and recorded by the Company. ACRs are established for particular circumstances where, on the basis of individual loss reports, the Company estimates that the particular loss or collection of losses covered by a treaty may be greater than those advised by the cedant. IBNR reserves represent a provision for claims that have been incurred but not

yet reported to the Company, as well as future loss development on losses already reported, in excess of the case reserves and ACRs. The following table shows unpaid losses and loss expenses reported by cedants (case reserves) and those estimated by the Company (ACRs and IBNR reserves) at December 31, 2006 and 2005 (in thousands of U.S. dollars):

	2006	2005
Case reserves	\$ 2,946,228	\$ 2,707,274
ACRs	294,554	521,191
IBNR reserves	3,630,003	3,509,196
Total unpaid losses and loss expenses	\$ 6,870,785	\$ 6,737,661

The table below is a reconciliation of the beginning and ending liability for unpaid losses and loss expenses, excluding policy benefits for life and annuity contracts, for the years ended December 31, 2006, 2005 and 2004 (in thousands of U.S. dollars):

	2006	2005	2004
Gross liability at beginning of year	\$ 6,737,661	\$ 5,766,629	\$ 4,755,059
Reinsurance recoverable at beginning of year	185,280	153,018	175,685
Net liability at beginning of year	6,552,381	5,613,611	4,579,374
Net incurred losses related to:			
Current year	1,999,730	2,998,271	2,318,716
Prior years	(251,748)	(231,510)	(139,036)
	1,747,982	2,766,761	2,179,680
Net paid losses related to:			
Current year	141,559	234,031	257,950
Prior years	1,718,996	1,250,534	1,120,756
	1,860,555	1,484,565	1,378,706
Effects of foreign exchange rate changes	292,392	(343,426)	233,263
Net liability at end of year	6,732,200	6,552,381	5,613,611
Reinsurance recoverable at end of year	138,585	185,280	153,018
Gross liability at end of year	\$ 6,870,785	\$ 6,737,661	\$ 5,766,629

The following table summarizes the net prior year (favorable) adverse development of loss reserves for the Company's non-life operations for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars):

	2006	2005	2004
Prior year net (favorable) adverse loss development:			
Non-life segment			
U.S. P&C	\$ 6	\$ 48	\$ 30
Global (Non-U.S.) P&C	(66)	(67)	24
Worldwide Specialty	(193)	(212)	(193)
Total net Non-life segment	(253)	(231)	(139)
ART segment	1	—	—
Total net non-life prior year loss development	\$ (252)	\$ (231)	\$ (139)

Within the Company's U.S. P&C sub-segment, the Company reported net adverse loss development for prior years in 2006, 2005 and 2004. This primarily affected the property and motor line in 2006, the casualty line in 2005, and the motor line in 2004. The net adverse loss development in 2006 was primarily due to net adverse development of \$11 million related to the 2005 hurricanes, partially offset by loss reductions which were driven by lower than expected loss activity. The net adverse loss development in the casualty line in 2005 was primarily due to a revaluation of the loss development assumptions used by the Company to estimate future liabilities in a number of recent underwriting years on a limited number of treaties, predominantly in the specialty casualty line. During 2004, the Company observed an industry-wide deterioration of loss development for prior accident years in the motor line, particularly on non-proportional treaties. Other than for losses related to the 2005 hurricanes, losses reported by cedants during these three years included no significant losses but a series of attritional losses. Attritional losses are losses that may not be significant on an individual basis, but are monitored on an aggregated basis by the Company to identify trends that may be meaningful from a reserving standpoint. Upon consideration of the attritional loss information received during 2006, 2005 and 2004, the Company revised assumptions used to perform its actuarial analysis and increased its expected ultimate loss ratios, which had the effect of increasing loss reserves for prior accident years in 2006, 2005 and 2004.

For the Global (Non-U.S.) P&C sub-segment, the Company reported net favorable loss development for prior accident years in 2006 and 2005, and net adverse loss development in 2004. During 2006 and 2005, the Company observed an improvement in loss experience in the property and casualty lines and a deterioration in the motor line. Losses reported by cedants in 2006 and 2005 regarding prior accident years were lower than expected, which led the Company to decrease its expected ultimate loss ratios and loss estimates. During 2004, the Company observed a deterioration in loss experience in the motor and casualty lines. Losses reported by cedants regarding prior accident years were higher than expected, which led the Company to increase its expected ultimate loss ratios and loss reserves. Losses reported by cedants during each of these years regarding prior accident years included no significant loss or loss reductions but a series of attritional losses or loss reductions.

For the Worldwide Specialty sub-segment, losses reported by cedants during 2006, 2005 and 2004 for prior accident years were lower than the Company expected in most lines of business. This led the Company to decrease its expected ultimate loss ratios and loss estimates for prior year losses in each of these years. Losses reported by cedants during each of these years regarding prior accident years included no significant loss reductions but a series of attritional loss reductions.

Uncertainty Related to Katrina Losses

The Company's estimated losses resulting from Hurricane Katrina are subject to an unusual level of uncertainty arising out of these losses' extremely complex and unique causation and related coverage issues associated with the attribution of losses to wind or flood damage or other perils such as fire, business interruption or riot and civil commotion. For instance, many of the Company's cedants' underlying policies exclude flood damage; however, water damage directly related to wind damage may be covered. The Company expects that these issues will not be resolved for a considerable period of time and given recent litigation developments

and the evolving out of court settlement trends that may affect some of the Company's cedants in the future, an additional IBNR reserve of \$20 million has been established during the year ended December 31, 2006. These loss estimates will be reviewed continually and the ultimate liability may be in excess of, or less than, the amounts provided.

The Company's actual losses from Hurricane Katrina may exceed the estimated losses as a result of, among other things, an increase in industry insured loss estimates, the receipt of additional information from cedants, brokers and loss adjusters, and the attribution of losses to coverages that, for the purpose of the estimates, the Company assumed would not be exposed.

Asbestos and Environmental Claims

The Company's net reserve for unpaid losses and loss expenses at December 31, 2006 and 2005 included \$95.2 million and \$96.6 million, respectively, that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2006 and 2005 was \$104.9 million and \$108.0 million, respectively, of which \$98.3 million and \$98.0 million, respectively, relate to U.S. casualty exposures arising from business written by PartnerRe SA and PartnerRe U.S. Ultimate loss estimates for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company's potential losses for these claims. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in estimating asbestos and environmental claims are not likely to be resolved in the near future. There can be no assurance that the reserves established by the Company will not be adversely affected by development of other latent exposures, and further, there can be no assurance that the reserves established by the Company will be adequate. The Company does, however, actively evaluate potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its loss and loss expense estimates.

The table below is a reconciliation of losses and loss expenses including life policy benefits for the years ended December 31, 2006, 2005 and 2004 (in thousands of U.S. dollars):

	2006	2005	2004
Net incurred losses related to:			
Non-life	\$ 1,747,982	\$ 2,766,761	\$ 2,179,680
Life	363,355	319,969	296,063
Losses and loss expenses and life policy benefits	\$ 2,111,337	\$ 3,086,730	\$ 2,475,743

(b) Policy Benefits for Life and Annuity Contracts

The Life segment reported net favorable development for prior accident years during the year ended December 31, 2006 of \$12 million. The net favorable development was primarily related to the refinement of the Company's reserving methodologies related to certain proportional guaranteed minimum death benefit treaties and the receipt of additional reported loss information from its cedants. The Company reported no development on prior accident years during the years ended December 31, 2005 and 2004.

5. Ceded Reinsurance

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery of a portion of losses and loss expenses from retrocessionaires. The Company remains liable to its cedants to the extent that the retrocessionaires do not meet their obligations under these agreements, and therefore the Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk on an ongoing basis. Provisions are made for amounts considered potentially uncollectible. The allowance for uncollectible reinsurance recoverable was \$10.9 million and \$13.6 million at December 31, 2006 and 2005, respectively.

Net premiums written, net premiums earned and losses and loss expenses and life policy benefits are reported net of reinsurance in the Company's Consolidated Statements of Operations. Assumed, ceded and net amounts for the years ended December 31, 2006, 2005 and 2004 were as follows (in thousands of U.S. dollars):

	Premiums Written	Premiums Earned	Losses and Loss Expenses and Life Policy Benefits
2006			
Assumed	\$ 3,733,920	\$ 3,710,529	\$ 2,120,716
Ceded	44,372	43,261	9,379
Net	\$ 3,689,548	\$ 3,667,268	\$ 2,111,337
2005			
Assumed	\$ 3,665,238	\$ 3,648,965	\$ 3,155,729
Ceded	49,360	49,776	68,999
Net	\$ 3,615,878	\$ 3,599,189	\$ 3,086,730
2004			
Assumed	\$ 3,887,516	\$ 3,767,531	\$ 2,489,426
Ceded	34,844	33,791	13,683
Net	\$ 3,852,672	\$ 3,733,740	\$ 2,475,743

6. Long-Term Debt

In connection with the acquisition of the reinsurance operations of Winterthur Re in 1998, the Company's subsidiary, PartnerRe U.S. Corporation (PartnerRe U.S. Holdings) obtained a \$220.0 million, 5.81% fixed rate bank loan. The loan, which is fully collateralized, is repayable in December 2008, with interest payments due semiannually. PartnerRe U.S. Holdings incurred interest expense of \$13.0 million in each of the years ended December 31, 2006, 2005 and 2004 and paid interest of \$13.0 million, \$13.0 million and \$13.1 million for the years ended December 31, 2006, 2005 and 2004, respectively, in relation to this loan.

In October 2005, the Company entered into a loan agreement with Citibank, N.A. under which the Company borrowed \$400.0 million. The loan, which matures in April 2009, bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company is not permitted to prepay the loan prior to its maturity, and the loan is not callable or puttable by

the lender other than upon an event of default. Citibank, N.A. has pledged its rights under the loan agreement, including the proceeds of any repayment or syndication of the loan, to the Company to secure its obligations to the Company under a forward sale agreement (see Note 14), subject to Citibank, N.A.'s right to substitute cash collateral. The Company incurred interest expense of \$22.7 million and \$3.2 million for the years ended December 31, 2006 and 2005, respectively, in relation to this loan. The Company paid interest of \$21.8 million for the year ended December 31, 2006 and did not pay any interest in 2005.

7. Taxation

The Company and its Bermuda domiciled subsidiaries are not subject to Bermuda income or capital gains tax under current Bermuda law. In the event that there is a change in current law such that taxes on income or capital gains are imposed, the Company and its Bermuda domiciled subsidiaries would be exempt from such tax until March 2016 pursuant to the Bermuda Exempted Undertakings Tax Protection Act of 1966.

The Company has subsidiaries and branches that operate in various other jurisdictions around the world that are subject to tax in the jurisdictions in which they operate. The significant jurisdictions in which the Company's subsidiaries and branches are subject to tax are France, Switzerland and the United States.

Income tax returns are open for examination for the tax years 2003-2006 in France, Switzerland and the United States. As a global organization, the Company may be subject to a variety of transfer pricing or permanent establishment challenges by taxing authorities in various jurisdictions. Management believes that adequate provision has been made in the Consolidated Financial Statements for any potential assessments that may result from tax examinations for all open tax years.

Income tax expense for the years ended December 31, 2006, 2005 and 2004 was as follows (in thousands of U.S. dollars):

	2006	2005	2004
Current income tax expense (benefit)			
U.S.	\$ 25,992	\$ 17,349	\$ 11,848
Non U.S.	37,667	(8,101)	(12,882)
Total current income tax expense (benefit)	\$ 63,659	\$ 9,248	\$ (1,034)
Deferred income tax expense (benefit)			
U.S.	\$ (4,510)	\$ (16,677)	\$ (8,745)
Non U.S.	36,156	30,353	17,339
Total deferred income tax expense	\$ 31,646	\$ 13,676	\$ 8,594
Total income tax expense			
U.S.	\$ 21,482	\$ 672	\$ 3,103
Non U.S.	73,823	22,252	4,457
Total income tax expense	\$ 95,305	\$ 22,924	\$ 7,560

The following table is a reconciliation of the actual income tax rate for the years ended December 31, 2006, 2005 and 2004 to the amount computed by applying the effective rate of 0% under Bermuda law to income or loss before income taxes (in thousands of U.S. dollars):

	2006	2005	2004
Net income (loss)	\$ 749,332	\$ (51,064)	\$ 492,353
Income tax expense	95,305	22,924	7,560
Income (loss) before taxes	\$ 844,637	\$ (28,140)	\$ 499,913
Reconciliation of effective tax rate (% of income (loss) before taxes)			
Expected tax rate	0.0%	0.0%	0.0%
Foreign taxes at local expected tax rates	11.3	(275.5)	3.9
Impact of foreign exchange gains/losses	0.4	44.7	2.3
Prior year refund/adjustments	0.4	23.5	(5.5)
Valuation allowance	—	48.7	3.3
Other	(0.8)	77.1	(2.5)
Actual tax rate	11.3%	(81.5)%	1.5%

Deferred tax assets reflect the tax impact of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Significant components of the net deferred tax assets as of December 31, 2006 and 2005 were as follows (in thousands of U.S. dollars):

	2006	2005
Deferred tax assets		
Discounting of loss reserves and adjustment to life policy reserves	\$ 69,589	\$ 75,359
Tax loss carryforwards	62,878	81,820
Unearned premiums	20,440	20,650
Other deferred tax assets	11,885	6,306
	164,792	184,135
Valuation allowance	—	(840)
Deferred tax assets	164,792	183,295
Deferred tax liabilities		
Unrealized appreciation and timing differences on investments	16,550	16,071
Deferred acquisition costs	25,596	26,572
Goodwill	15,788	12,890
Tax equalization reserves	20,937	19,473
Other deferred tax liabilities	9,257	3,389
Deferred tax liabilities	88,128	78,395
Net deferred tax assets	\$ 76,664	\$ 104,900

The components of net tax assets at December 31, 2006 and 2005 were as follows (in thousands of U.S. dollars):

	2006	2005
Net tax assets		
Net current tax liabilities	\$ (58,838)	\$ (17,233)
Net deferred tax assets	76,664	104,900
Net tax assets	\$ 17,826	\$ 87,667

As of December 31, 2006, the Company had net deferred tax assets of \$62.9 million relating to operating loss carryforwards primarily in France. French tax law allows tax losses to be carried forward for an unlimited period.

Realization of the deferred tax asset is dependent on generating sufficient taxable income in future periods. Although realization is not assured, Management believes that it is more likely than not that the deferred tax asset will be realized.

The following table summarizes the changes in accumulated other comprehensive income and the related tax benefit for the years ended December 31, 2006, 2005 and 2004 (in thousands of U.S. dollars):

	Before Tax	Tax Effect	Net of Tax
2006			
Foreign currency translation adjustment	\$ 56,120	\$ —	\$ 56,120
Unrealized (losses) gains on investments:			
Unrealized gains (losses) on investments arising during the period	18,142	(2,491)	15,651
Less reclassification adjustment for available for sale securities	(36,488)	701	(35,787)
	(18,346)	(1,790)	(20,136)
Less unfunded pension obligation	(9,399)	2,122	(7,277)
Change in accumulated other comprehensive income	\$ 28,375	\$ 332	\$ 28,707
2005			
Foreign currency translation adjustment	\$ (59,896)	\$ —	\$ (59,896)
Unrealized (losses) gains on investments:			
Unrealized gains (losses) on investments arising during the period	40,760	(23,034)	17,726
Less reclassification adjustment for available for sale securities	(185,076)	49,824	(135,252)
	(144,316)	26,790	(117,526)
Change in accumulated other comprehensive income	\$ (204,212)	\$ 26,790	\$ (177,422)
2004			
Foreign currency translation adjustment	\$ 55,853	\$ —	\$ 55,853
Unrealized gains (losses) on investments:			
Unrealized gains (losses) on investments arising during the period	123,868	(44,723)	79,145
Less reclassification adjustment for available for sale securities	(90,284)	39,222	(51,062)
	33,584	(5,501)	28,083
Change in accumulated other comprehensive income	\$ 89,437	\$ (5,501)	\$ 83,936

8. Agreements with Related Parties

The Company was party to agreements with Atradius N.V. since December 2003 (a company in which a board member is a supervisory director) and Novelis since May 2006 (a company in which a board member is a director).

The Company was party to agreements with Barclays Bank PLC (a company in which a board member was a non-executive director) and their respective affiliates and Atis Real (a company in which a board member was a director). Barclays Bank PLC and Atis Real were no longer related parties of the Company subsequent to April 2005 and June 2005, respectively.

Agreements with Atradius N.V.

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts (assumed and ceded) with Atradius N.V. Included in the 2006 Consolidated Statement of Operations were net premiums written of \$48.5 million, net premiums earned of \$44.8 million, losses and loss expenses and life policy benefits of \$19.2 million and acquisition costs of \$17.0 million. Included in the Consolidated Balance Sheet at December 31, 2006 were reinsurance balances receivable of \$19.7 million, unpaid losses and loss expenses of \$56.6 million and unearned premiums of \$27.4 million. Included in the 2005 Consolidated Statement of Operations were net premiums written of \$43.8 million, net premiums earned of \$45.2 million, losses and loss expenses and life policy benefits of \$31.1 million and acquisition costs of \$15.3 million. Included in the Consolidated Balance Sheet at December 31, 2005 were reinsurance balances receivable of \$18.1 million, unpaid losses and loss expenses of \$52.2 million and unearned premiums of \$21.0 million. Included in the 2004 Consolidated Statement of Operations were net premiums written of \$43.3 million, net premiums earned of \$37.2 million, losses and loss expenses and life policy benefits of \$20.9 million and acquisition costs of \$12.6 million.

Other Agreements

In the normal course of its operations, the Company has entered into certain agreements with Barclays Bank PLC and its subsidiaries (Barclays) on market terms. The Company held convertible bond securities issued by Barclays and invested in an index fund and a money market fund managed by Barclays. In addition, Barclays provided the Company with brokerage and cash management services. As part of its overall currency risk management, the Company utilized the services of Barclays when entering into certain foreign exchange contracts. The Company also entered into weather related transactions with Barclays in 2005 and 2004 as part of its ART operations. Barclays is also a lending financial institution on the Company's unsecured credit facility (see Note 17).

In the normal course of its investment operations, the Company bought or held securities of companies in which board members of the Company are also directors or non-executive directors. All transactions entered into as part of the investment portfolio were completed on market terms.

In the normal course of its operations, the Company subleases office space to Novelis, and leased office space from Atis Real on market terms. Pursuant to the agreements, rent (income) expense for the years ended December 31, 2006, 2005 and 2004, aggregated \$(0.7) million, \$4.9 million (through June 2005) and \$8.6 million, respectively.

9. Retirement Benefit Arrangements

For employee retirement benefits, the Company maintains active defined-contribution plans, a defined benefit plan and a frozen non-contributory defined benefit plan.

Defined Contribution Plans

Contributions are made by the Company, and in some locations, these contributions are supplemented by the local plan participants. Contributions are based on a percentage of the participant's base salary depending upon competitive local market practice. Vesting provisions meet legal compliance standards and market trends; the accumulated benefits for the majority of these plans vest immediately or over a two-year period. As required by law, certain retirement plans also provide for death and disability benefits and lump sum indemnities to employees upon retirement.

The Company incurred expenses for these defined contribution arrangements of \$10.0 million, \$12.3 million and \$12.0 million for the years ended December 31, 2006, 2005 and 2004, respectively.

Active Defined Benefit Plan

Since 1999, the Company has maintained an active pension plan for its Zurich office employees (the Zurich Plan), which was classified and accounted for as a defined contribution plan. Recent amendments to the Zurich Plan during 2006, in conjunction with changes to Swiss pension law (BVG) have led the Company to conclude that the current features of the plan now make it a hybrid plan, which is accounted for as a defined benefit pension plan for the year ended December 31, 2006.

At December 31, 2006 the funded status of the Zurich Plan was as follows (in thousands of U.S. dollars):

Funded status	2006
Unfunded pension obligation on conversion to defined benefit plan	\$ 1,926
Change in pension obligation	
Service cost	3,197
Interest cost	1,882
Plan participants' contributions	1,032
Actuarial loss	2,119
Benefits paid	(7,527)
Foreign currency adjustments	4,735
Change in pension obligation	5,438
Change in fair value of plan assets	
Actual return on plan assets	1,487
Foreign currency adjustments	4,462
Employer contributions	249
Plan participants' contributions	1,032
Benefits paid	(7,527)
Change in fair value of plan assets	(297)
Funded status	
Unfunded pension obligation at end of year	\$ 7,661

At December 31, 2006 the funded status at the end of the year was included in accounts payable, accrued expenses and other in the Consolidated Balance Sheet. Employer contributions for the year ended December 31, 2006 of \$3.9 million were paid by the Company prior to the conversion of the Zurich Plan to a defined benefit plan.

The components of net periodic benefit cost for the year ended December 31, 2006 consisted of (in thousands of U.S. dollars):

	2006
Net periodic benefit cost	
Service cost	\$ 3,197
Interest cost	1,882
Expected return on plan assets	(1,973)
Net periodic benefit cost	3,106

The incremental effect of applying FAS 158 (see Note 2(q)) was to decrease total assets by \$5.7 million, increase total liabilities by \$1.2 million and decrease total shareholders' equity (accumulated other comprehensive income) by \$6.9 million. Total pension obligation recognized in accumulated other comprehensive income at December 31, 2006 was \$7.3 million (net of \$2.1 million of taxes) and included the transition adjustment under FAS 158 of \$6.9 million (net of \$1.9 million of taxes). Of this transition adjustment, \$1.1 million pre-tax is expected to be recognized in net periodic benefit cost in 2007.

At December 31, 2006 the pension obligation was \$66.1 million, the accumulated pension obligation was \$63.7 million, and the fair value of plan assets was \$58.5 million. At December 31, 2006, the Zurich Plan's asset allocation was as follows:

	2006
Debt securities	67%
Real estate	13%
Equity securities	12%
Other	8%
Total	100.0%

The investment strategy of the Zurich Plan's Pension Committee is to achieve a consistent long-term return which will provide sufficient funding for future pension obligations while limiting risk. The majority of the Zurich Plan's assets are invested in insured funds and the remainder are invested in equities. The investment strategy is reviewed regularly.

The expected long-term rate of return on plan assets is based on the expected asset allocation and assumptions concerning long-term interest rates, inflation rates and risk premiums for equities above the risk-free rates of return. These assumptions take into consideration historical long-term rates of return for the relevant asset categories.

The assumptions used to determine the pension obligation and net periodic benefit cost for the year ended December 31, 2006 were as follows:

	Pension obligation	Net periodic benefit cost
Discount rate	3.0%	3.0%
Expected return on plan assets	—	3.25%
Rate of compensation increase	3.5%	3.5%

At December 31, 2006, estimated employer contributions to be paid in 2007 were \$4.3 million and future benefit payments were estimated to be paid as follows (in thousands of U.S. dollars):

Period	Amount
2007	\$ 2,671
2008	2,854
2009	2,883
2010	3,245
2011	3,554
2012 to 2016	19,950

The Company does not believe that any plan assets will be returned to the Company during 2007.

Frozen Defined Benefit Plan

Prior to June 1999, the Company had defined benefit plans in place covering substantially all of its employees. All active employees previously enrolled in defined benefit plans have been transferred to defined contribution plans or the Zurich Plan. Benefit accruals under the former defined benefit plans were either frozen, except for certain disabled participants, or rolled into defined contribution plans or the Zurich Plan. At December 31, 2006, the frozen defined benefit plan had plan assets of \$7.6 million with a pension obligation of \$6.4 million, resulting in the defined benefit plans being overfunded by \$1.2 million. In addition to the amounts recognized with respect to the Zurich Plan, the Company has also recognized \$0.4 million in accumulated other comprehensive income as a result of applying FAS 158 to the frozen defined benefit plans.

10. Stock and Stock Option Plans Employee Equity Plan

In May 2005, the shareholders approved the PartnerRe Ltd. 2005 Employee Equity Plan (the EEP) and replaced the existing employee plan, the Employee Incentive Plan (the EIP). The EEP permits the grant of stock options, restricted shares (RS), restricted share units (RSU) stock appreciation rights (SAR) or other share-based awards to employees of the Company. The EEP is administered by the Compensation Committee of the Board (the Committee).

Currently, the plan permits the grant of up to 2.2 million shares, of which a total of 750,000 shares can be issued as either RS or RSU. If an award under the EEP is cancelled or forfeited without the delivery of the full number of shares underlying such award, only the net number of shares actually delivered to the participant will be counted against the EEP's authorized shares. If an outstanding award under the Company's predecessor equity plans is cancelled or forfeited without the delivery of the number of shares underlying such award, such undelivered shares will also be available for issuance under the EEP in addition to all other shares authorized for issuance. The number of shares that may be added back to the plan from net share settlement of stock appreciation rights and options is capped at 400,000 shares over the life of the plan. Under the EEP, the exercise price of the award will not be less than the fair market value of the award at the time of grant. The fair market value is defined in the EEP as the average of the highest and lowest sale prices reported on the date prior to the determination of the fair market value. Awards issued under the EEP generally vest over 3 years of continuous service, either ratably or with a cliff-vest provision, are expensed ratably over the vesting period and have a ten-year contractual term.

Shares available for grant under the EIP at the time of replacement were transferred and became available for grant under the EEP, including an additional 1.0 million common shares approved by shareholders for issuance under the EEP.

Certain awards to certain senior executives will, if the Committee intends such award to qualify as "qualified performance based compensation" under Section 162(m) of the Internal Revenue Code (IRC), become earned and payable only if pre-established targets relating to one or more of the following performance measures are achieved: (i) earnings per share, (ii) financial year return on common equity, (iii) underwriting year return on equity, (iv) return on net assets, (v) organizational objectives, and (vi) premium growth. The individual maximum number of shares underlying any such share-denominated award granted in any year will be 800,000 shares, and the individual maximum amount earned with respect to any such non-share denominated award granted in any year will be \$5,000,000.

Under the EIP, the Company granted, subject to certain restrictions, stock options, RS, RSU, SAR, performance units (PU) and performance shares (PS) to employees of the Company. Pursuant to the terms of the EIP, awards were granted to eligible employees at any time, in any amount, as determined by the Committee. The RS and RSU were subject to terms, conditions, restrictions and restricted periods fixed by the Committee that were generally linked to prescribed performance goals. The PU and PS awards were subject to performance goals that were fixed by the Committee. A total of 5 million common shares were authorized for issuance under the EIP.

Non-Employee Directors' Stock Plan

The Non-Employee Directors' Stock Plan (Directors' Stock Plan), which is shareholder-approved, permits the grant of up to 0.5 million stock options, RS, RSU, alternative awards and other share-based awards. Under the Directors' Stock Plan, the exercise price of the stock options will be equivalent to the fair market value of the stock options at the time of grant, as defined in the Directors' Stock Plan. Awards issued under the Directors' Stock Plan generally vest at the time of grant, are expensed immediately and have a ten year contractual term. At December 31, 2006, 0.3 million shares remained available for issuance under this plan.

Employee Share Purchase Plan

The Employee Share Purchase Plan (the ESPP), which is shareholder-approved, has one offering period per year with two purchase periods of six months. All employees are eligible to participate in the ESPP and can contribute between 1% and 10% of their base salary toward the purchase of the Company's shares up to the limit set by the IRC. Employees who enroll in the ESPP may purchase the Company's shares at a 15% discount of the fair market value. Participants in the ESPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.3 million common shares may be issued under the ESPP.

Swiss Share Purchase Plan

The Swiss Share Purchase Plan (the SSPP) has two offering periods per year with two purchase periods of six months. All full-time Swiss employees are eligible to participate in the SSPP and can contribute between 1% and 8% of their base salary toward the purchase of the Company's shares up to a maximum of 5,000 Swiss francs per annum. Employees who enroll in the SSPP may purchase the Company's shares at a 40% discount of the fair market value. There is a restriction on transfer or sale of these shares for a period of two years following purchase. Participants in the SSPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.2 million common shares may be issued under the SSPP.

Under each of the Company's equity plans, the Company issues new shares upon the exercise of stock options or the conversion of RSU and SAR into shares.

For the years ended December 31, 2006, 2005 and 2004, the Company's stock compensation expense was \$23.0 million, \$15.1 million and \$7.8 million, respectively with a tax benefit of \$2.2 million, \$nil and \$nil, respectively. The adoption of SFAS 123(R) resulted in additional compensation expense in 2006 of \$2.0 million, or approximately \$0.03 per basic and diluted share.

Stock Options

During 2006, 2005 and 2004 the Company issued 83,435, 462,019 and 938,225 stock options with a weighted average grant-date fair value of \$14.87, \$17.15 and \$14.66 respectively.

In 2006, 2005 and 2004 285,382, 609,799 and 497,600 stock options with a total grant-date value of \$4.1 million, \$8.1 million and \$5.8 million were exercised, respectively. The aggregate intrinsic value of stock options exercised for the year ended December 31, 2006, 2005 and 2004 was \$5.6 million, \$12.2 million and \$11.1 million, respectively. The Company received \$14.1 million, \$27.0 million and \$18.4 million from stock option exercises for the years ended December 31, 2006, 2005 and 2004, respectively.

In 2006, the Company's U.S. subsidiaries deducted \$3.7 million from their taxable income upon exercises of stock options. The corresponding tax benefit realized on options exercised was \$1.3 million. Shareholders' equity at December 31, 2006 reflects a tax benefit of \$0.9 million related to compensation expense deductions for stock options exercised by employees of the Company's U.S. subsidiaries.

The activity related to the Company's stock options issued for the years ended December 31, 2006, 2005 and 2004 was as follows:

	Options	2006 Weighted Average Exercise Price	Options	2005 Weighted Average Exercise Price	Options	2004 Weighted Average Exercise Price
Outstanding at beginning of year	3,323,006	\$ 52.79	3,534,591	\$ 50.11	3,171,251	\$ 46.49
Granted	83,435	63.29	462,019	62.43	938,225	55.59
Exercised	(285,382)	49.12	(609,799)	44.28	(497,600)	36.96
Forfeited or expired	(33,198)	55.92	(63,805)	54.54	(77,285)	52.47
Outstanding at end of year	3,087,861	53.38	3,323,006	52.79	3,534,591	50.11
Options exercisable at end of year	2,417,987	\$ 52.01	1,721,965	\$ 49.95	1,537,135	\$ 46.67

Stock options vested and expected to vest and the weighted average exercise price for these stock options was 3,085,474 stock options and \$53.37, respectively, at December 31, 2006. The aggregate intrinsic value and weighted average remaining contractual term of stock options vested and expected to vest at December 31, 2006 was \$55.1 million and 5.9 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of stock options exercisable at December 31, 2006 was \$46.5 million and 5.6 years, respectively.

Total unrecognized stock-based compensation expense related to unvested stock options was approximately \$3.4 million at December 31, 2006, which is expected to be recognized over a weighted-average period of 1.0 years.

The following table summarizes information about stock options outstanding at December 31, 2006:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted Average Remaining Contractual Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Exercise Price
\$ 30.35 – \$ 44.75	276,870	2.7	\$ 41.31	276,870	\$ 41.31
\$ 45.31 – \$ 53.80	1,435,278	5.0	51.10	1,320,278	50.87
\$ 53.83 – \$ 55.63	102,115	6.5	54.64	99,649	54.64
\$ 55.63 – \$ 55.63	746,483	7.1	55.63	475,963	55.63
\$ 56.75 – \$ 64.84	527,115	8.3	62.47	245,227	62.10
\$ 30.35 – \$ 64.84	3,087,861	5.9	\$ 53.38	2,417,987	\$ 52.01

The Company valued stock-options issued with a Black-Scholes valuation model and used the following assumptions:

Weighted average assumptions used	2006	2005	2004
Expected life	6 years	7 years	7 years
Expected volatility	22.4%	25.0%	25.0%
Risk-free interest rate	5.0%	4.1%	3.7%
Dividend yield	2.6%	2.0%	2.0%

Prior to the adoption of SFAS 123(R) on January 1, 2006, the Company used historical experience to determine the expected life of stock options; expected volatility equivalent to the historical volatility of the Company's common shares since inception of the Company; a risk-free interest rate based on the market yield of U.S. securities with maturities equivalent to the expected life of the Company's stock options; and a dividend yield reflecting the inception-to-date average dividend yield of the Company. Since January 1, 2006, the Company has used the simplified method for vanilla options under Staff Accounting Bulletin No. 107, "Share-Based Payment" (SAB 107) to determine the expected life of options. Expected volatility is based on the historical volatility of the Company's common shares over a period equivalent to the expected life of the Company's options. The risk-free interest rate is based on the market yield of U.S treasury securities with maturities equivalent to the expected life of the Company's options. The dividend yield is based on the average dividend yield of the Company's shares over the expected life of the Company's options.

Restricted Shares

In 2000, the Company issued under the EIP 10,000 restricted shares with a weighted-average grant date fair value of \$54.50 per share. These shares vested in December 2004. In 2004, the Company issued 5,000 restricted shares with a weighted-average grant date fair value of \$55.13 per share. These shares vest in three equal installments on the anniversary of the grant.

Restricted Share Units

The Company values RSU issued under all plans at the fair market value of its common shares at the time of grant. During 2006 and 2005, the Company issued 118,193 and 223,231 RSU with a weighted average grant date fair value of \$61.77 and \$62.71, respectively.

The activity related to the Company's RSU for the year ended December 31, 2006 was as follows:

	2006
RSU unvested and unreleased at beginning of period	294,174
Granted	118,193
Vested	(2,990)
Forfeited	(10,465)
RSU unvested and unreleased at end of period	398,912

Of the 398,912 RSU outstanding at December 31, 2006, 85,880 RSU are subject to a 5 year delivery date restriction from the grant date and were not released for conversion into shares.

Total unrecognized stock-based compensation expense related to unvested RSU was approximately \$8.6 million at December 31, 2006, which is expected to be recognized over a weighted-average period of 1.9 years.

Stock Appreciation Rights (SAR)

Beginning in 2006, the Company issued 174,770 SAR with a weighted average grant date fair value of \$14.37.

	2006
SAR unvested at beginning of period	—
Granted	174,770
Forfeited	(10,000)
SAR unvested at end of period	164,770

Total unrecognized stock-based compensation expense related to unvested SAR was approximately \$1.5 million at December 31, 2006, which is expected to be recognized over a weighted-average period of 2.2 years.

The Company valued SAR issued with a Black-Scholes valuation model and used the following assumptions:

Weighted average assumptions used	2006
Expected life	6 years
Expected volatility	23.2%
Risk-free interest rate	4.6%
Dividend yield	2.6%

The Company used the simplified method for vanilla options under SAB 107 to determine the expected life of SAR. Expected volatility is based on the historical volatility of the Company's common shares over a period equivalent to the expected life of the Company's SAR. The risk-free interest rate is based on the market yield of U.S treasury securities with maturities equivalent to the expected life of the Company's SAR. The dividend yield is based on the average dividend yield of the Company's shares over the expected life of the Company's SAR.

Pro Forma Information

The following table illustrates the net effect on net income available to common shareholders and net income per share as if the fair value provisions of SFAS 123 had been applied retroactively to all outstanding share-based compensation issued (in thousands of U.S. dollars, except per share data):

	2005	2004
Net (loss) income available to common shareholders:		
As reported	\$ (85,589)	\$ 470,868
Add: Stock-related compensation expense included in net (loss) income as reported	9,270	7,079
Less: Total stock-related compensation expense determined under the fair value method for all grants	12,373	13,728
Pro forma	\$ (88,692)	\$ 464,219
Net (loss) income per common share:		
Basic		
As reported	\$ (1.56)	\$ 8.80
Pro forma	\$ (1.61)	\$ 8.68
Diluted		
As reported	\$ (1.56)	\$ 8.71
Pro forma	\$ (1.61)	\$ 8.59

11. Dividend Restrictions and Statutory Requirements

The Company's ability to pay common and preferred shareholders' dividends and its expenses are dependent on cash dividends from Partner Reinsurance, PartnerRe SA and PartnerRe U.S. (collectively the reinsurance subsidiaries). The payment of such dividends by the reinsurance subsidiaries to the Company is limited under Bermuda and French laws and certain statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. The restrictions are generally based on net income and/or certain levels of policyholders' earned surplus as determined in accordance with the relevant statutory accounting practices. As of December 31, 2006, there were no significant restrictions on the payment of dividends by the reinsurance subsidiaries, except for PartnerRe U.S. that has a statutory negative earned surplus and may not pay cash dividends without prior regulatory approval.

The reinsurance subsidiaries are required to file annual statements with insurance regulatory authorities prepared on an accounting basis prescribed or permitted by such authorities (statutory basis), maintain minimum levels of solvency and liquidity and comply with risk-based capital requirements and licensing rules. As of December 31, 2006, the reinsurance subsidiaries' solvency, liquidity and risk-based capital amounts were in excess of the minimum levels required. The typical adjustments to insurance statutory basis amounts to convert to U.S. GAAP include elimination of certain statutory reserves, deferral of certain acquisition costs, recognition of deferred income taxes, valuation of bonds at market and presentation of ceded reinsurance balances gross of assumed balances.

The statutory net income (loss) of the Company's reinsurance subsidiaries for the years ended December 31, 2006, 2005 and 2004, were as follows (in thousands of U.S. dollars):

	2006 (unaudited)	2005	2004
Partner Reinsurance	\$ 681,595	\$ (132,585)	\$ 457,385
PartnerRe SA	67,068	77,322	(641)
PartnerRe U.S.	66,643	10,388	7,271

The following table summarizes the statutory stockholders' equity of the Company's reinsurance subsidiaries as of December 31, 2006 and 2005 (in thousands of U.S. dollars):

	2006 (unaudited)	2005
Partner Reinsurance	\$ 2,649,417	\$ 1,985,212
PartnerRe SA	692,734	613,355
PartnerRe U.S.	652,541	565,622

The Company's Swiss operations are a branch of Partner Reinsurance. Foreign insurance entities that are effecting or carrying on exclusively reinsurance business in Switzerland are exempt from insurance and reinsurance supervision, provided such entities are not acting for that purpose through a Swiss subsidiary.

12. **Debt Related to Capital Efficient Notes, Trust Preferred Securities and Mandatorily Redeemable Preferred Securities**

Capital Efficient Notes (CENts)

On November 7, 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued \$250 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated CENts. The CENts will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. Interest on the CENts will be payable semi-annually commencing on June 1, 2007 to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%. PartnerRe Finance II may elect to defer one or more interest payments for up to ten years, although interest will continue to accrue and compound at the rate of interest applicable to the CENts. The CENts will be ranked as junior subordinated unsecured obligations of PartnerRe Finance II. The Company has fully and unconditionally guaranteed on a subordinated basis all obligations of PartnerRe Finance II under the CENts. The Company's obligations under this guarantee are unsecured and will rank junior in priority of payments to the Company's current long-term debt (see Note 6). The Company used a portion of the net proceeds from the CENts to effect the redemption of all of the \$200 million liquidation amount of the 7.90% trust preferred securities issued in 2001 by PartnerRe Capital Trust I and the remaining net proceeds were used for general corporate purposes.

Contemporaneously, PartnerRe Finance II issued a 6.440% Fixed-to-Floating Rate promissory note, with a principal amount of \$257.6 million to PartnerRe U.S. Holdings. Under the term of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance II the principal amount on December 1, 2066 unless previously paid. Interest on the promissory note will be payable semi-annually commencing on June 1, 2007 to December 1, 2016 at an annual fixed rate of 6.440% and will be payable quarterly thereafter until maturity at an annual rate of 3-month LIBOR plus a margin equal to 2.325%.

The Company does not consolidate PartnerRe Finance II, which issued the CENts, as it does not meet the consolidation requirements under FIN 46(R). The Company has reflected the debt related to the CENts on its December 31, 2006 Consolidated Balance Sheet.

Trust Preferred Securities

In November 2001, PartnerRe Capital Trust I (the Trust), a Delaware statutory business trust, issued \$200 million of 7.90% Preferred Securities (trust preferred securities). The Trust is wholly owned by PartnerRe Finance I Inc. (PartnerRe Finance I), a Delaware corporation formed solely for the purpose of issuing Junior Subordinated Debt securities to the Trust. PartnerRe Finance I is an indirect, wholly owned subsidiary of the Company.

The sole asset of the Trust consisted of 7.90% Junior Subordinated Debt securities (the Subordinated Debentures) with a principal amount of \$206.2 million issued by PartnerRe Finance I. The Subordinated Debentures were redeemable on or after November 21, 2006 and had a maturity date of December 31, 2031. The Subordinated Debentures were unsecured obligations of PartnerRe Finance I. Interest on the Subordinated Debentures was payable quarterly at an annual rate of 7.90%.

On December 21, 2006, the Trust redeemed all of its outstanding 7.90% trust preferred securities concurrently with the redemption of the underlying Subordinated Debentures. The redemptions were conducted pursuant to the terms of the documents governing the trust preferred securities, including the trust agreement relating to the Trust and the junior subordinated indenture of PartnerRe Finance I. The aggregate redemption price for the trust preferred securities was \$203.5 million, which included all unpaid distributions accrued to the date of redemption.

The Company did not consolidate the Trust, which issued the trust preferred securities, or PartnerRe Finance I, which owned the Trust, as they did not meet the consolidation requirements under FIN 46(R). The Company reflected the debt related to the trust preferred securities on its December 31, 2005 Consolidated Balance Sheet.

Mandatorily Redeemable Preferred Securities

In November 2001, the Company issued 4 million Premium Equity Participating Security Units (PEPS Units). Each PEPS Unit consisted of (i) one of the Company's 5.61% Series B cumulative redeemable preferred shares, \$1 par value, liquidation preference \$50 per share (Series B preferred shares), and (ii) a purchase contract (purchase contract) issued by the Company pursuant to which the holder was obligated to purchase from the Company, no later than December 31, 2004, a number of common shares for a price of \$50 per share. The Company was required to redeem the Series B preferred shares on June 30, 2005, at a redemption price of \$50 per Series B preferred share, plus all accrued and unpaid dividends. Each Series B preferred share was pledged to the Company's benefit to secure the holder's obligations under the purchase contract. Holders of Series B preferred shares were permitted to withdraw the pledged Series B preferred shares from the pledge arrangement only upon early settlement, settlement for cash or termination of the related purchase contract.

On December 31, 2004, the Company issued 3.5 million of its common shares following the settlement of the purchase contract associated with the PEPS Units. The Company participated in the remarketing of the Series B preferred shares and as a result purchased 100% of the outstanding Series B preferred shares. There was no net cash flows to the Company as the cash received from the sale of the common shares was equal to the cash

required to acquire the Series B preferred shares in the remarketing process. The Series B preferred shares were subsequently cancelled and are no longer outstanding. In addition, following the settlement of the purchase contract on the PEPS Units, the PEPS Units were retired and are no longer outstanding.

Dividends on Series B preferred shares were cumulative, accrued at a rate of 5.61% of the liquidation preference amount per year and were payable quarterly in arrears. In conjunction with the payment of dividends on the Series B preferred shares, purchase contract holders also received quarterly contract adjustment payments at a rate of 2.39% of the stated amount of \$50 per purchase contract per year.

13. **Shareholders' Equity** **Authorized Shares**

At December 31, 2006 and 2005, the total authorized shares of the Company were 200 million shares, par value \$1.00 per share, as follows (in millions of shares):

	2006	2005
Designated common shares	130.0	130.0
Designated 6.75% Series C cumulative redeemable preferred shares	11.6	11.6
Designated 6.5% Series D cumulative redeemable preferred shares	9.2	9.2
Designated and redeemed preference shares	14.0	14.0
Undesignated	35.2	35.2
	200.0	200.0

Common Shares

During 2006, the Company did not repurchase any common shares and has approximately 4.3 million common shares remaining under its current share repurchase authorization of 5 million common shares.

In October 2005, the Company issued 2.4 million of its common shares at \$61.25 per share, net of underwriting discounts, and the net proceeds to the Company were \$149 million, net of underwriting discounts and other transaction costs. The Company used the proceeds of this capital issuance for general corporate purposes.

During 2005, the Company repurchased in the open market 1.2 million of its common shares pursuant to the share repurchase program at a total cost of \$75.5 million, or an average cost of \$60.74. The repurchased shares were cancelled and are no longer outstanding.

In December 2004, the Company repurchased 2 million of its common shares at a total cost of approximately \$125.9 million. The shares were purchased from an investment bank under an accelerated share repurchase agreement at \$62.97 per share. The accelerated share repurchase agreement permitted the Company to repurchase the shares on December 30, 2004, while the investment bank purchased shares in the market during 2005. The final payment under the program of \$1.1 million was based on the volume weighted average daily market price of the Company's shares. The repurchased shares were cancelled and are no longer outstanding.

During 2004, the Company repurchased in the open market 0.9 million of its common shares pursuant to the share repurchase program at a total cost of \$48.5 million, or an average cost of \$53.06. The repurchased shares were cancelled and are no longer outstanding.

In December 2004, the Company issued 3.5 million of its common shares following the settlement of the purchase contract associated with the PEPS Units (see Note 12).

Series C Cumulative Preferred Shares

In May 2003, the Company issued 11.6 million of 6.75% Series C cumulative redeemable preferred shares (Series C preferred shares) for a total consideration of \$280.9 million after underwriting discounts and commissions totaling \$9.1 million. The Series C preferred shares cannot be redeemed before May 8, 2008. Beginning May 8, 2008, the Company may redeem the Series C preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series C preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. A portion of the net proceeds from the sale (\$250.0 million) was used to redeem the Company's existing Series A preferred shares. The remaining net proceeds were used for general corporate purposes. In the event of liquidation of the Company, the holders of outstanding preferred shares would have preference over the common shareholders and would receive a distribution of \$25.00 per share, or an aggregate value of \$290 million, plus accrued and unpaid dividends.

Series D Cumulative Preferred Shares

In November 2004, the Company issued 9.2 million of 6.5% Series D cumulative redeemable preferred shares (Series D preferred shares) for a total consideration of \$222.3 million after underwriting discounts and commissions totaling \$7.7 million. The Series D preferred shares cannot be redeemed before November 15, 2009. Beginning November 15, 2009, the Company may redeem the Series D preferred shares at \$25.00 per share plus accrued and unpaid dividends without interest. Dividends on the Series D preferred shares are cumulative from the date of issuance and are payable quarterly in arrears. A portion of the net proceeds from the sale (\$124.8 million) was used to repurchase common shares under the accelerated share repurchase agreement. The remaining net proceeds were used for general corporate purposes. In the event of liquidation of the Company, the holders of outstanding preferred shares would have preference over the common shareholders and would receive a distribution of \$25.00 per share, or an aggregate value of \$230 million, plus accrued and unpaid dividends.

Net Income (Loss) per Share

The reconciliation of basic and diluted net income (loss) per share is as follows (in thousands of U.S. dollars or shares, except per share amounts):

	2006			2005			2004		
	Income (Numerator)	Shares (Denominator)	Per Share	Loss (Numerator)	Shares (Denominator) ⁽¹⁾	Per Share ⁽¹⁾	Income (Numerator)	Shares (Denominator)	Per Share
Net income (loss)	\$ 749,332			\$ (51,064)			\$ 492,353		
Less: preferred dividends	(34,525)			(34,525)			(21,485)		
Net income (loss) available to common shareholders/Weighted average number of common shares outstanding/Basic net income (loss) per share	\$ 714,807	56,822.5	\$ 12.58	\$ (85,589)	54,951.2	\$ (1.56)	\$ 470,868	53,490.8	\$ 8.80
Effect of dilutive securities:									
Stock options and other		980.3						556.6	
Net income available to common shareholders/Weighted average number of common and common share equivalents outstanding/Diluted net income per share	\$ 714,807	57,802.8	\$ 12.37				\$ 470,868	54,047.4	\$ 8.71

⁽¹⁾ Diluted net loss per share has not been shown for 2005 because the effect of dilutive securities would have been anti-dilutive. Dilutive securities, under the form of options and others, that could have been antidilutive. The weighted average number of common and common share equivalents outstanding for the period would have amounted to 55,869.3 thousand shares, if these securities had been included.

14. Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it will sell approximately 6.7 million of its common shares to an affiliate of Citigroup Global Markets Inc., which affiliate is referred to as the forward counterparty. Under the forward sale agreement, the Company will deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008. The purchase price the Company will receive from the forward counterparty will vary depending upon the market price of its common shares over a 40 trading day period surrounding the maturity of the forward sale agreement in October 2008, subject to a maximum price per share of \$79.75 and a minimum price per share of \$59.53 as of December 31, 2006. If the Company elects to settle all or a portion of the forward sale agreement prior to its maturity, the Company will deliver common shares to the forward counterparty and will initially receive the present value of the minimum price per share, and the remaining payment, if any, due to the Company will be made at maturity of the agreement based on the excess of the market price of the Company's common shares over the minimum price per share at maturity of the contract. Settlement of the forward sale agreement may be accelerated by the forward counterparty upon the occurrence of certain events, and the maximum and minimum purchase prices will be reduced or increased quarterly depending on the amount of the Company's dividends.

Contract fees of approximately \$29 million related to the forward sale agreement were recorded against additional paid-in capital and will be paid over the three year contract period. Prior to the issuance of shares under the forward sale agreement, this transaction has no other impact on the Company's common shareholders' equity and the Company calculates the dilutive impact related to the forward sale agreement using the treasury method prescribed under SFAS 128, "Earnings per Share". The Company expects this instrument to be dilutive only if the Company's share price exceeds the maximum price per share prior to the sale of shares.

15. Commitments and Contingencies

(a) Concentration of Credit Risk

The Company's investment portfolio is managed following prudent standards of diversification and a prudent investment philosophy. The Company is not exposed to any significant credit concentration risk on its investments, except for debt securities issued by the U.S. and other AAA-rated sovereign governments. The Company's investment strategy allows for the use of derivative securities, subject to strict limitations. Derivative instruments may be used to replicate investment positions or to manage currency and market exposures and duration risk that would be allowed under the Company's investment policy if implemented in other ways. The Company keeps cash and cash equivalents in several banks and may keep up to \$500 million, excluding custodial accounts, at any point in time in any one bank.

The Company is exposed to credit risk in the event of non-performance by the counterparties to the Company's foreign exchange forward contracts and other derivative contracts. However, because the counterparties to these contracts are high-credit-quality international banks, the Company does not anticipate non-performance. These contracts are generally of short duration and settle on a net basis. The difference between the contract amounts and the related market value is the Company's maximum credit exposure.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and in the business written by the Company's ART segment. Loss

experience in these lines of business is cyclical and is affected by the state of the general economic environment. The Company provides its clients in these lines of business with reinsurance protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the reinsurance provided and, accordingly, the Company is exposed to the credit risk of those credits. The Company mitigates the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps.

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company's brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company's policy, the Company might remain liable to the insured for the deficiency.

The Company has exposure to credit risk related to reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses (see Note 5). The credit risk exposure related to these balances is mitigated by several factors, including but not limited to, credit checks performed as part of the underwriting process and monitoring of aged receivable balances. As of December 31, 2006 and 2005, the Company has recorded a provision for uncollectible premiums receivable of \$9.2 million and \$8.0 million, respectively.

The Company is also subject to the credit risk of its cedants in the event of insolvency or the cedant's failure to honor the value of funds held balances for any other reason. However, the Company's credit risk is mitigated, to a large extent, by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the premiums receivable or funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due.

(b)

Lease Arrangements

The Company leases office space under operating leases expiring in various years through 2017. The leases are renewable at the option of the lessee under certain circumstances. The following is a schedule of future minimum rental payments, exclusive of escalation clauses, on non-cancelable leases as of December 31, 2006 (in thousands of U.S. dollars):

Period	Amount
2007	\$ 23,689
2008	23,505
2009	21,548
2010	16,296
2011	16,127
2012 through 2017	60,997
Total future minimum rental payments	\$ 162,162

Rent expense for the years ended December 31, 2006, 2005 and 2004, was \$25.3 million, \$24.9 million and \$20.6 million, respectively.

The Company also entered into non-cancelable operating subleases expiring in various years through 2010. The minimum rental income to be received by the Company in the future is \$6.1 million. The leases are renewable at the option of the lessee under certain circumstances.

(c) Contract Fees Under the Forward Sale Agreement

Under the terms of the Company's forward sale agreement (see Note 14), the Company will pay approximately \$20.6 million, including interest, in contract fees through 2008. Contract fees and interest paid for the years ended December 31, 2006 and 2005, was \$10.8 million and \$nil, respectively.

(d) Employment Agreements

The Company has entered into employment agreements with its executive officers. These agreements provide for annual compensation in the form of salary, benefits, annual incentive payments, stock-based compensation, the reimbursement of certain expenses, retention incentive payments, as well as certain severance provisions.

(e) U.S. Life Operations Representations and Warranties

As part of the agreement to sell its U.S. life operations in 2000 (acquired in 1998 as part of the Winterthur Re acquisition), the Company entered into certain representations and warranties, extending through 2008, related to the enterprise being sold. At the time of the sale, the Company established a reserve of \$15.0 million for potential future claims against such representations and warranties.

(f) Other Agreements

The Company has entered into service agreements and lease contracts that provide for business and information technology support and computer equipment. Future payments under these contracts amount to \$38.4 million through 2011.

(g) Legal Proceedings

Litigation

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

As of December 31 2006, the Company was not a party to any litigation or arbitration that it believes could have a material adverse effect on the financial condition or business of the Company.

Subpoenas

In June 2005, the Company received a subpoena from the United States Attorney for the Southern District of New York requesting information relating to the Company's finite reinsurance products. In addition, the Company's wholly owned subsidiary, PartnerRe U.S., received a subpoena from the Florida Office of Insurance Regulation in April 2005 requesting information in connection with its investigation of insurance industry practices related to finite reinsurance activities. The Company has responded promptly to all requests for information.

In January 2007, PartnerRe U.S. received a subpoena from the Attorney General for the State of Connecticut requesting information relating to the Company's participation in certain underwriting agreements that existed in 2002 and prior. The Company is cooperating fully with this request for information.

16. Fair Value of Financial Instruments

For certain financial instruments where quoted market prices are not available, Management's best estimate of fair value may be based on quoted market prices of similar instruments or on other valuation techniques. SFAS No. 107 "Disclosures about Fair Value of Financial Instruments" (SFAS 107) excludes insurance contracts, other than financial guarantees, investment contracts, investments accounted for under the equity method and certain other financial instruments.

The following methods and assumptions were used by the Company in estimating fair market value of each class of financial instrument recorded in the Consolidated Balance Sheets.

Fair value for fixed maturities, short-term investments, equities and trading securities are based on quoted market prices. Carrying value of other invested assets, excluding investments accounted for using the equity method, approximates fair value. Policy benefits for life and annuity contracts have a fair value equal to the cash value available to the policyholder should the policyholder surrender the policy. The fair value of the long-term debt and the debt related to the capital efficient notes have been calculated as the present value of estimated future cash flows using a discount rate reflective of current market cost of borrowing under similar terms and conditions. The fair value of the debt related to the trust preferred securities is based on the quoted market price of the underlying trust preferred securities.

The carrying values and fair values of the financial instruments recorded in the Consolidated Balance Sheets as of December 31, 2006 and 2005 were as follows (in thousands of U.S. dollars):

	2006		2005	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Fixed maturities	\$ 7,835,680	\$ 7,835,680	\$ 6,686,822	\$ 6,686,822
Short-term investments	133,751	133,751	230,993	230,993
Equities	1,015,144	1,015,144	1,334,374	1,334,374
Trading securities	599,972	599,972	220,311	220,311
Other invested assets ⁽¹⁾	(1,073)	(1,073)	11,801	11,801
Liabilities				
Policy benefits for life and annuity contracts ⁽²⁾	\$ 1,430,691	\$ 1,430,691	\$ 1,233,871	\$ 1,233,871
Long-term debt	620,000	621,380	620,000	615,850
Debt related to capital efficient notes	257,605	258,815	—	—
Debt related to trust preferred securities	—	—	206,186	210,186

⁽¹⁾ In accordance with SFAS 107, the Company's investments accounted for under the equity method were excluded for the purpose of the fair value disclosure. The negative fair value of other invested assets reflects mark to market adjustments on derivative financial instruments.

⁽²⁾ Policy benefits for life and annuity contracts included short-duration and long-duration contracts.

Foreign Exchange Forward Contracts

The Company utilizes foreign exchange forward contracts as part of its overall currency risk management and investment strategies. In accordance with SFAS 133, these derivative instruments are recorded in the Consolidated Balance Sheets at fair value, with changes in fair value recognized in either net realized investment gains and losses or net foreign exchange gains and losses in the Consolidated Statements of Operations.

Foreign exchange forward contracts outstanding as of December 31, 2006 and 2005, were as follows (in thousands of U.S. dollars):

	2006			2005		
	Contract Amount	Market Value	Net Unrealized Gains	Contract Amount	Market Value	Net Unrealized Gains (Losses)
Receivable	\$ 1,132,481	\$ 1,137,891	\$ 5,410	\$ 1,171,881	\$ 1,171,883	\$ 2
Payable	(1,132,481)	(1,132,481)	—	(1,171,881)	(1,175,248)	(3,367)
Net	\$ —	\$ 5,410	\$ 5,410	\$ —	\$ (3,365)	\$ (3,365)

Foreign Currency Option Contracts

The Company also utilizes foreign currency options contracts to mitigate foreign currency risk. For the years ended December 31, 2006 and 2005, the balances related to contracts maturing on December 31 were a receivable of \$2.2 million and \$1.3 million, respectively. At December 31, 2006 and 2005, there were no outstanding contracts.

Futures Contracts

Exchange traded treasury note futures are used by the Company for the purposes of managing portfolio duration. The notional value of the treasury futures was a long position of \$1,170 million and a short position of \$200 million, respectively, at December 31, 2006 and 2005. The fair value for futures contracts was a net unrealized loss of \$11.2 million and \$0.5 million, respectively, at December 31, 2006 and 2005.

Credit Default Swaps

The Company utilizes credit default swaps to mitigate the risk associated with its underwriting operations, most notably in the credit/surety line, and to replicate investment positions or to manage market exposures. The credit default swaps are recorded at fair value with the changes in fair value reported in net realized gains and losses in the Consolidated Statements of Operations. The Company uses internal valuation models to estimate the fair value of these derivatives. The fair value of credit default swaps (the Company's net liabilities) was a net unrealized loss of \$2.5 million and \$1.7 million, respectively, at December 31, 2006 and 2005. The notional value of the Company's credit default swaps was \$288 million and \$255 million, respectively, at December 31, 2006 and 2005.

Equity Short Sales

As part of the Company's investment strategy, the Company utilizes, to a limited extent, equity short sales, which represent the sales of securities not owned at the time of the sale. These short sales are incorporated within a market neutral strategy, which involves holding long equity securities and a similar amount of offsetting short equity securities to manage market exposure and to generate absolute positive returns. The fair values for equity short sales are based on quoted market prices with the changes in fair value reported in net realized gains and losses in the Consolidated Statements of Operations. The fair value of equities sold but not yet purchased was \$70 million and \$102 million, respectively, at December 31, 2006 and 2005 (see Note 3(h)). At December 31, 2006 and 2005, the net unrealized investment loss on equities sold but not yet purchased was \$nil and \$3.4 million, respectively.

Weather Derivatives

As a part of the Company's ART operations, the Company has entered into various weather derivatives. The fair value of weather derivatives (the Company's net liabilities or assets) was a net unrealized loss of \$2.0 million and a net unrealized gain of \$4.7 million, respectively, at December 31, 2006 and 2005. The notional value of the Company's weather derivatives was \$23 million and \$8 million, respectively, at December 31, 2006 and 2005.

Total Return and Interest Rate Swaps

As a part of the Company's ART operations, the Company has entered into total return swaps referencing various structured finance obligations. The Company has also entered into interest rate swaps to mitigate interest rate risk on certain total return swaps. The fair value of those derivatives (the Company's net liabilities or assets) was a net unrealized loss of \$0.3 million and a net unrealized gain of \$8.7 million, respectively, at December 31, 2006 and 2005. The notional value of the Company's total return and interest rate swaps was \$315 million and \$319 million, respectively, at December 31, 2006 and 2005.

17.

Credit Agreements

In the normal course of its operations, the Company enters into agreements with financial institutions to obtain unsecured credit facilities. As of December 31, 2006 and 2005, the total amount of such credit facilities available to the Company was \$838.3 million and \$858.2 million, respectively. These facilities are used primarily for the issuance of letters of credit, although a portion of these facilities may also be used for liquidity purposes. Under the terms of certain reinsurance agreements, irrevocable letters of credit were issued on an unsecured basis in the amount of \$580.8 million and \$721.2 million at December 31, 2006 and 2005, respectively, in respect of reported loss and unearned premium reserves.

Included in the total credit facilities available to the Company at December 31, 2006 is a \$700 million five-year syndicated, unsecured credit facility. This unsecured credit facility has the following terms: (i) a maturity date of September 30, 2010, (ii) a \$300 million accordion feature, which enables the Company to potentially increase its available credit from \$700 million to \$1 billion, and (iii) a minimum consolidated tangible net worth requirement as defined below. This facility is predominantly used for the issuance of letters of credit, although the Company does have access to a \$350 million revolving line of credit under this facility. At December 31, 2006 and 2005, there were no borrowings under this revolving line of credit.

Some of the credit facilities contain customary default and cross default provisions and require that the Company maintain certain covenants, including the following:

- i. a financial strength rating from A.M. Best of at least A- (for the Company's material reinsurance subsidiaries that are rated by A.M. Best);
- ii. a maximum ratio of total debt to total capitalization of 35% (for the purposes of this covenant, debt does not include trust preferred securities); and
- iii. a minimum consolidated tangible net worth of \$2,100 million, for periods ended prior to June 30, 2006, and \$2,100 million plus 50% of cumulative net income (if positive) since July 1, 2005 through the most recent June 30 or December 31, for periods subsequent to June 30, 2006. For the purposes of this covenant, consolidated tangible net worth includes trust preferred securities and excludes goodwill. Minimum tangible net worth required at December 31, 2006 and 2005 was \$2,314 million and \$2,100 million, respectively.

Additionally, the syndicated unsecured credit facility allows for an adjustment to the level of pricing should the Company experience a change in its senior unsecured debt ratings. The pricing grid provides the Company greater flexibility and simultaneously provides participants under the facility some price protection. As long as the Company maintains a minimum senior unsecured debt rating of BBB+ by Standard & Poor's and Baa1 by Moody's, the pricing on the facility will not change significantly.

The Company's breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under these facilities. At December 31, 2006 and 2005, the Company was not in breach of any of the covenants under its facilities. Its total debt to total capitalization ratio was 18.8% and 15.8%, respectively, and its consolidated tangible net worth was \$3,356.3 million and \$2,863.3 million, at December 31, 2006 and 2005, respectively.

18. Subsequent event

The Company has estimated that claims relating to its exposure to Windstorm Kyrill, which hit Europe in January 2007, are expected to be between \$50-\$65 million, before taxes. Claims are expected to emanate from several European countries with the largest number from Germany and Austria. The Company's loss estimate is based on the assessment of individual treaties as well as client data.

19. Segment Information

The U.S. P&C sub-segment includes property, casualty and motor risks generally originating in the United States and written by PartnerRe U.S. The Global (Non-U.S.) P&C sub-segment includes property, casualty and motor risks generally originating outside of the United States, written by Partner Reinsurance and PartnerRe SA. The Worldwide Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature, inasmuch as appropriate risk management for these lines requires a globally diversified portfolio of risks. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty and other lines. The ART segment includes structured risk transfer reinsurance, principal finance, weather-related products, and strategic investments, including the Company's share of Channel Re Holdings' net income. The Life segment includes life, health and annuity lines of business.

Because the Company does not manage its assets by segment, net investment income is not allocated to the Non-life segment. However, because of the interest-sensitive nature of some of the Company's Life and ART products, net investment income is considered in Management's assessment of the profitability of the Life and ART segments. The following items are not considered in evaluating the results of each segment: net realized investment gains and losses, interest expense, net foreign exchange gains and losses, income tax expense or benefit and preferred share dividends. Segment results are shown net of intercompany transactions.

Management measures results for the Non-life segment on the basis of the loss ratio, acquisition ratio, technical ratio, other operating expense ratio and combined ratio (defined below). Management measures results for the Non-life sub-segments on the basis of the loss ratio, acquisition ratio and technical ratio (defined below). Management measures results for the ART segment on the basis of the underwriting result, which includes revenues from net premiums earned, other income and net investment income for ART, and expenses from losses and loss expenses, acquisition costs and other operating expenses. The interest in earnings of equity investments, which includes the Company's share of Channel Re Holdings'

net income, is also part of the ART segment. Management measures results for the Life segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned and allocated net investment income for Life, and expenses from losses and loss expenses and life policy benefits, acquisition costs and other operating expenses.

The following tables provide a summary of the segment revenues and results for the years ended December 31, 2006, 2005 and 2004 (in millions of U.S. dollars, except ratios):

Segment Information
For the Year Ended December 31, 2006

	U.S. P&C	Global (Non-U.S.) P&C	Worldwide Specialty	Total Non-Life Segment	ART Segment ^(A)	Life Segment	Corporate	Total
Gross premiums written	\$ 843	\$ 763	\$ 1,586	\$ 3,192	\$ 35	\$ 507	\$ —	\$ 3,734
Net premiums written	\$ 843	\$ 760	\$ 1,564	\$ 3,167	\$ 35	\$ 487	\$ —	\$ 3,689
Decrease (increase) in unearned premiums	7	15	(40)	(18)	(4)	—	—	(22)
Net premiums earned	\$ 850	\$ 775	\$ 1,524	\$ 3,149	\$ 31	\$ 487	\$ —	\$ 3,667
Losses and loss expenses and life policy benefits	(612)	(505)	(618)	(1,735)	(13)	(363)	—	(2,111)
Acquisition costs	(212)	(210)	(307)	(729)	(3)	(117)	—	(849)
Technical Result	\$ 26	\$ 60	\$ 599	\$ 685	\$ 15	\$ 7	\$ —	\$ 707
Other income	n/a	n/a	n/a	—	24	—	—	24
Other operating expenses	n/a	n/a	n/a	(201)	(18)	(29)	(62)	(310)
Underwriting Result	n/a	n/a	n/a	\$ 484	\$ 21	\$ (22)	n/a	\$ 421
Net investment income	n/a	n/a	n/a	n/a	—	51	398	449
Allocated Underwriting Result ⁽¹⁾	n/a	n/a	n/a	n/a	n/a	\$ 29	n/a	n/a
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	47	47
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(61)	(61)
Net foreign exchange losses	n/a	n/a	n/a	n/a	n/a	n/a	(24)	(24)
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(95)	(95)
Interest in earnings of equity investments	n/a	n/a	n/a	n/a	12	n/a	n/a	12
Net Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$ 749
Loss ratio ⁽²⁾	72.1%	65.1%	40.5%	55.1%				
Acquisition ratio ⁽³⁾	24.9	27.1	20.2	23.1				
Technical ratio ⁽⁴⁾	97.0%	92.2%	60.7%	78.2%				
Other operating expense ratio ⁽⁵⁾				6.4				
Combined ratio ⁽⁶⁾				84.6%				

^(A) This segment includes the C 6, as the Company reports the results of Channel Re Holdings on a one-quarter lag.

⁽¹⁾ Allocated Underwriting Result is defined as net premiums earned and allocated net investment income less life policy benefits, acquisition costs and other operating expenses.

⁽²⁾ Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.

⁽³⁾ Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.

⁽⁴⁾ Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

⁽⁵⁾ Other operating expense ratio is obtained by dividing other operating expenses by net premiums earned.

⁽⁶⁾ Combined ratio is defined as the sum of the technical ratio and the other operating expense ratio.

PartnerRe Ltd.
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Segment Information

For the Year Ended December 31, 2005

	U.S. P&C	Global (Non-U.S.) P&C	Worldwide Specialty	Total Non-Life Segment	ART Segment ^(B)	Life Segment	Corporate	Total
Gross premiums written	\$ 820	\$ 837	\$ 1,533	\$ 3,190	\$ 27	\$ 448	\$ —	\$ 3,665
Net premiums written	\$ 819	\$ 835	\$ 1,501	\$ 3,155	\$ 27	\$ 434	\$ —	\$ 3,616
Decrease (increase) in unearned premiums	9	25	(45)	(11)	(2)	(4)	—	(17)
Net premiums earned	\$ 828	\$ 860	\$ 1,456	\$ 3,144	\$ 25	\$ 430	\$ —	\$ 3,599
Losses and loss expenses and life policy benefits	(764)	(637)	(1,334)	(2,735)	(32)	(320)	—	(3,087)
Acquisition costs	(200)	(217)	(308)	(725)	(3)	(120)	—	(848)
Technical Result	\$ (136)	\$ 6	\$ (186)	\$ (316)	\$ (10)	\$ (10)	\$ —	\$ (336)
Other income	n/a	n/a	n/a	4	31	—	—	35
Other operating expenses	n/a	n/a	n/a	(185)	(13)	(23)	(51)	(272)
Underwriting Result	n/a	n/a	n/a	\$ (497)	\$ 8	\$ (33)	n/a	\$ (573)
Net investment income	n/a	n/a	n/a	n/a	—	48	317	365
Allocated Underwriting Result ⁽¹⁾	n/a	n/a	n/a	n/a	n/a	\$ 15	n/a	n/a
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	207	207
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(33)	(33)
Net foreign exchange losses	n/a	n/a	n/a	n/a	n/a	n/a	(4)	(4)
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(23)	(23)
Interest in earnings of equity investments	n/a	n/a	n/a	n/a	10	n/a	n/a	10
Net Loss	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$ (51)
Loss ratio ⁽²⁾	92.2%	74.1%	91.6%	86.9%				
Acquisition ratio ⁽³⁾	24.2	25.3	21.2	23.1				
Technical ratio ⁽⁴⁾	116.4%	99.4%	112.8%	110.0%				
Other operating expense ratio ⁽⁵⁾				5.9				
Combined ratio ⁽⁶⁾				115.9%				

^(B) This seg 4 to September 2005,
as the Company reports the results of Channel Re Holdings on a one-quarter lag.

PartnerRe Ltd.
Notes to Consolidated Financial Statements

Segment Information

For the Year Ended December 31, 2004

	U.S. P&C	Global (Non-U.S.) P&C	Worldwide Specialty	Total Non-Life Segment	ART Segment ^(c)	Life Segment	Corporate	Total
Gross premiums written	\$ 991	\$ 944	\$ 1,531	\$ 3,466	\$ 5	\$ 417	\$ —	\$ 3,888
Net premiums written	\$ 990	\$ 945	\$ 1,509	\$ 3,444	\$ 5	\$ 404	\$ —	\$ 3,853
(Increase) decrease in unearned premiums	(97)	(16)	(9)	(122)	1	2	—	(119)
Net premiums earned	\$ 893	\$ 929	\$ 1,500	\$ 3,322	\$ 6	\$ 406	\$ —	\$ 3,734
Losses and loss expenses and life policy benefits	(699)	(730)	(744)	(2,173)	(7)	(296)	—	(2,476)
Acquisition costs	(204)	(238)	(323)	(765)	(1)	(136)	—	(902)
Technical Result	\$ (10)	\$ (39)	\$ 433	\$ 384	\$ (2)	\$ (26)	\$ —	\$ 356
Other income	n/a	n/a	n/a	6	11	—	—	17
Other operating expenses	n/a	n/a	n/a	(194)	(13)	(22)	(42)	(271)
Underwriting Result	n/a	n/a	n/a	\$ 196	\$ (4)	\$ (48)	n/a	\$ 102
Net investment income	n/a	n/a	n/a	n/a	—	44	254	298
Allocated Underwriting Result ⁽¹⁾	n/a	n/a	n/a	n/a	n/a	\$ (4)	n/a	n/a
Net realized investment gains	n/a	n/a	n/a	n/a	n/a	n/a	117	117
Interest expense	n/a	n/a	n/a	n/a	n/a	n/a	(41)	(41)
Net foreign exchange gains	n/a	n/a	n/a	n/a	n/a	n/a	17	17
Income tax expense	n/a	n/a	n/a	n/a	n/a	n/a	(7)	(7)
Interest in earnings of equity investments	n/a	n/a	n/a	n/a	6	n/a	n/a	6
Net Income	n/a	n/a	n/a	n/a	n/a	n/a	n/a	\$ 492
Loss ratio ⁽²⁾	78.2%	78.6%	49.6%	65.4%				
Acquisition ratio ⁽³⁾	22.8	25.6	21.6	23.0				
Technical ratio ⁽⁴⁾	101.0%	104.2%	71.2%	88.4%				
Other operating expense ratio ⁽⁵⁾				5.9				
Combined ratio ⁽⁶⁾				94.3%				

^(c) This segment includes the Company's share of Channel Re Holdings' net income in the amount of \$6.0 million for the period of February 2004 (when Channel Re Holdings commenced business) to September 2004, as the Company reports the results of Channel Re Holdings on a one-quarter lag.

The following table provides the distribution of net premiums written by line of business for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Non-life			
Property and Casualty			
Property	19%	19%	19%
Casualty	19	19	21
Motor	6	8	10
Worldwide Specialty			
Agriculture	5	3	4
Aviation/Space	5	6	6
Catastrophe	11	11	9
Credit/Surety	6	7	6
Engineering	5	4	5
Energy	2	1	1
Marine	3	3	2
Specialty property	2	2	3
Specialty casualty	3	4	3
ART	1	1	—
Life	13	12	11
Total	100%	100%	100%

The following table provides the geographic distribution of gross premiums written based on the location of the underlying risk for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
North America	43 %	41 %	40 %
Europe	42	46	45
Asia, Australia and New Zealand	8	8	9
Latin America, Caribbean and Africa	7	5	6
Total	100 %	100 %	100 %

The Company produces its business both through brokers and through direct relationships with insurance company clients. None of the Company's cedants accounted for more than 6% of total gross premiums written during the years ended December 31, 2006, 2005 and 2004.

The Company had two brokers that individually accounted for 10% or more of its gross premiums written during the years ended December 31, 2006, 2005 and 2004. The brokers accounted for 20%, 17% and 16% and 18%, 16% and 16%, respectively, of gross premiums written for the years ended December 31, 2006, 2005 and 2004.

The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Non-life			
U.S. P&C	64%	58%	52%
Global (Non-U.S.) P&C	28	23	22
Worldwide Specialty	36	30	28
ART	47	93	—
Life	15	15	19

20. Unaudited Quarterly Financial Information

	2006				2005			
(in millions of U.S. dollars, except per share amounts)	Fourth Quarter	Third Quarter	Second Quarter	First Quarter	Fourth Quarter	Third Quarter	Second Quarter	First Quarter
Net premiums written	\$ 721.3	\$ 807.8	\$ 815.9	\$ 1,344.6	\$ 666.3	\$ 770.8	\$ 763.9	\$ 1,414.9
Net premiums earned	1,001.9	973.6	859.0	832.8	907.0	915.5	880.3	896.4
Net investment income	126.0	115.1	108.3	100.0	94.1	93.3	90.2	86.8
Net realized investment gains (losses)	28.0	23.0	(58.9)	55.1	57.9	56.0	55.6	37.4
Other (loss) income	(4.8)	7.9	12.7	7.7	14.7	8.6	(1.1)	12.8
Total revenues	1,151.1	1,119.6	921.1	995.6	1,073.7	1,073.4	1,025.0	1,033.4
Losses and loss expenses and life policy benefits	530.4	540.7	541.4	498.8	815.4	1,111.3	546.2	613.9
Acquisition costs	229.9	220.7	199.4	199.3	215.9	219.4	203.4	209.9
Other operating expenses	77.8	80.9	76.5	74.4	60.6	63.7	74.5	72.7
Interest expense	21.8	13.7	13.2	12.7	10.8	7.4	7.4	7.3
Net foreign exchange losses (gains)	9.6	6.1	4.1	3.4	(0.4)	1.5	2.5	—
Total expenses	869.5	862.1	834.6	788.6	1,102.3	1,403.3	834.0	903.8
Income (loss) before taxes and interest in earnings of equity investments	281.6	257.5	86.5	207.0	(28.6)	(329.9)	191.0	129.6
Income tax expense (benefit)	42.4	24.9	11.9	16.1	7.7	(39.1)	33.5	20.8
Interest in earnings of equity investments	3.5	3.2	2.9	2.3	2.7	2.1	2.4	2.6
Net income (loss)	242.7	235.8	77.5	193.2	(33.6)	(288.7)	159.9	111.4
Preferred dividends	8.6	8.6	8.6	8.6	8.6	8.6	8.6	8.6
Net income (loss) available to common shareholders	\$ 234.1	\$ 227.2	\$ 68.9	\$ 184.6	\$ (42.2)	\$ (297.3)	\$ 151.3	\$ 102.8
Basic net income (loss) per common share	\$ 4.11	\$ 4.00	\$ 1.21	\$ 3.25	\$ (0.76)	\$ (5.48)	\$ 2.76	\$ 1.87
Diluted net income (loss) per common share	4.03	3.93	1.20	3.21	(0.76)	(5.48)	2.72	1.84
Dividends declared per common share	0.40	0.40	0.40	0.40	0.38	0.38	0.38	0.38
Common share price range:								
High	\$ 71.64	\$ 68.02	\$ 64.71	\$ 67.80	\$ 70.50	\$ 66.28	\$ 66.62	\$ 65.63
Low	66.42	61.49	59.30	60.20	59.81	58.73	57.37	60.17

21. Summarized Financial Information of Channel Re Holdings

The following tables provide summarized financial information for Channel Re Holdings, which is accounted for using the equity method, for 2006, 2005 and 2004. As the Company calculates its share of Channel Re Holdings' results on a one-quarter lag, 2006 and 2005 include summarized financial information for the period from October 1, 2005 to September 30, 2006, and the period from October 1, 2004 to September 30, 2005 respectively. The 2004 period includes summarized financial information for the period from February 12, 2004 (date of Channel Re Holdings' incorporation) to September 30, 2004. As Channel Re Holdings has a financial year-end of December 31, this information is not presented in the annual financial statements of Channel Re Holdings.

Balance Sheet Data (in millions of U.S. dollars):

	September 30, 2006	September 30, 2005
Total investments available for sale	\$ 624	\$ 579
Cash and cash equivalents	10	5
Deferred acquisition costs	43	48
Other assets	9	9
Total assets	\$ 686	\$ 641
Deferred premium revenue	\$ 167	\$ 187
Loss and loss adjustment expense reserves	19	14
Other liabilities	8	5
Total liabilities	194	206
Minority interest	137	121
Shareholders' equity	355	314
Total liabilities, minority interest and shareholders' equity	\$ 686	\$ 641

Income Statement Data (in millions of U.S. dollars):

	For the period from October 1, 2005 to September 30, 2006	For the period from October 1, 2004 to September 30, 2005	For the period from February 12, 2004 (date of incorporation) to September 30, 2004
Premiums earned	\$ 68	\$ 64	\$ 41
Net investment income	24	18	9
Net realized investment losses	(1)	—	—
Total revenues	91	82	50
Losses incurred	7	10	4
Amortization of deferred acquisition costs	18	16	11
Other expenses	8	9	5
Total expenses	33	35	20
Minority interest	(16)	(13)	(8)
Net income	\$ 42	\$ 34	\$ 22

There is diversity in practice among financial guaranty insurers and reinsurers with respect to their accounting policies for loss reserves. Current accounting literature does not specifically address the unique characteristics of financial guaranty insurance contracts. The FASB indicated, in the fourth quarter of 2006, that a proposed interpretation is expected to be issued in the first quarter of 2007. The FASB interpretation may require Channel Re Holdings and its financial guaranty peers to change some aspects of their respective loss reserving policies, timing of premium recognition and the related amortization of deferred acquisition costs. The Company cannot currently assess how the FASB interpretation will impact Channel Re Holdings.

Report of Independent Registered Public Accounting Firm

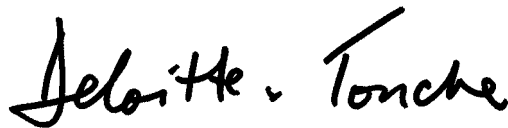
To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited the accompanying consolidated balance sheets of PartnerRe Ltd. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations and comprehensive income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of PartnerRe Ltd. and subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 1, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

A stylized, handwritten signature in black ink that reads "Deloitte & Touche". The script is fluid and cursive, with the ampersand being particularly prominent.

Deloitte & Touche
Hamilton, Bermuda
March 1, 2007

Disclosure Controls and Procedures

The Company carried out an evaluation, under the supervision and with the participation of the Company's Management, including the Company's Chief Executive Officer and Chief Financial Officer, as of December 31, 2006, of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, as of December 31, 2006, the Company's disclosure controls and procedures are effective such that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Management's Report on Internal Control over Financial Reporting

The Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is 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. The 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.

Controls and Procedures

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

The Company's Management has assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, the Company's Management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework.

Based on our assessment and those criteria, Management believes that the Company maintained effective internal control over financial reporting as of December 31, 2006.

The Company's independent registered public accounting firm has issued an attestation report on Management's assessment of the Company's internal control over financial reporting. That report appears on page 158.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of PartnerRe Ltd.

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that PartnerRe Ltd. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

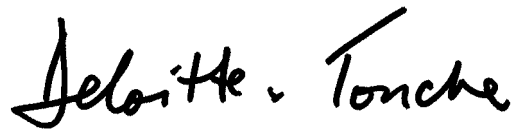
A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to 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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) 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 (3) 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 the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Report of Independent Registered Public Accounting Firm

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2006, of the Company and our report dated March 1, 2007, expressed an unqualified opinion on those financial statements.

The image shows the handwritten signature of Deloitte & Touche in a cursive, black ink style.

Deloitte & Touche
Hamilton, Bermuda
March 1, 2007

Audit Committee Report

The Audit Committee has discussed with the independent registered public accounting firm, Deloitte & Touche (the "Accounting Firm"), the matters required to be discussed by Statement on Auditing Standards No. 61 (Communication with Audit Committees), as may be modified or supplemented, and as required by S-X Rule 2-07.

The Audit Committee has discussed with the Accounting Firm the Accounting Firm's independence and whether the Accounting Firm's provision of non-audit related services is compatible with maintaining the Accounting Firm's independence from management and the Company and has received from the Accounting Firm the written disclosures and the letter required by the Independence Standards Board Standard No. 1, as may be modified or supplemented, including written materials addressing the internal quality control procedures of Deloitte & Touche.

During fiscal 2006, the Audit Committee had ten meetings including telephonic meetings to discuss amongst other things the quarterly results of the Company. The meetings were conducted so as to encourage communication among the members of the Audit Committee, management, the internal auditors, and the Company's independent registered public accounting firm, Deloitte & Touche. Among other things, the Audit Committee discusses with the Company's Accounting Firm the overall scope and plans for their respective audits, and the results of such audits. The Audit Committee separately met with Deloitte & Touche representatives, with and without management present.

The Audit Committee has reviewed and discussed the audited financial statements for the year ended December 31, 2006, with management and with Accounting Firm of the Company. Based on the above-mentioned reviews and discussions, the Audit Committee has recommended to the Board that the audited financial statements be included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

Kevin M. Twomey
Chairman, Audit Committee

Rémy Sautter
Vice Chairman, Audit Committee

Vito H. Baumgartner
Member, Audit Committee

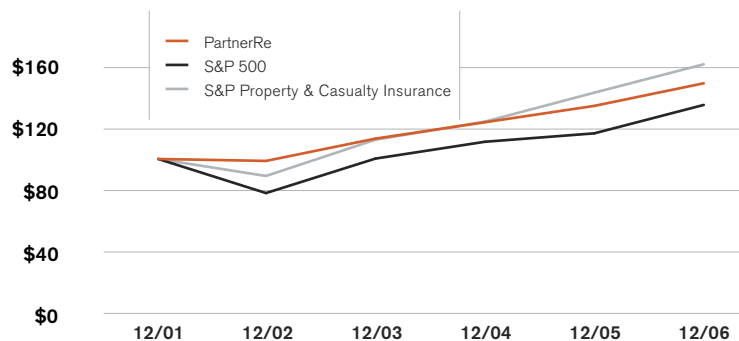
Jan H. Holsboer
Member, Audit Committee

Jürgen Zech
Member, Audit Committee

Comparison of 5 Year Cumulative Total Return

The graph set forth below compares the cumulative shareholder return, including reinvestment of dividends, on the Company's Common Shares to such return for Standard & Poor's ("S&P") 500 Composite Stock Price Index, and S&P's Supercomposite Property-Casualty Index for the period commencing on December 31, 2001 and ending on December 31, 2006, assuming \$100 was invested on December 31, 2001.

Each measurement point on the graph below represents the cumulative shareholder return as measured by the last sale price at the end of each year during the period from December 31, 2001 through December 31, 2006. As depicted in the graph below, during this period the cumulative total shareholder return on the Company's stock was 49%, the cumulative total return for the S&P 500 Composite Stock Price Index was 35% and the cumulative total return for the S&P Supercomposite Property-Casualty Index was 61%.



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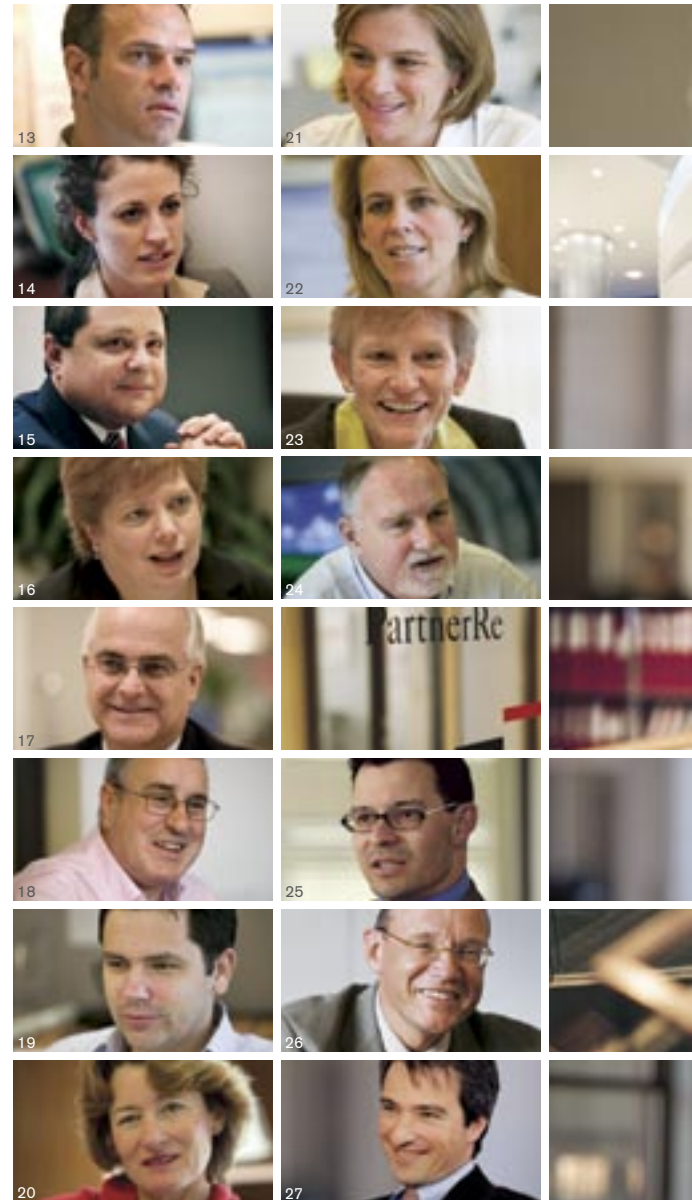
The Company has attempted to identify an index which most closely matches our business. However, there are no indices that properly reflect the returns of the reinsurance industry. The S&P Supercomposite is utilized as it is the broadest index of companies in the Property and Casualty industry. However, we caution the reader that this index of 28 companies does not include any companies primarily engaged in the reinsurance business, and therefore it is provided to offer context for evaluating performance, rather than direct comparison.

PartnerRe Organization



Senior Operating Management

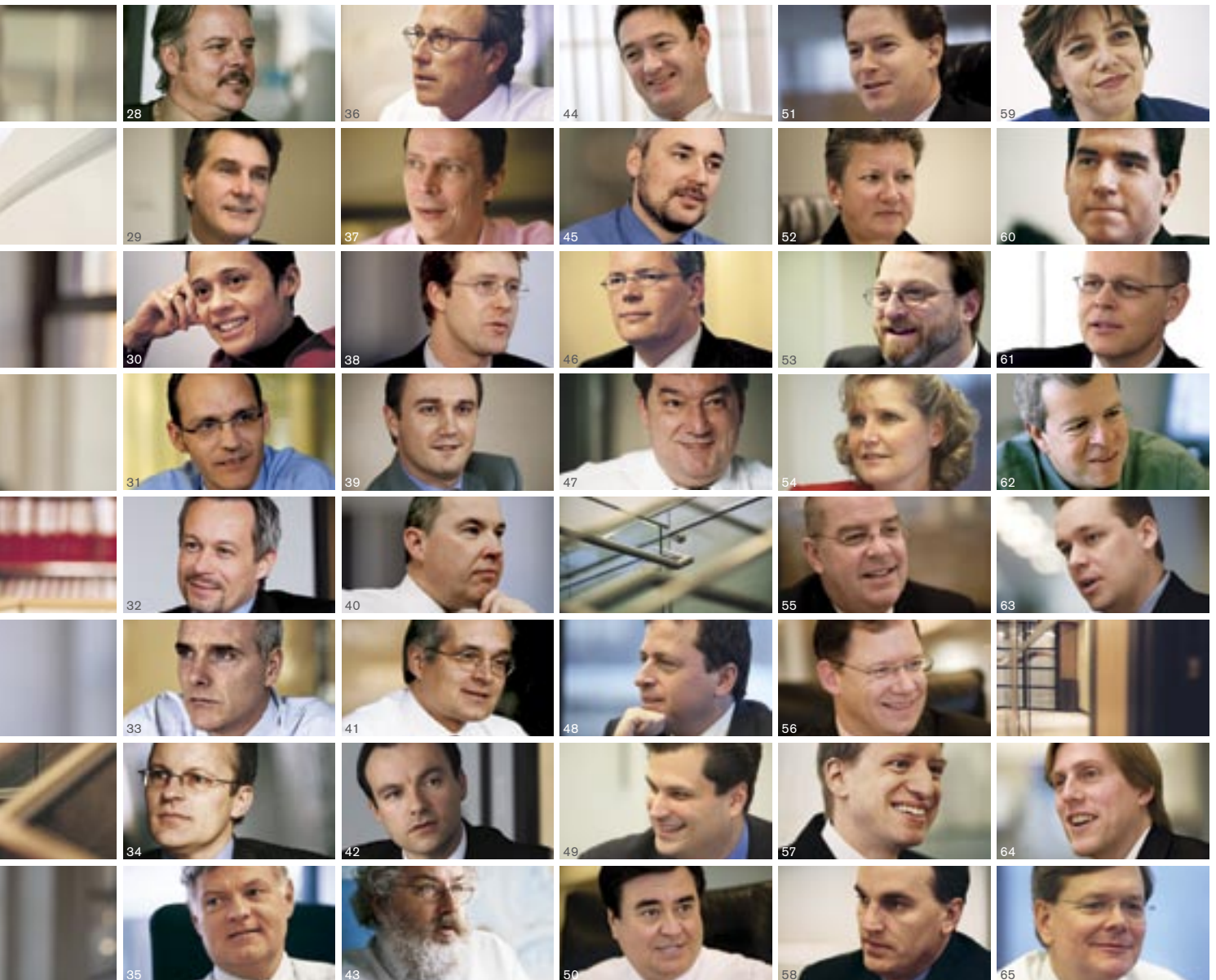
- | | |
|---|---|
| 1 John Adimari
Chief Financial Officer, U.S. | 7 Marvin Pestcoe
Head of ART |
| 2 Kurt Angst
Head of Specialty Lines, Global | 8 Franck Pinette
Head of Life |
| 3 Emmanuel Clarke
Head of Property & Casualty, Global | 9 Dom Tobey
Head of Risk Management & Reserving, Global |
| 4 John Davidson
Head of Investments | 10 Tad Walker
Head of Catastrophe |
| 5 Laurie Desmet
Group Chief Accounting Officer | 11 Robin Williams
Chief Underwriting Officer, U.S. |
| 6 Costas Miranthis
Group Chief Actuarial Officer | 12 Stephan Winands
Chief Financial Officer, Global |



Business Unit and Support Management

- | | |
|--|--|
| Group | 21 Celia Powell
Corporate Communications |
| 13 Joe Barbosa
Treasury | 22 Robin Sidders
Investor Relations |
| 14 Abigail Clifford
Group Human Resources | 23 Amanda Sodergren
Legal and Compliance |
| 15 Richard Glaser
Tax | 24 Ian Speirs
Compensation and Benefits |
| 16 Melodie Howard
Organizational Development | Global |
| 17 Kevin Lehman
Internal Audit | 25 Felix Arbenz
Specialty Casualty |
| 18 Mike Mitchard
Information Technology | 26 Emil Bergundthal
Head of Singapore Office, P&C – Greater China and Southeast Asia |
| 19 David Outtrim
Corporate Controller | 27 Francis Blumberg
Life, Zurich |
| 20 Christine Patton
Secretary to the Board | |

PartnerRe Organization



- | | | | | |
|--|---|--|---|--|
| 28 Jürg Buff
Engineering | 36 Pierre Laurent
P&C – Overseas | 44 Brian Secrett
Catastrophe, Bermuda | 51 Charles Goldie
Specialty Lines | 59 Karen Matrunich
Structured Risk Reinsurance,
U.S. |
| 29 Alain Flandrin
P&C – France, Benelux
and Canada | 37 Jean-Marie Le Goff
Human Resources | 45 Rick Thomas
Catastrophe, Zurich | 52 Cathy Hauck
General Counsel | 60 Dave Moran
Principal Finance |
| 30 Pascale Gallego
Life, Paris | 38 Jeremy Lilburn
Agriculture | 46 Benjamin Weber
Aviation / Space | 53 Wayne Hommes
Chief Pricing Actuary | 61 Thomas Renggli
Structured Risk Reinsurance,
Global |
| 31 Michael Gertsch
Specialty Property,
Deputy Head of Specialty | 39 Pierre Michel
Head of Toronto Office | 47 Franz Wettach
P&C – Central and
Eastern Europe | 54 Carol Ann O'Dea
Claims | 62 Pete Senak
Structured Risk Reinsurance,
Bermuda |
| 32 Markus Bassler
Energy Onshore | 40 Philip Nye
Head of Hong Kong Office | 48 Jeffrey Englander
Chief Reserving Actuary | 55 John Peppard
Program Business | 63 Brian Tobben
Weather |
| 33 Ian Houston
Marine / Energy Offshore | 41 Salvatore Orlando
P&C – Southern Europe
and Latin America | 49 Vincent Forgione
Human Resources | 56 Richard Sanford
Specialty Casualty | |
| 34 Christoph Kägi
P&C – Northern Europe | 42 Marcus Pollak
Credit & Surety | 50 Dennis Giannos
Standard Lines | | |
| 35 Patrick Lacourte
Head of Dublin Office | 43 Willi Schürch
Chief Underwriting
Officer, Catastrophe | | | |
| | | | Alternative Risk Transfer | Investments |
| | | | 57 Nick Giuntini
Actuarial | 64 David Graham
Fixed Income |
| | | | 58 Joseph Hissong
Chief Counsel | 65 Jon LaBerge
Investment Operations |

PartnerRe Organization

Beate Kohl • Caroline Komposch • Hans Konecnik • Ilkka Koskinen • Kishore Kothapalli • Robert Kouba • Marika Kournioti • Gary Kratzer • Beat Krauer • Kurt Kraushaar • Richard Krivo • Bartholomew Krom • Margrit Küchler • Susanne Kuhn • Martin Küpfer • Marianne Küpfer • Caroline Kuruneru • Jon LaBerge • Christiane Lacour • Patrick Lacourte • Bjorn Ladewig • Marian Lager • Patrick Lang • Philipp Langerweger • Dennis LaPak • Mylene Laplace • Irma Lara • Daniel Larkin • Julius Latham • Adrian Läubli • Pascal Laugaro • Franck Laurence • Pierre Laurent • Julia Lavalpe • Veronique Le Boles • Jean-Marie Le Goff • Jocelyne Le Guennec • Danielle Le Moulec • Patrick Lecanu • Christophe Leцерf • Jean-Michel Leцерf • Marie Pierre Lecour • Catherine Ledieu • Bernard Hiong Wee Lee • Sebastian Lee • Lena Lan Fong Lee • Albert Lee • Rosario Legaspi • Ghislaine Leglise • Kevin Lehman • Urs Lehmann • Philippe Leveque • Lisa Lewis • Jean Paul L'Henoret • Patrick Li • Yongmei Li • Susana Li • Jun Li • Christopher Liberti • Gail Liebson • Jeremy Lilburn • Christina Lilburn • Karel Lindner • Barbara Linsi • Ryan Lipschutz • Diana Lofaro • Marianna Logiurato • Peter Longhi • Glenda Loop • Katja Lord • Charlene Hui Ling Low • Birgit Lüdi • Karla Lusi • Markus Lützelshwab • Edward Lynch • Jean Ching Peng Ma • Paula Macedo • Steven MacNamara • Alvaro Madronero • Thierry Magnien • Andrew Kin Ting Mak • Beena Makhijani Müller • Paulachan Maliakal • Martine Manaud • Doris Manz • Christian Marais • Joseph Marcianti • Winifred Marshall • William Martin • Philip Martin • Piero Martini • Douglas Mason • Jaime Masters • Lucette Mathouchanh • Karen Matrunich • Judit Matt • Henri Mauxion • Karin Mayrhofer-Duss • Terence McCabe • Mark McCaffrey • Jennifer McCarron • Michael McDonald • Thomas McLoughlin • Rita McNally-Hasler • Lucas Mebold • Marianne Meier • Annina Meier-Camenisch • Lily Mendoza • Clara Mercado • George Meropoulos • Anne Mery • Hilary Metcalfe • Doris Meuli • Martine Meunier • Bruno Meyenhofer • Thomas Meyer • Richard Meyerholz • Pierre Michel • Patrice Michellon • Gail Middleton • Jennifer Middough • Michael Miraglia • Costas Miranthis • Louis Misiti • Mike Mitchard • Georges Modol • Christoph Moggi • David Molyneux • Lynn Moniz • Sonam Phuntsok Monkhar • Scott Moore • Irene Morales • David Moran • Lemuel Morehead • Nadège Morel • Françoise Moreno • Dominique Morisseau • James Mortimer • Thomas Möschinger • Arnaud Mouvand • George Muhle • Franziska Müller • Christopher Mulligan • Beatrix Mürger • Shuri Munt • Valentina Munteanu • Shinji Nagao • Marie Navarro • Yasmin Neeser Leeuwarden • Léa Nefussi • Stacye Nekritz • Zorah Neveu • Serge Neveu • Jan Sin Ngor • Minh Trang Nguyen • Hoai Nguyen • Emilio Nualart • Philip Nye • Robert Oates • Astrid Ochser • Carol Ann O'Dea • Finbar O'Flanagan • Brendan O'Grady • Salvatore Orlando • Victor Osuna • Maud Ouaknine • Christina Ouerfelli • Hossine Ould Aklouche • Africa Outerbridge • David Outtrim • Ming Ow • Todd Owyang • Thomas Pálffy • Andrew Palo • Patrick Palomeque • Carman Chieh-Ming Pang • Brigitte Pasquier • Alberto Pasquinelli • Anita Passot • Christine Patton • Lewis Paul • Galyna Pavlova • Marie-Rose Peeters • Patrice Peltier • Natividad Pena • Bruce Pendergast • Danette Pengelly • John Peper • John Peppard • Diana Perachio • José Perez • Maria Perreant • Marie Claude Perrillat Amede • Bruce Perry • Marvin Pestcoe • Lynn Petilli • Sandra Phillips • Thierry Picou • Antoine Pin • Franck Pinette • Sabine Pistor • Sheila Plant • Laurence Plateau • Michel Ploye • Michael Podielsky • Petr Pokorny • Catherine Polcari • Marcus Pollak • Marco Porri • Mathieu Potin • Celia Powell • Adrian Poxon • David Preti • Marina Prokhorova • Maureen Pudelka • Odette Puivin • Virginie Pujalte • Beatrice Pujol • Rolf Pulfer • Joseph Pulvirenti • Patricia Quarntrom-Judkins • Guadalupe Quindos • Andrea Raack • Vladia Radic • Marie José Radonjic • Kathleen Rahilly • Malika Rais • Maritza Ramirez • Phulmattee Ramtahal • Vito Randazzo • Lorenza Rapetti • Nancy Raphael • Anna Rapp • Jürg Raschle • Gino Ratto • Jean Regalado • Thomas Renggli • Marybeth Rice • Mark Rieder • Dominique Ries • Brigitte Rioni • Toni Rishar • Robert Risholm • Sandra Risi • Pierre Rivier • Christina Rizzo • Ira Robbin • Jane Louise Roberts • Carole Roberts • Debralee Robinson • Laurent Rochat • Serge Rocourt • Nadine Rodriguez • Raquel Rodriguez • Thomas Rogall • Martin Rohrer • Jeannette Rosenberger Ibeh • Messody Roset • Michael Rossi • Kurt Roth • Christine Rouger • Françoise Roy • Pascale Rualt • Anne Rudow • Rolf Rüegg • Giuseppe Ruggieri • Dorinne Ruggiero • Sandra Rushbrook • Joanne Ryan • Thomas Ryser • Brian Sabia • Dalila Sadaoui • Maria De Los Angeles Saidonni • Eduard Saladin • Elisabeth Salmon • Amanda Samai • Isabelle Samb • James Sanchez • Richard Sanford • Alexandra Sani • Lisa Santasiero • Chantal Sarti • Joseph Saydlowski • Peter Schällibaum • Hansjörg Schären • Robert Schätti • Andrea Schellenberg • Ricardo Schellenberg • Anton Scherer • Daniel Schirato • Thierry Schmid • Andrea Schneider • Gabriela Schneider • Thomas Schneider • Daniela Schoch Baruffol • Jean-Noël Schouttet • Stephan Schrecke • Willi Schürch • Jürg Schürer • Edgar Schurr • Jürgen Schwärmer • Carolyn Searles • Brian Secrett • Samer Semaan • Peter Senak • Martine Seni • Nathalie Senrens • Charlene Seon • Juan Serra • Dino Sestito • Hélène Shamkhalov • Huidong Shang • Joan Shaw • Brett Shereck • Uresh Sheth • Marta Shevchik • Steven Shirazi • George Shoon • Donald Shushack • Robin Sidders • Tina Sideris • Stefanie Siegrist • Ariane Siegrist • Andreas Silva • Steven Simmons • Lenamay Simmons • Elizabeth Simmons • Sandra Simons • Stephen Smigel • Thomas Smith • Randolph Smith • Yaniko Smith • Emma Smith-Izrailev • Kelli Soares • Andrew Soares • Amanda Sodergren • Donna Solieri • Maryse Souquiere Lagarde • Catherine Sousa-Lombardi • Aurore Soyer Rocourt • Maria-Grazia Spagnol • Ian Speirs • Bryan Spero • Mario Spescha • Paul Stacy • Irene Städeli • Nicole Stahel • Thomas Startup • Beatrice Staub • Anne Stefani • Petra Steiner • Robert Steiner • Daniela Steiner • Gero Stenzel • Michael Stewart • Eva Stockmann • William Strasser • Renée Strasser • Renate Stucki • Sylvie Stutzmann • Sharon Sung • Catherine Sutcliffe • Fabrice Suter • Daniel Tarabocchia • Boualem Tarmoul • Neetusha Teelockchand • Magdalena Temesi-Cano • Hope Tera • Denny Tesch • Ursula Thalmann • Guillaume Theulieras • Patrick Thiele • Sara Thomas • Richard Thomas • Gerald Thomas • Jean-Luc Thomas • Paula Thompson • Kenneth Thompson • Nicole Thuerlemann • Maya Thüler • Susan Tieger • Robert Tinari • Michael Ting • Desiree Tinsley • Manfred Tischhauser • Béatrice Tison • Brian Tobben • Dom Tobey • Jeffrey Toone • Florence Tournoux • Christoph Trachsel • Walter Tremp • Violet Trinidad • Sarah Troy • Eija Tuulensuu • Sauro Ugucioni • Soledad Valarezo Haller • Susan Valdes • Franciscus van Baaren • Jan Van den Berg • Ton Van der Minnen • Arjen van Summeren • Danny Vega • Renato Verderame • Sylvie Veyrent • Dominique Vidal • Ute Vikas • Laurent Vilcot • Jenni Vilja • Arnaud Villain • Francois Vilnet • Françoise Visiedo • Despina Vladu • Christian Vogel • Peter Vogt • Victoria Von Atzigen • Michel Vulliez • Christiane Vulliez • Norbert Wackerle • David Stanley Waddell • Paula-Mae Wade • Hans Walder • Thuy Walgren • Tad Walker • Ivor Wallace • Donna Walsh • Meredith Walworth • Derrick Wan • David Warren • Chantal Wasterlain • Jean Claude Wasterlain • Benjamin Weber • Alain Weber • Katherine Wee • Olivier Wenk • Carol Anne West • Marc Wetherhill • Franz Wettach • Sarah Wheeler • Robin Williams • Jason Williams • Tanika Williams • James Wilson • Stephan Winands • John Windas • William Winnis • Vivienne Mee Ling Wong • Bella Wong • John Wong • Urs Wüst • André Wyss • Yan Yan Xi • Xiaomei Yang • Susan Poh Suan Yap • David Yim • Naoko Yotsumoto • Yeang Yeow Yuen • Robert Zahner • Martin Zeller • Jun Zhang • Zenggen Zhou • Michael Zielin • Hernan Zilleruelo • Sarah Zimmerli • Doris Zizi • Robert Zsunkan • Irena Zumbunn • Pius Zuppiger

Shareholder Information

Board of Directors

Chairman

John A. Rollwagen

Chairman and CEO (Retired)
Cray Research Inc.
USA

Patrick A. Thiele

President and Chief Executive Officer
PartnerRe Ltd.
Bermuda

Vito H. Baumgartner

Group President (Retired)
Caterpillar Inc.
United Kingdom

Robert M. Baylis

Vice Chairman (Retired)
CS First Boston
USA

Judith C. Hanratty, OBE

Company Secretary and Counsel
to the Board (Retired)
BP plc
United Kingdom

Jan H. Holsboer

Executive Board Member (Retired)
ING Group
The Netherlands

Jean-Paul Montupet

Executive Vice President
and Advisory Director
Emerson Electric Co.
USA

Rémy Sautter

Chairman
RTL Radio
France

Lucio Stanca

Chairman (Retired)
IBM Europe, Middle East, Africa
Italy

Kevin M. Twomey

President and
Chief Operating Officer (Retired)
The St. Joe Company
USA

Dr. Jürgen Zech

Chairman (Retired)
Gerling-Konzern
Versicherungs Beteiligung – AG
Germany

Secretary to the Board

Christine Patton

PartnerRe Ltd.

Shareholders' Meeting

The 2006 Annual General Meeting
will be held on May 10, 2007,
in Pembroke, Bermuda.

Independent Registered Public Accounting Firm

Deloitte & Touche
Corner House
Church & Parliament Streets
Hamilton, Bermuda

Outside Counsel

U.S.

Davis Polk & Wardwell
450 Lexington Avenue
New York, New York 10017

Bermuda

Appleby Hunter Bailhache
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

Market Information

The following PartnerRe shares
(with their related symbols) are traded
on the New York Stock Exchange:

Common shares	"PRE"
6.75% Series C Cumulative Redeemable Preferred Shares	"PRE-PrC"
6.5 % Series D Cumulative Redeemable Preferred Shares	"PRE-PrD"

As of February 22, 2007, the approximate number
of common shareholders was 57,800.

Share Transfer & Dividend Payment Agent

Computershare Trust Company, N.A.
P.O. Box 43078
Providence, RI 02940-3078

Additional Information

PartnerRe's Annual Report on Form 10-K
and PartnerRe's 1934 Act filings, as filed
with the Securities and Exchange Commission,
are available at the corporate headquarters
in Bermuda or on the Company website
at www.partnerre.com

The Company has filed the required certificates
under Section 302 of the Sarbanes-Oxley Act
of 2002 regarding the quality of our public
disclosures as Exhibits 31.1 and 31.2 to our
Annual Report on Form 10-K for the fiscal year
ended December 31, 2006. In 2006, after our
annual meeting of shareholders, the Company
filed with the New York Stock Exchange the
CEO certification regarding its compliance with
the NYSE corporate governance listing standards
as required by NYSE Rule 303A. 12(a).

Corporate Headquarters

Bermuda

Wellesley House
90 Pitts Bay Road
Pembroke HM 08
Bermuda
Phone +1 441 292 0888
Fax +1 441 292 7010

Principal Offices

Greenwich

One Greenwich Plaza
Greenwich, CT 06830-6352
USA
Phone +1 203 485 4200
Fax +1 203 485 4300

Paris

153 Rue de Courcelles
F-75817 Paris Cedex 17
France
Phone +33 1 44 01 17 17
Fax +33 1 44 01 17 80

Zurich

Bellerivestrasse 36
CH-8034 Zurich
Switzerland
Phone +41 44 385 35 35
Fax +41 44 385 35 00

Branch and Subsidiary Offices

Dublin

Ground Floor
7 Exchange Place
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