

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its principal wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance), Partner Reinsurance Company of the U.S. (PartnerRe U.S.) and Partner Reinsurance Europe Limited (PartnerRe Europe). Risks reinsured include, but are not limited to property, casualty, motor, agriculture, aviation/space, catastrophe, credit/surety, engineering, energy, marine, specialty property, specialty casualty, multiline and other lines, 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).

On January 1, 2008, the Company completed a reorganization, at which time PartnerRe SA ceased its underwriting operations. As part of the reorganization, PartnerRe SA, its Canadian non-life branch and the Swiss branch of Partner Reinsurance transferred substantially all of their business, assets and liabilities to PartnerRe Europe. Following the reorganization, PartnerRe Europe is the principal reinsurance carrier for all of the Company's business underwritten in France, Ireland and Switzerland and for the non-life business underwritten in Canada. Contemporaneously, the business, assets and liabilities of the Canadian life branch of PartnerRe SA were transferred to a new Canadian life branch of Partner Reinsurance.

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. To facilitate comparison of information across periods, certain reclassifications have been made to prior year amounts to conform to the current year's presentation.

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;
- Recoverability of deferred tax assets;
- Valuation of goodwill; and
- Valuation of fixed maturity and equity investments that are measured using significant unobservable inputs 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. For U.S. and European wind and certain other 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 contracts 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 liability for unpaid losses and loss expenses 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 are determined, which may affect the Company's operating results in future periods.

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 contracts 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.

(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 contracts 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 contracts as a percentage of the estimated gross profits expected to be realized on the contracts.

(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).

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) No. 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". 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" (SFAS 113). While these contracts do not meet the risk transfer provisions of SFAS 113, there is a remote possibility that the Company will suffer a loss. 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 Insurance Risk". For these 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 or loss 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 or loss in the Consolidated Statements of Operations.

(f) Investments

Effective January 1, 2008, the Company adopted Financial Accounting Standards Board (FASB) Statement No. 157, "Fair Value Measurements" (SFAS 157). Fair value is the price received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company measures 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.

In October 2008, the FASB issued FSP SFAS 157-3 "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" (FSP SFAS 157-3), which clarifies the application of SFAS 157 and provides considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

The adoption of SFAS 157 and FSP SFAS 157-3 did not have a material impact on the Company's consolidated shareholders' equity or net income. See Note 3 for additional information on fair value.

Effective January 1, 2008, the Company adopted FASB 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 financial liabilities at fair value that are not otherwise required to be measured at fair value. Following the election of the fair value option for an eligible item, changes in that item's fair value in subsequent reporting periods must be recognized in earnings.

Under the provisions of SFAS 159, the Company elected the fair value option for all of its fixed maturities, short-term investments, equities and certain other invested assets (including swaps and derivatives but excluding certain other invested assets, such as those that are accounted for using the equity method of accounting or investment company accounting).

On adoption of SFAS 159, the Company recorded a cumulative effect adjustment of \$106.0 million, net of taxes, which decreased accumulated other comprehensive income and increased opening retained earnings as of January 1, 2008. The adoption of SFAS 159 did not have any impact on the Company's consolidated net income, shareholders' equity nor its comprehensive income.

Following the adoption of SFAS 159, all of the Company's fixed maturities, short-term investments and equities that were previously classified as available for sale securities, as well as certain other invested assets, are reported as trading securities. Trading securities are carried at fair value with all changes in fair value included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. Prior to the adoption of SFAS 159, fixed maturities, short-term investments and equities that were classified as available for sale were carried at fair value 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. The Company believes that accounting for its investments as trading provides a better presentation of the Company's total return on its investments and also removes an element of management judgment from the preparation of its financial statements by no longer requiring an assessment of its investments for other-than-temporary impairment. Prior to the adoption of SFAS 159, the Company evaluated 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) was other-than-temporary. If the decline in fair value was judged to be other-than-temporary, the cost or amortized cost of the individual security was written down to fair value and a new cost basis was 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 was made.

Short-term investments comprise securities with a maturity greater than three months but less than one year from the date of purchase.

Other invested assets consist primarily of investments in non-publicly traded companies, private placement equity investments, derivative financial instruments and other specialty asset classes. Entities in which the Company has an ownership of more than 20% and less than 50% of the voting shares, and limited partnerships in which the Company has more

than a minor interest, are accounted for using the equity method. Other invested assets are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company 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 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. Investment purchases and sales are recorded on a trade-date basis.

(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 recognizes a tax benefit relating to uncertain tax positions only where the position is more likely than not to be sustained assuming examination by tax authorities. 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 FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109" (FIN 48).

(j) Translation of Foreign Currencies

The reporting currency of the Company is the U.S. dollar. The national currencies of the Company's subsidiaries and branches are generally their functional currencies, except for the Bermuda subsidiaries and the Company's Swiss branch, whose functional currencies are the U.S. dollar. In translating the financial statements of those subsidiaries or branches 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 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 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 also records realized and unrealized foreign exchange gains and losses on certain hedged items in net foreign exchange gains and losses in the Consolidated Statements of Operations (see Note 2(k)).

(k) Derivatives Used in Hedging Activities

The Company utilizes derivative financial instruments as part of its overall currency risk management strategy. SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133) 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. 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). 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.

Following the adoption of SFAS 159, derivatives employed by the Company to hedge currency exposure related to fixed income securities and derivatives employed by the Company to hedge currency exposure related to other reinsurance assets and liabilities, except for the hedge of the Company's net investment in non-U.S. dollar functional currency subsidiaries and branches, are no longer designated as hedges under SFAS 133. The changes in fair value of the non-designated hedges are recognized in net foreign exchange gains and losses in the Consolidated Statements of Operations.

Prior to the adoption of SFAS 159, the Company used 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 were 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 were recognized in net realized investment gains and losses in the Consolidated Statements of Operations.

As part of its overall strategy to manage its level of currency exposure, the Company uses forward foreign exchange derivatives to partially hedge the net investment in certain non-U.S. dollar functional currency subsidiaries and branches. These derivatives have been designated as net investment 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 currency translation adjustment in the Consolidated Balance Sheets.

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 or liability 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 net investment hedges is included in 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 discontinues hedge accounting related to its net investment in non-U.S. dollar functional currency subsidiaries and branches, because, based on Management's assessment, the derivative no longer qualifies as an effective 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 through net foreign exchange (gains) losses.

(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, foreign currency option contracts, foreign exchange forward contracts and written covered call options 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 and unrealized investment gains and losses in the Consolidated Statements of Operations, and changes in the fair value of foreign currency option contracts and foreign exchange forward contracts are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The fair value of these 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

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 net realized and unrealized investment gains and losses 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

The Company has entered into total return and interest rate swaps. Margins related to these swaps are included in other income or loss in the Consolidated Statements of Operations and any changes in the fair value of the swaps are included in net realized and unrealized investment gains and losses in the Consolidated Statements of Operations. The Company records these swaps at fair value, based on internal valuation models.

(o) Treasury Shares

Common shares repurchased by the Company and not cancelled are classified as treasury shares, and are recorded at cost. This results in a reduction of shareholders' equity in the Consolidated Balance Sheets. When shares are reissued from treasury, the Company uses the average cost method to determine the cost of the reissued shares. Gains on sales of treasury stock are credited to additional paid-in capital, while losses are charged to additional paid-in capital to the extent that previous net gains from sales or retirements of treasury shares are included therein, otherwise losses are charged to retained earnings.

(p) 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.

(q) 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 fair value of the compensation cost is measured at the grant date and is expensed over the period for which the employee is required to provide services in exchange for the award. Forfeiture benefits are estimated at the time of grant and incorporated in the determination of share-based compensation costs. Awards granted to employees who are eligible for retirement and do not have to provide additional services are expensed at the date of grant.

(r) Pensions

The Company adopted SFAS No. 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) as of December 31, 2006. The Company recognizes 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 and recognizes changes in the funded status of defined benefit plans in the year in which the changes occur as a component of accumulated other comprehensive income, net of tax.

(s) Variable Interest Entities

FASB Interpretation No. 46 (revised December 2003) "Consolidation of Variable Interest Entities — an interpretation of ARB No. 51" (FIN 46(R)) requires a variable interest entity (VIE) to be consolidated by a company if that company is determined to be the primary beneficiary of the VIE, such that it is subject to a majority of the risk of loss from the VIE's activities or is entitled to receive a majority of the VIE's residual returns or both. A VIE 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 A, which issued the Senior Notes, and PartnerRe Finance II, which issued the capital efficient notes (CENTs), do not meet the consolidation requirements of FIN 46(R). As a result, the Company has not consolidated PartnerRe Finance A and PartnerRe Finance II and has reflected the debt issued by the Company related to the Senior Notes and CENTs as liabilities in the Consolidated Balance Sheets (see Note 13). The interest on the debt related to the Senior Notes and CENTs is reported as interest expense in the Consolidated Statements of Operations.

(t) Segment Reporting

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other. The Non-life segment is further divided into four sub-segments: U.S., Global (Non-U.S.) Property and Casualty (Global (Non-U.S.) P&C), Global (Non-U.S.) Specialty, and Catastrophe.

Segments and sub-segments represent markets that are reasonably homogeneous 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".

(u) Recent Accounting Pronouncements
FSP SFAS 157-2

In February 2008, the FASB issued FSP SFAS 157-2, "Effective Date of FASB Statement No. 157" (FSP SFAS 157-2), which permits a one-year deferral of the application of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis. The Company will adopt FSP SFAS 157-2 for non-financial assets and non-financial liabilities on January 1, 2009 and is currently evaluating the impact of this adoption on its consolidated shareholders' equity and net income.

SFAS 160

In December 2007, the FASB issued Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements — an amendment of ARB No. 51" (SFAS 160). SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements" (ARB 51) to establish accounting and reporting standards for a noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It also amends certain of ARB 51's consolidation procedures for consistency with the requirements of FASB Statement No. 141 (revised 2007), "Business Combinations".

SFAS 160 will be effective for fiscal years beginning after December 15, 2008, and the Company will adopt SFAS 160 as of January 1, 2009. SFAS 160 may not be applied retroactively and early adoption is prohibited. The Company is currently evaluating the impact of the adoption of SFAS 160 on its consolidated shareholders' equity and net income.

SFAS 163

In May 2008, the FASB issued Statement No. 163, "Accounting for Financial Guarantee Insurance Contracts — an interpretation of FASB Statement No. 60" (SFAS 163). SFAS 163 clarifies the recognition and measurement of premium revenue and claim liabilities, and requires expanded disclosures about an entity's financial guarantee insurance contracts. SFAS 163 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The Company has determined that the impact of the adoption of SFAS 163 on its consolidated shareholders' equity and net income is immaterial and no additional disclosures are required at December 31, 2008.

EITF 07-05

In June 2008, the FASB's Emerging Issues Task Force reached a consensus regarding EITF Issue No. 07-5, "Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock" (EITF 07-5). EITF 07-5 outlines a two-step approach to evaluate the instrument's contingent exercise provisions, if any, and to evaluate the instrument's settlement provisions when determining whether an equity-linked financial instrument (or embedded feature) is indexed to an entity's own stock. EITF 07-5 is effective for fiscal years beginning after December 15, 2008 and must be applied to outstanding instruments as of the beginning of the fiscal year of adoption as a cumulative-effect adjustment to the opening balance of retained earnings. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of EITF 07-5.

3. Fair value

(a) SFAS 157

The SFAS 157 fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value by maximizing the use of observable inputs and minimizing the use of unobservable inputs by requiring that the most observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company's assumptions about what market participants

would use in pricing the asset or liability based on the best information available in the circumstances. The level in the hierarchy within which a given fair value measurement falls is determined based on the lowest level input that is significant to the measurement.

The Company must determine the appropriate level in the hierarchy for each financial instrument that it measures at fair value. In determining fair value, the Company uses various valuation approaches, including market, income and cost approaches. The hierarchy is broken down into three levels based on the reliability of inputs as follows:

- Level 1 inputs — Unadjusted, quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

The Company's financial instruments that it measures at fair value using Level 1 inputs generally include: equities listed on a major exchange and exchange traded derivatives, such as futures and options that are actively traded.

- Level 2 inputs — Quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets or liabilities in inactive markets and directly or indirectly observable inputs, other than quoted prices, used in industry accepted models.

The Company's financial instruments that it measures at fair value using Level 2 inputs generally include: U.S. Treasury bonds; U.S. Government Sponsored Entities; Organization for Economic Co-operation and Development Sovereign Treasury bonds; investment grade and high yield corporate bonds; catastrophe bonds; mortgage-backed securities; asset-backed securities ("ABS"); foreign exchange forward contracts and over-the-counter derivatives such as foreign currency option contracts, equity put and call options, interest rate swaps and credit default swaps.

- Level 3 inputs — Unobservable inputs.

The Company's financial instruments that it measures at fair value using Level 3 inputs generally include: unlisted equities including preference shares; unit trusts; private ABS; credit linked notes; loans receivable; total return swaps and weather derivatives.

At December 31, 2008, the Company's financial instruments measured at fair value were categorized between Levels 1, 2 and 3 as follows (in thousands of U.S. dollars):

| | Quoted prices in active markets for identical assets (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|--|---------------|
| Fixed maturities, trading securities | \$ — | \$ 10,103,857 | \$ 78,138 | \$ 10,181,995 |
| Short-term investments, trading securities | — | 116,954 | 137 | 117,091 |
| Equities, trading securities | 436,627 | 42,638 | 33,547 | 512,812 |
| Other invested assets | — | (870) | (16,136) | (17,006) |
| Total | \$ 436,627 | \$ 10,262,579 | \$ 95,686 | \$ 10,794,892 |

At December 31, 2008, the aggregate carrying amounts of items included in Other invested assets that the Company did not measure at fair value were \$91.5 million, which primarily related to the Company's investments that are accounted for using the equity method of accounting or investment company accounting.

Substantially all of the accrued investment income in the Consolidated Balance Sheet as of December 31, 2008 related to the Company's fixed maturities, short-term investments and equities for which the fair value option was elected.

The following table is a reconciliation of the beginning and ending balances for all financial instruments measured at fair value using Level 3 inputs for the year ended December 31, 2008 (in thousands of U.S. dollars):

| | Fixed maturities | Short-term investments | Equities | Other invested assets | Total |
|---|------------------|------------------------|------------|-----------------------|-------------|
| Balance at beginning of year | \$ 15,166 | \$ — | \$ 39,606 | \$ (14,838) | \$ 39,934 |
| Realized and unrealized investment (losses) gains included in net income | (7,684) | 23 | (6,059) | (12,368) | (26,088) |
| Net purchases, sales and settlements | 74,114 | 114 | — | 11,070 | 85,298 |
| Transfers out of Level 3 | (3,458) | — | — | — | (3,458) |
| Balance at end of year | \$ 78,138 | \$ 137 | \$ 33,547 | \$ (16,136) | \$ 95,686 |
| Change in unrealized investment (losses) gains relating to assets held at end of year | \$ (7,684) | \$ 23 | \$ (6,059) | \$ (27,742) | \$ (41,462) |

Changes in the fair value of the Company's financial instruments measured at fair value, for which the fair value option was elected, during the year ended December 31, 2008 were as follows (in thousands of U.S. dollars):

| | For the year ended December 31, 2008 |
|--|--------------------------------------|
| Fixed maturities, trading securities | \$ (150,860) |
| Short-term investments, trading securities | 551 |
| Equities, trading securities | (144,634) |
| Total | \$ (294,943) |

All of the above changes in fair value are included in the Consolidated Statements of Operations under the caption Net realized and unrealized investment (losses) gains.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial asset recorded in the Consolidated Balance Sheets. Following the adoption of SFAS 157 and FSP SFAS 157-3, there have been no material changes in the Company's valuation techniques.

Fixed maturities and short-term investments

Substantially all of the Company's fixed maturities and short-term investments are categorized as Level 2 within the SFAS 157 hierarchy. The Company receives prices from independent pricing sources to measure the fair values of its fixed maturity investments. The independent pricing sources obtain market quotations and actual transaction prices for securities that have quoted prices in active markets. Each source has its own proprietary method for determining the fair value of securities that are not actively traded. In general, these methods involve the use of "matrix pricing" in which the independent pricing source applies the credit spread for a comparable security that has traded recently to the current yield curve to determine a reasonable fair value. The Company uses a pricing service ranking to consistently select the most appropriate pricing service in instances where it receives multiple quotes on the same security. When fair values are unavailable from these independent pricing sources, quotes are obtained directly from broker-dealers who are active in the corresponding markets. Most of the Company's fixed maturities are priced from the pricing services or dealer quotes. The Company will typically not make adjustments to prices received from pricing services or dealer quotes; however, in instances where the quoted external price for a security uses significant unobservable inputs, the Company will categorize that security as Level 3. The Company's private ABS are classified as Level 3. For all fixed maturity investments, the bid price is used for estimating fair value.

To validate prices, the Company compares the fair value estimates to its knowledge of the current market and will investigate prices that it considers not to be representative of fair value. The Company also reviews an internally generated fixed maturity price validation report which converts prices received for fixed maturity investments from the independent pricing sources and from broker-dealers quotes and plots option adjusted spreads (OAS) and duration on a sector and rating basis. The OAS is calculated using established algorithms developed by an independent risk analytics platform vendor. The OAS on the fixed maturity price validation report are compared for securities in a similar sector and having a similar rating, and outliers are identified and investigated for price reasonableness. In addition, the Company completes quantitative analyses to compare the performance of each fixed maturity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Equities

Substantially all of the Company's equities are categorized as either Level 1 or Level 2 within the SFAS 157 hierarchy. For equities categorized as Level 1, the Company receives prices based on closing exchange prices from independent pricing sources to measure fair value. Equities categorized as Level 2 are generally mutual funds invested in securities other than the common stock of publicly traded companies (such as emerging market debt funds or bank loan funds). These funds provide daily net asset values which the Company uses in determining fair value for these investments. For funds where the net asset value is not provided on a daily basis, the asset is classified as Level 3.

To validate prices, the Company completes quantitative analyses to compare the performance of each equity investment portfolio to the performance of an appropriate benchmark, with significant differences identified and investigated.

Other invested assets

The Company's foreign exchange forward contracts, foreign currency option contracts, equity put and call options, interest rate swaps and credit default swaps are categorized as Level 2 within the SFAS 157 hierarchy. Included within the Company's Level 3 categorization are unlisted equities including preference shares, unit trusts, credit linked notes, loans receivable, total return swaps and weather derivatives. The Company will generally either (i) receive a price based on a manager's or trustee's valuation for the asset; or (ii) develop an internal discounted cash flow model to measure fair value. Where the Company receives prices from the manager or trustee, these prices are based on the manager's or trustee's estimate of fair value for the assets and are generally audited on an annual basis. Where the Company develops its own discounted cash flow models, the inputs will be specific to the asset in question, based on appropriate historical information, adjusted as necessary, and using appropriate discount rates. As part of the Company's modeling to determine the fair value of an investment, the Company considers counterparty credit risk as an input to the model, however, the majority of the Company's counterparties are highly rated institutions and the failure of any counterparty would not have a significant impact on the Company's financial statements.

To validate prices, the Company will compare them to benchmarks, where appropriate, or to the business results generally within that asset class and specifically to those particular assets. In addition, the fair value measurements of all investments categorized as Level 3 within the SFAS 157 hierarchy are presented to, and peer reviewed by, an internal valuation committee that the Company has established.

(b) Fair Value of Financial Instruments Prior to the Adoption of SFAS 157 and Fair Value of Financial Instrument Liabilities

There were no material differences in the Company's valuation techniques for financial instrument assets described above prior to the adoption of SFAS 157 and the carrying value of the Company's financial instrument assets equaled their fair value. At December 31, 2007, included in other invested assets were financial instruments with negative carrying and fair values of \$15.8 million. The negative fair value of these other invested assets reflects fair value adjustments on derivative financial instruments. In accordance with SFAS No. 107 "Disclosures about Fair Value of Financial Instruments" (SFAS 107), the Company's investments accounted for under the equity method were excluded for the purpose of the fair value disclosure.

The following methods and assumptions were used by the Company in estimating the fair value of each class of financial instrument liability recorded in the Consolidated Balance Sheets for which the Company does not measure that instrument at fair value. SFAS 107 excludes insurance contracts (other than financial guarantees), investment contracts and certain other financial instruments.

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 current and long-term debt have been calculated as the present value of estimated future cash flows using a discount rate reflective of the current market cost of borrowing under similar terms and conditions. The fair value of the Senior Notes and CENTs has been calculated using quoted market prices based on the initial issuance of \$250.0 million from PartnerRe Finance A and \$250.0 million from PartnerRe Finance II, respectively.

The carrying values and fair values of the financial instrument liabilities recorded in the Consolidated Balance Sheets as of December 31, 2008 and 2007 were as follows (in thousands of U.S. dollars):

| | 2008 | | 2007 | |
|---|----------------|--------------|----------------|--------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Policy benefits for life and annuity contracts ⁽¹⁾ | \$ 1,432,015 | \$ 1,432,015 | \$ 1,541,687 | \$ 1,541,687 |
| Current portion of long-term debt | 200,000 | 200,000 | — | — |
| Long-term debt | 200,000 | 196,103 | 620,000 | 626,840 |
| Debt related to senior notes ⁽²⁾ | 250,000 | 237,095 | — | — |
| Debt related to capital efficient notes ⁽³⁾ | 250,000 | 94,536 | 257,605 | 229,475 |

⁽¹⁾ Policy benefits for life and annuity contracts included short-duration and long-duration contracts.

⁽²⁾ PartnerRe Finance A LLC, the issuer of the Senior Notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of \$250.0 million in its Consolidated Balance Sheets.

⁽³⁾ 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 in its Consolidated Balance Sheets. The fair value of the capital efficient notes was based on the initial issuance of \$250.0 million from PartnerRe Finance II.

4. Investments

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

The cost, gross unrealized gains, gross unrealized losses and fair value of investments at December 31, 2008 and 2007 were as follows (in thousands of U.S. dollars):

| 2008 – Trading securities | Cost ⁽¹⁾ | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|--------------------------------------|---------------------|------------------------------|-------------------------------|---------------|
| Fixed maturities | | | | |
| - U.S. government and agencies | \$ 880,562 | \$ 50,515 | \$ (239) | \$ 930,838 |
| - other foreign governments | 2,651,298 | 180,154 | (7,339) | 2,824,113 |
| - corporate | 3,568,060 | 61,790 | (216,549) | 3,413,301 |
| - mortgage/asset-backed securities | 3,119,206 | 72,146 | (177,609) | 3,013,743 |
| Total fixed maturities | 10,219,126 | 364,605 | (401,736) | 10,181,995 |
| Short-term investments | 116,445 | 707 | (61) | 117,091 |
| Equities | 637,198 | 10,119 | (134,505) | 512,812 |
| Total | \$ 10,972,769 | \$ 375,431 | \$ (536,302) | \$ 10,811,898 |
| 2007 – Available for sale securities | | | | |
| Fixed maturities | | | | |
| - U.S. government and agencies | \$ 1,203,740 | \$ 35,733 | \$ (53) | \$ 1,239,420 |
| - other foreign governments | 2,784,360 | 43,742 | (7,430) | 2,820,672 |
| - corporate | 3,124,263 | 40,257 | (31,631) | 3,132,889 |
| - mortgage/asset-backed securities | 2,289,599 | 30,155 | (13,944) | 2,305,810 |
| Total fixed maturities | 9,401,962 | 149,887 | (53,058) | 9,498,791 |
| Short-term investments | 97,153 | 200 | (46) | 97,307 |
| Equities | 838,777 | 60,274 | (27,289) | 871,762 |
| Total | \$ 10,337,892 | \$ 210,361 | \$ (80,393) | \$ 10,467,860 |

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

At December 31, 2007, in addition to the securities shown in the above table that were classified as available for sale, the Company held fixed maturities that were classified as trading with a fair value of \$16.4 million (amortized cost: \$15.0 million; unrealized gain: \$1.4 million) and equities that were classified as trading with a fair value of \$382.9 million (cost: \$392.5 million; unrealized loss: \$9.6 million).

(b) Maturity Distribution of Fixed Maturities and Short-Term Investments

The distribution of fixed maturities and short-term investments at December 31, 2008, by contractual maturity date, 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 | \$ 546,165 | \$ 545,007 |
| More than one year through five years | 3,649,298 | 3,649,230 |
| More than five years through ten years | 2,631,011 | 2,730,006 |
| More than ten years | 389,891 | 361,100 |
| Subtotal | 7,216,365 | 7,285,343 |
| Mortgage/asset-backed securities | 3,119,206 | 3,013,743 |
| Total | \$ 10,335,571 | \$ 10,299,086 |

(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, 2008, 2007 and 2006 is as follows (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|--|--------------------|------------|-------------|
| Fixed maturities | \$ (96,829) | \$ 113,947 | \$ (21,697) |
| Short-term investments | (154) | 275 | 388 |
| Equities | (32,985) | (61,246) | 6,049 |
| Other investments | 6,395 | 2,198 | (3,086) |
| | (123,573) | 55,174 | (18,346) |
| Tax effect of unrealized gains/losses on investments arising during the period | — | (1,136) | (2,491) |
| Less: Tax effect of reclassification adjustments for available for sale securities | 32,769 | (16,204) | 701 |
| Decrease (increase) in tax liability | 32,769 | (17,340) | (1,790) |
| Net change reflected in accumulated other comprehensive income | (90,804) | 37,834 | (20,136) |
| Impact of adopting SFAS 159 | 105,961 | — | — |
| Net change reflected in other comprehensive (loss) income | \$ 15,157 | \$ 37,834 | \$ (20,136) |

(d) Net Realized and Unrealized (Losses) Gains on Investments

The components of the net realized and unrealized investment (losses) gains for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|---|---------------------|-------------|-------------|
| Net realized investment losses on fixed maturities and short term investments, excluding other-than-temporary impairments | \$ (16,076) | \$ (16,842) | \$ (28,100) |
| Net realized investment (losses) gains on equities, excluding other-than-temporary impairments | (230,481) | 82,037 | 91,149 |
| Other-than-temporary impairments | — | (124,997) | (26,561) |
| Net realized gains on trading securities | — | 18,667 | 21,685 |
| Change in net unrealized investment (losses) gains on trading securities | — | (31,308) | 11,359 |
| Net realized and unrealized investment losses on equity securities sold but not yet purchased | — | (9,398) | (10,484) |
| Net realized and unrealized gains on designated hedging activities | — | 7,482 | 10,645 |
| Net realized gains (losses) on other invested assets | 358 | 10,408 | (1,242) |
| Change in net unrealized gains on other invested assets | 3,212 | — | — |
| Change in net unrealized investment losses on fixed maturities subject to the fair value option under SFAS 159 | (150,860) | — | — |
| Change in net unrealized investment gains on short-term investments subject to the fair value option under SFAS 159 | 551 | — | — |
| Change in net unrealized investment losses on equities subject to the fair value option under SFAS 159 | (144,634) | — | — |
| Net other realized and unrealized investment gains (losses) | 6,570 | (8,541) | (21,291) |
| Total net realized and unrealized investment (losses) gains | \$ (531,360) | \$ (72,492) | \$ 47,160 |

The Company adopted SFAS 159 effective January 1, 2008. For all periods prior to the adoption of SFAS 159, unrealized gains and losses, net of tax, on available for sale securities were recorded as a component of accumulated other comprehensive income in the Consolidated Balance Sheets. Following the adoption of SFAS 159, the Company's available for sale securities have been reclassified as trading securities and all changes in pre-tax unrealized investment gains and losses are recorded in net realized and unrealized investment (losses) gains in the Consolidated Statement of Operations. Net investment income and net realized and unrealized investment gains and losses on securities previously classified as trading have been recorded within the related investments classification (fixed maturities or equities) beginning in 2008, and the change in net unrealized investment gains and losses on such securities are included in change in net unrealized investment gains and losses on securities subject to the fair value option under SFAS 159.

Proceeds from the sale of investments classified as available for sale for the years ended December 31, 2007 and 2006 were \$5,989.3 million and \$13,550.3 million, respectively. Realized investment (losses) gains on securities classified as available for sale for the years ended December 31, 2007 and 2006 were as follows (in thousands of U.S. dollars):

| | 2007 | 2006 |
|---|-------------|------------|
| Gross realized gains | \$ 188,066 | \$ 268,265 |
| Gross realized losses excluding other-than-temporary impairments | (122,871) | (205,216) |
| Other-than-temporary impairments | (124,997) | (26,561) |
| Total net realized investment (losses) gains on available for sale securities | \$ (59,802) | \$ 36,488 |

(e) Net Investment Income

The components of net investment income for the years ended December 31, 2008, 2007 and 2006 were as follows (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|---|-------------------|------------|------------|
| Fixed maturities | \$ 514,751 | \$ 421,672 | \$ 333,888 |
| Short-term investments, trading securities, cash and cash equivalents | 18,884 | 55,618 | 61,453 |
| Equities | 29,415 | 36,383 | 33,163 |
| Funds held and other | 37,261 | 32,339 | 40,446 |
| Investment expenses | (27,347) | (22,753) | (19,549) |
| Net investment income | \$ 572,964 | \$ 523,259 | \$ 449,401 |

The Company generally earns investment income on funds held by reinsured companies 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 ranged from 1.0% to 5.0% at December 31, 2008 and from 1.0% to 6.0% at December 31, 2007.

(f) Pledged Assets

At December 31, 2008 and 2007, approximately \$15.7 million and \$27.5 million, respectively, of cash and cash equivalents and approximately \$1,119.3 million and \$1,410.6 million, respectively, of securities were deposited, pledged or held in escrow accounts in favor of ceding companies and other counterparties or government authorities to comply with reinsurance contract provisions and insurance laws or to support long-term debt.

(g) Net Receivable for Securities Sold

Included in net receivable for securities sold at December 31, 2008 and 2007 were gross payable and receivable balances. The components of net receivable for securities sold at December 31, 2008 and 2007 were as follows (in thousands of U.S. dollars):

| | 2008 | 2007 |
|------------------------------------|------------------|-----------|
| Receivable for securities sold | \$ 43,007 | \$ 84,313 |
| Payable for securities purchased | — | (34,248) |
| Net receivable for securities sold | \$ 43,007 | \$ 50,065 |

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

(a) Unpaid Losses and Loss Expenses

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, 2008 and 2007 (in thousands of U.S. dollars):

| | 2008 | 2007 |
|---------------------------------------|---------------------|--------------|
| Case reserves | \$ 3,107,780 | \$ 3,062,414 |
| ACRs | 311,408 | 306,487 |
| IBNR reserves | 4,091,478 | 3,862,535 |
| Total unpaid losses and loss expenses | \$ 7,510,666 | \$ 7,231,436 |

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, 2008, 2007 and 2006 (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|--|---------------------|--------------|--------------|
| Gross liability at beginning of year | \$ 7,231,436 | \$ 6,870,785 | \$ 6,737,661 |
| Reinsurance recoverable at beginning of year | 132,479 | 138,585 | 185,280 |
| Net liability at beginning of year | 7,098,957 | 6,732,200 | 6,552,381 |
| Net incurred losses related to: | | | |
| Current year | 2,564,174 | 2,041,752 | 1,999,730 |
| Prior years | (417,936) | (414,043) | (251,748) |
| | 2,146,238 | 1,627,709 | 1,747,982 |
| Net paid losses related to: | | | |
| Current year | 240,031 | 146,403 | 141,559 |
| Prior years | 1,340,788 | 1,473,964 | 1,718,996 |
| | 1,580,819 | 1,620,367 | 1,860,555 |
| Effects of foreign exchange rate changes | (278,925) | 359,415 | 292,392 |
| Net liability at end of year | 7,385,451 | 7,098,957 | 6,732,200 |
| Reinsurance recoverable at end of year | 125,215 | 132,479 | 138,585 |
| Gross liability at end of year | \$ 7,510,666 | \$ 7,231,436 | \$ 6,870,785 |

The table below is a reconciliation of losses and loss expenses including life policy benefits for the years ended December 31, 2008, 2007 and 2006 (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|---|---------------------|--------------|--------------|
| Net incurred losses related to: | | | |
| Non-life | \$ 2,146,238 | \$ 1,627,709 | \$ 1,747,982 |
| Life | 462,982 | 454,752 | 363,355 |
| Losses and loss expenses and life policy benefits | \$ 2,609,220 | \$ 2,082,461 | \$ 2,111,337 |

The following table summarizes the net prior year (favorable) adverse development of loss reserves for each of the Company's Non-life sub-segments for the years ended December 31, 2008, 2007 and 2006 (in millions of U.S. dollars):

| | 2008 | 2007 | 2006 |
|--|-----------------|----------|----------|
| Prior year net (favorable) adverse loss development: | | | |
| Non-life sub-segment | | | |
| U.S. | \$ (92) | \$ (72) | \$ (2) |
| Global (Non-U.S.) P&C | (166) | (97) | (66) |
| Global (Non-U.S.) Specialty | (82) | (203) | (208) |
| Catastrophe | (78) | (42) | 24 |
| Total net Non-life prior year loss development | \$ (418) | \$ (414) | \$ (252) |

Within the Company's U.S. sub-segment, the Company reported net favorable loss development for prior accident years in 2008, 2007 and 2006. The net favorable development in 2008 included net favorable development for prior accident years in all lines of business, with the exception of the motor and multiline lines of business, which experienced net adverse loss development for prior accident years of \$10 million. The net favorable development in 2007 included net favorable loss development for prior accident years in all lines of business, with the exception of multiline, which included net adverse loss development of \$5 million. The net favorable loss development in 2006 included net favorable development for prior accident years in the agriculture, casualty and multiline lines of \$27 million, partially offset by net adverse development in the property, motor, surety and structured risk lines of \$25 million (including a net adverse development of \$13 million related to the 2005 Hurricanes Katrina, Rita and Wilma). Other than for losses related to the 2005 hurricanes, loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions. 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.

For the Global (Non-U.S.) P&C sub-segment, the Company reported net favorable development for prior accident years in 2008, 2007 and 2006. The net favorable development in 2008 included net favorable development in all lines of business, but was most pronounced in the property line, and was primarily due to favorable loss emergence, as losses reported by cedants in 2008 for prior accident years were lower than the Company expected. Losses reported by cedants in 2007 regarding prior accident years were also lower than expected in all lines of business, which led the Company to decrease its expected ultimate loss ratios and loss estimates. The Company observed an improvement in loss experience in the property and casualty lines, and deterioration in the motor line in 2006. Loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions.

For the Global (Non-U.S.) Specialty sub-segment, the Company reported net favorable loss development for prior accident years in 2008, 2007 and 2006. The net favorable development in 2008 included net favorable development in all lines of business with the exception of the energy line, which incurred net adverse development for prior accident years of \$7 million. Losses reported by cedants during 2008, 2007 and 2006 for prior accident years were lower than the Company expected in most lines of business, which led the Company to decrease its expected ultimate loss ratios and loss estimates for prior year losses in each of these years. Loss information provided by cedants during each of these years for prior accident years included no individually significant losses or reductions but a series of attritional losses or reductions.

For the Catastrophe sub-segment, the Company reported net favorable development for prior accident years in 2008 and 2007 and net adverse loss development in 2006. During 2008 and 2007, the net favorable development was primarily due to favorable loss emergence, as losses reported by cedants for prior accident years were lower than the Company expected. During 2006, the net adverse loss development on prior accident years of \$24 million included net adverse loss development of \$36 million related to the large 2005 catastrophic losses. Other than for losses related to the 2005 hurricanes, loss information provided by cedants for prior accident years included no significant losses or reductions but a series of attritional losses or reductions.

Sub-Prime and Financial Crisis Exposures

Ultimate losses for lines impacted by the rapidly deteriorating financial condition of the world economies in 2008, particularly in the fourth quarter of 2008, cannot be estimated by standard actuarial techniques alone. The majority of the Company's underwriting exposure related to this issue arises from business written in U.S. and Global (Non-U.S.) specialty casualty, primarily directors and officers exposures, Global (Non-U.S.) credit/surety, and to a lesser extent, U.S. surety during the underwriting years 2006, 2007, and 2008. The potential ultimate liability for these exposures was evaluated through an analysis of the Company's exposure to these risks, which include but are not limited to, sub-prime mortgage related exposures. For specialty casualty, the analysis was based on information received from cedants both at the time the exposed business was written and supplemented by discussions with cedants, evaluation of known securities class action filings, current industry data regarding the likelihood of securities class actions and other potential suits against companies exposed to the effects of financial stress, estimates of exposed industry premium, estimates of the Company's market share of exposed industry premium and estimates of industry-wide insured losses. For credit/surety, the analysis was based on information received from cedants both at the time the exposed business was written supplemented by discussions with cedants, historical experience in times of similar financial stress, reported claim information and internal modeling.

Based on information currently available and the range of potential estimated ultimate liabilities, the Company believes that the unpaid loss and loss expense reserves for U.S. and Global (Non-U.S.) specialty casualty, Global (Non-U.S.) credit/surety, U.S. surety and other potentially exposed classes of business contemplate a reasonable provision for exposures related to the effect of increased financial stress in the world economies. The Company is unaware of any specific issues that would materially affect its unpaid loss and loss expense reserves related to this exposure.

Asbestos and Environmental Claims

The Company's net reserve for unpaid losses and loss expenses at December 31, 2008 and 2007 included \$82.5 million and \$87.7 million, respectively, that represents estimates of its net ultimate liability for asbestos and environmental claims. The gross liability for such claims at December 31, 2008 and 2007 was \$92.2 million and \$97.8 million, respectively, of which \$85.6 million and \$89.1 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 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 unpaid losses and loss expense reserves related to this exposure.

(b) Policy Benefits for Life and Annuity Contracts

The Life segment reported net adverse development for prior accident years of \$24 million and \$2 million during the years ended December 31, 2008 and 2007 and net favorable development for prior accident years of \$12 million for the year ended December 31, 2006.

The net adverse development and the net favorable development reported in 2008, 2007 and 2006 was primarily related to certain proportional guaranteed minimum death benefit treaties, where the payout is linked to the performance of underlying capital market assets and where increases in credit spreads have impacted certain indexed-linked products that are interest-rate sensitive, as well as the receipt of additional reported loss information from cedants.

The Company used interest rate assumptions to estimate its liabilities for policy benefits for life and annuity contracts which ranged from 1.0% to 5.0% and 1.0% to 4.9% at December 31, 2008 and 2007, respectively.

6. Ceded Reinsurance

The Company uses retrocessional agreements to reduce its exposure to risk of loss on reinsurance assumed. These agreements provide for recovery from retrocessionaires of a portion of losses and loss expenses. 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 \$5.8 million and \$9.4 million at December 31, 2008 and 2007, 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, 2008, 2007 and 2006 were as follows (in thousands of U.S. dollars):

| | Premiums Written | Premiums Earned | Losses and Loss Expenses and Life Policy Benefits |
|-------------|---------------------|--------------------|---|
| 2008 | | | |
| Assumed | \$ 4,028,248 | \$ 3,967,704 | \$ 2,613,434 |
| Ceded | 38,813 | 39,680 | 4,214 |
| Net | \$ 3,989,435 | \$ 3,928,024 | \$ 2,609,220 |
| 2007 | | | |
| Assumed | \$ 3,810,164 | \$ 3,830,396 | \$ 2,088,065 |
| Ceded | 53,055 | 52,925 | 5,604 |
| Net | \$ 3,757,109 | \$ 3,777,471 | \$ 2,082,461 |
| 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 |

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 Canada, France, Ireland, Switzerland and the United States.

While not currently under examination in any of the major taxing jurisdictions in which it operates, income tax returns are open for examination for the tax years 2004–2008 in Canada, Ireland and Switzerland, 2005–2008 in the United States and 2006–2008 in France. 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.

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Income tax expense for the years ended December 31, 2008, 2007 and 2006 was as follows (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|--|--------------|-------------|------------|
| Current income tax expense (benefit) | | | |
| U.S. | \$ (31,071) | \$ 42,090 | \$ 25,992 |
| Non U.S. | 107,360 | (10,980) | 37,667 |
| Total current income tax expense | \$ 76,289 | \$ 31,110 | \$ 63,659 |
| Deferred income tax (benefit) expense | | | |
| U.S. | \$ (44,673) | \$ (23,270) | \$ (4,510) |
| Non U.S. | (56,111) | 79,660 | 36,156 |
| Total deferred income tax (benefit) expense | \$ (100,784) | \$ 56,390 | \$ 31,646 |
| FIN 48 unrecognized tax expense (benefit) | | | |
| U.S. | \$ — | \$ — | \$ — |
| Non U.S. | 34,200 | (5,752) | — |
| Total FIN 48 unrecognized tax expense (benefit) | \$ 34,200 | \$ (5,752) | \$ — |
| Total income tax expense (benefit) | | | |
| U.S. | \$ (75,744) | \$ 18,820 | \$ 21,482 |
| Non U.S. | 85,449 | 62,928 | 73,823 |
| Total income tax expense | \$ 9,705 | \$ 81,748 | \$ 95,305 |

The following table is a reconciliation of the actual income tax rate for the years ended December 31, 2008, 2007 and 2006 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):

| | 2008 | 2007 | 2006 |
|--|-----------|------------|------------|
| Net income | \$ 46,567 | \$ 717,812 | \$ 749,332 |
| Income tax expense | 9,705 | 81,748 | 95,305 |
| Income before taxes | \$ 56,272 | \$ 799,560 | \$ 844,637 |
| Reconciliation of effective tax rate (% of income before taxes) | | | |
| Expected tax rate | 0.0% | 0.0% | 0.0% |
| Foreign taxes at local expected tax rates | (117.6) | 12.0 | 11.3 |
| Impact of foreign exchange gains/losses | (25.9) | (1.0) | 0.4 |
| Prior year refund/adjustments | (3.8) | 0.3 | 0.4 |
| FIN 48 unrecognized tax benefit | 26.6 | (0.9) | — |
| Expenses not deductible and tax-exempt income | 167.1 | 0.2 | (0.2) |
| Impact of enacted changes in tax rates | (15.0) | — | — |
| Other | (14.2) | (0.4) | (0.6) |
| Actual tax rate | 17.2% | 10.2% | 11.3% |

Deferred tax assets and liabilities 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 and liabilities as of December 31, 2008 and 2007 were as follows (in thousands of U.S. dollars):

| | 2008 | 2007 |
|---|------------------|-------------|
| Deferred tax assets | | |
| Discounting of loss reserves and adjustment to life policy reserves | \$ 93,283 | \$ 66,263 |
| Unrealized depreciation and timing differences on investments | 20,799 | — |
| Tax loss carryforwards | 27,507 | 49,295 |
| Unearned premiums | 20,502 | 21,584 |
| Other deferred tax assets | 29,673 | 15,404 |
| | 191,764 | 152,546 |
| FIN 48 liability decreasing deferred tax assets | — | (16,124) |
| Deferred tax assets | 191,764 | 136,422 |
| Deferred tax liabilities | | |
| Deferred acquisition costs | 48,187 | 105,248 |
| Goodwill | 21,271 | 18,946 |
| Tax equalization reserves | 35,921 | 28,431 |
| Unrealized appreciation and timing differences on investments | — | 4,527 |
| Other deferred tax liabilities | — | 6,243 |
| Deferred tax liabilities | 105,379 | 163,395 |
| Net deferred tax assets (liabilities) | \$ 86,385 | \$ (26,973) |

The net tax assets and liabilities and their components at December 31, 2008 and 2007 were as follows (in thousands of U.S. dollars):

| | 2008 | 2007 |
|---------------------------------------|--------------------|-------------|
| Net tax assets | \$ 215,703 | \$ 112,547 |
| Net tax liabilities | (219,679) | (150,290) |
| Net tax liabilities | \$ (3,976) | \$ (37,743) |
| | 2008 | 2007 |
| Net current tax liabilities | \$ (50,639) | \$ (3,514) |
| Net deferred tax assets (liabilities) | 86,385 | (26,973) |
| Net FIN 48 unrecognized tax benefit | (39,722) | (7,256) |
| Net tax liabilities | \$ (3,976) | \$ (37,743) |

As of December 31, 2008 and 2007, the Company had net deferred tax assets of \$27.5 million and \$49.3 million relating to operating loss carryforwards primarily in Ireland (2008) and France (2007). Irish and French tax laws allow 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 Company establishes tax liabilities relating to uncertain tax positions as defined in FIN 48. The effect of the adoption of FIN 48 on the Company's Consolidated Statement of Shareholders' Equity was a reduction in opening retained earnings on January 1, 2007 of \$8.7 million.

The total amount of unrecognized tax benefits for the years ended December 31, 2008 and 2007 was as follows (in thousands of U.S. dollars):

| | January 1, 2008 | Changes in tax positions taken during a prior period | Tax positions taken during the current period | Change as a result of a lapse of the statute of limitations | Impact of the change in foreign currency exchange rates | December 31, 2008 |
|--|--------------------|---|--|---|--|----------------------|
| Unrecognized tax benefits that, if recognized, would impact the effective tax rate | \$ 24,613 | \$ 8,264 | \$ 3,034 | \$ 3,325 | \$ (28) | \$ 39,208 |
| Interest and penalties recognized on the above | 190 | 370 | — | — | (1) | 559 |
| Total unrecognized tax benefits, including interests and penalties | \$ 24,803 | \$ 8,634 | \$ 3,034 | \$ 3,325 | \$ (29) | \$ 39,767 |

For the year ended December 31, 2008, there were no unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Company's Consolidated Balance Sheet and its tax basis.

| | January 1, 2007 (date of adoption) | Changes in tax positions taken during a prior period | Tax positions taken during the current period | Change as a result of a lapse of the statute of limitations | Impact of the change in foreign currency exchange rates | December 31, 2007 |
|---|--|---|--|---|--|----------------------|
| Unrecognized tax benefits that, if recognized, would impact the effective tax rate | \$ 28,915 | \$ (12,723) | \$ 1,444 | \$ 3,980 | \$ 2,997 | \$ 24,613 |
| Interest and penalties recognized on the above | 387 | (197) | — | — | — | 190 |
| Total | \$ 29,302 | \$ (12,920) | \$ 1,444 | \$ 3,980 | \$ 2,997 | \$ 24,803 |
| Unrecognized tax benefits that, if recognized, would create a temporary difference between the reported amount of an item in the Company's Consolidated Balance Sheet and its tax basis | \$ 2,221 | \$ (2,221) | \$ — | \$ — | \$ — | \$ — |
| Total unrecognized tax benefits, including interests and penalties | \$ 31,523 | \$ (15,141) | \$ 1,444 | \$ 3,980 | \$ 2,997 | \$ 24,803 |

For the year ended December 31, 2007, there were no interest and penalties recognized on such temporary difference.

The total unrecognized tax benefits of \$39.8 million and \$24.8 million at December 31, 2008 and 2007, respectively, were recorded in net current tax liabilities (2008, \$0.1 million; 2007, \$1.4 million), net deferred tax liabilities (2008, \$nil; 2007, \$16.1 million) and net FIN 48 unrecognized tax benefit (2008, \$39.7 million; 2007, \$7.3 million). The Company recognizes interest and penalties as income tax expense in its Consolidated Statements of Operations.

The total amount of unrecognized tax benefits for which it is reasonably possible to change within twelve months was \$15.0 million at December 31, 2008, which primarily relates to the expected expiration of the statute of limitations related to foreign exchange tax positions and various intra-group transactions in Europe.

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 Delta Lloyd since May 2008 (a company in which a board member is a director).

Agreements with Atradius N.V.

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with Atradius N.V. The activity included in the Consolidated Statements of Operations related to Atradius N.V. for the years ended December 31, 2008, 2007 and 2006 was as follows (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|---|------------------|-----------|-----------|
| Net premiums written | \$ 67,295 | \$ 56,520 | \$ 48,470 |
| Net premiums earned | 65,252 | 55,675 | 44,768 |
| Losses and loss expenses and life policy benefits | 42,096 | 27,127 | 19,204 |
| Acquisition costs | 25,533 | 27,503 | 17,002 |

Included in the Consolidated Balance Sheets at December 31, 2008 and 2007 were the following balances related to Atradius N.V. (in thousands of U.S. dollars):

| | 2008 | 2007 |
|---------------------------------|------------------|-----------|
| Reinsurance balances receivable | \$ 20,054 | \$ 17,805 |
| Unpaid losses and loss expenses | 65,799 | 62,059 |
| Unearned premiums | 32,611 | 31,676 |
| Other net assets | 14,040 | 13,590 |

Other Agreements

In the normal course of its underwriting activities, the Company and certain subsidiaries entered into reinsurance contracts with Delta Lloyd. The activity included in the Consolidated Statements of Operations related to Delta Lloyd for the year ended December 31, 2008 includes net premiums earned of \$1.8 million and losses and loss expenses and life policy benefits of \$1.2 million. Included in the Consolidated Balance Sheets at December 31, 2008 were unpaid losses and loss expenses of \$8.1 million.

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.

9. Retirement Benefit Arrangements

For employee retirement benefits, the Company maintains defined contribution plans, an active 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 four-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 \$13.1 million, \$10.3 million and \$10.0 million for the years ended December 31, 2008, 2007 and 2006, 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. Amendments to the Zurich Plan during 2006, in conjunction with changes to Swiss pension law, led the Company to conclude that the features of the plan made it a hybrid plan (which is accounted for as a defined benefit plan) for the year ended December 31, 2006 and onwards.

At December 31, 2008 and 2007, the funded status of the Zurich Plan was as follows (in thousands of U.S. dollars):

| | | |
|--|------------------|-----------|
| Funded status | 2008 | 2007 |
| Unfunded pension obligation at beginning of year | \$ 2,371 | \$ 7,661 |
| Change in pension obligation | | |
| Service cost | 3,825 | 3,543 |
| Interest cost | 2,477 | 1,964 |
| Plan participants' contributions | 6,637 | 4,860 |
| Actuarial loss (gain) | 8,957 | (4,381) |
| Benefits paid | (4,820) | (5,329) |
| Foreign currency adjustments | 6,014 | 5,603 |
| Change in pension obligation | 23,090 | 6,260 |
| Change in fair value of plan assets | | |
| Actual return on plan assets | (2,563) | 2,046 |
| Employer contributions | 5,200 | 4,609 |
| Plan participants' contributions | 6,637 | 4,860 |
| Benefits paid | (4,820) | (5,329) |
| Foreign currency adjustments | 4,979 | 5,364 |
| Change in fair value of plan assets | 9,433 | 11,550 |
| Funded status | | |
| Unfunded pension obligation at end of year | \$ 16,028 | \$ 2,371 |
| Additional information: | | |
| Projected benefit obligation | \$ 95,495 | \$ 72,405 |
| Accumulated pension obligation | 91,494 | 70,032 |
| Fair value of plan assets | 79,467 | 70,034 |

At December 31, 2008 and 2007, the funded status at the end of the year was included in accounts payable, accrued expenses and other in the Consolidated Balance Sheets. The total amounts recognized in accumulated other comprehensive income at December 31, 2008 and 2007 were \$14.7 million (net of \$4.0 million of taxes) and \$2.9 million (net of \$0.8 million of taxes), respectively.

Of the \$6.9 million transition adjustment recorded under SFAS 158 in 2006, \$5.5 million remains in accumulated other comprehensive income at December 31, 2008. Of this transition adjustment, \$0.6 million (pre-tax) is expected to be recognized in net periodic benefit cost in 2009. The Company expects to recognize \$0.3 million amortization of actuarial loss in net periodic benefit cost in 2009.

The components of net periodic benefit cost for the years ended December 31, 2008, 2007 and 2006 consisted of (in thousands of U.S. dollars):

| | 2008 | 2007 | 2006 |
|------------------------------------|----------|----------|----------|
| Service cost | \$ 3,825 | \$ 3,543 | \$ 3,197 |
| Interest cost | 2,477 | 1,964 | 1,882 |
| Expected return on plan assets | (2,752) | (1,876) | (1,973) |
| Transition obligation amortization | 570 | 1,099 | — |
| Net periodic benefit cost | \$ 4,120 | \$ 4,730 | \$ 3,106 |

At December 31, 2008 and 2007, the Zurich Plan's asset allocation was as follows:

| | 2008 | 2007 |
|-------------------|------|------|
| Debt securities | 69% | 65% |
| Real estate | 13 | 13 |
| Equity securities | 9 | 12 |
| Other | 9 | 10 |
| Total | 100% | 100% |

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 years ended December 31, 2008, 2007 and 2006 were as follows:

| | 2008 Pension obligation | 2008 Net periodic benefit cost | 2007 Pension obligation | 2007 Net periodic benefit cost | 2006 Pension obligation | 2006 Net periodic benefit cost |
|--------------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|-------------------------------|--------------------------------------|
| Discount rate | 2.75% | 3.5% | 3.5% | 3.0% | 3.0% | 3.0% |
| Expected return on plan assets | — | 3.75 | — | 3.25 | — | 3.25 |
| Rate of compensation increase | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 | 3.5 |

At December 31, 2008, estimated employer contributions to be paid in 2009 were \$5.1 million and future benefit payments were estimated to be paid as follows (in thousands of U.S. dollars):

| Period | Amount |
|--------------|----------|
| 2009 | \$ 3,694 |
| 2010 | 4,276 |
| 2011 | 4,628 |
| 2012 | 5,483 |
| 2013 | 5,017 |
| 2014 to 2018 | 26,160 |

The Company does not believe that any plan assets will be returned to the Company during 2009.

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, 2008 and 2007, the frozen defined benefit plan had plan assets of \$6.1 million and \$7.5 million, respectively, with a pension obligation of \$5.9 million and \$6.4 million, respectively, resulting in the defined benefit plan being overfunded by \$0.2 million and \$1.1 million, respectively. The total amounts recognized in accumulated other comprehensive income at December 31, 2008 and 2007 were \$1.4 million (net of \$0.7 million of taxes) and \$0.4 million (net of \$0.2 million of taxes), respectively.

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), share 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).

In May 2008, the Company approved an allocation of an additional 0.6 million shares to the EEP. Currently, the plan permits the grant of up to 2.9 million shares, of which a total of 1.3 million shares can be issued as either RS or RSU and 1.6 million shares can be issued as stock options or SARs. 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. Under the EEP, the exercise price of the award will not be less than the fair value of the award at the time of grant. The fair value is defined in the EEP as the closing price reported on the grant date. 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. Participants in the EEP are eligible to receive dividends, which the Company records as an expense, on awards that are unvested. 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.

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 value of the stock options at the time of grant, as defined in the Directors' Stock Plan. Option awards issued under the Directors' Stock

Plan generally vest at the time of grant and are expensed immediately and have a ten-year contractual term. RSU awards issued under the Directors' Stock Plan generally vest at the time of grant with a minimum delivery date restriction of five years and are expensed immediately. At December 31, 2008, 0.1 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 value. Participants in the ESPP are eligible to receive dividends on their shares as of the purchase date. A total of 0.4 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 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 0.1 million common shares may be issued under the SSPP.

Share-Based Compensation

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, 2008, 2007 and 2006, the Company's share-based compensation expense was \$28.1 million, \$24.9 million and \$23.0 million, respectively with a tax benefit of \$2.0 million, \$1.0 million and \$2.2 million, respectively. The adoption of SFAS No. 123 (revised 2004), "Share-Based Payment" (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 2008, 2007 and 2006, the Company issued 119,052 stock options, 76,434 stock options and 83,435 stock options with a weighted average grant date fair value of \$11.07, \$13.76 and \$14.87, respectively.

In 2008, 2007 and 2006 153,146 stock options, 707,444 stock options and 285,382 stock options with a total grant date value of \$2.3 million, \$10.0 million and \$4.1 million were exercised, respectively. The aggregate intrinsic value of stock options exercised for the years ended December 31, 2008, 2007 and 2006 was \$3.4 million, \$18.9 million and \$5.6 million, respectively. The Company received \$8.1 million, \$35.1 million and \$14.1 million from stock option exercises for the years ended December 31, 2008, 2007 and 2006, respectively.

In 2008 and 2007, the Company's U.S. subsidiaries deducted \$1.2 million and \$5.2 million from their taxable income upon exercises of stock options with a corresponding tax benefit realized on options exercised of \$0.4 million and \$1.8 million, respectively. Shareholders' equity at December 31, 2008 and 2007, reflects a tax benefit of \$1.9 million and \$1.8 million, respectively, related to compensation expense deductions for stock options exercised by employees of the Company's U.S. subsidiaries.

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The activity related to the Company's stock options for the years ended December 31, 2008, 2007 and 2006 was as follows:

| | Options | 2008 Weighted Average Exercise Price | Options | 2007 Weighted Average Exercise Price | Options | 2006 Weighted Average Exercise Price |
|------------------------------------|-----------|--|-----------|--|-----------|--|
| Outstanding at beginning of year | 2,431,754 | \$ 55.08 | 3,087,861 | \$ 53.38 | 3,323,006 | \$ 52.79 |
| Granted | 119,052 | 74.41 | 76,434 | 73.19 | 83,435 | 63.29 |
| Exercised | (153,146) | 53.01 | (707,444) | 49.65 | (285,382) | 49.12 |
| Forfeited or expired | (8,280) | 54.20 | (25,097) | 53.76 | (33,198) | 55.92 |
| Outstanding at end of year | 2,389,380 | 56.00 | 2,431,754 | 55.08 | 3,087,861 | 53.38 |
| Options exercisable at end of year | 2,331,416 | \$ 55.62 | 2,181,609 | \$ 54.62 | 2,417,987 | \$ 52.01 |

Stock options vested and expected to vest and the weighted average exercise price for these stock options was 2,386,008 stock options and \$55.98, respectively, at December 31, 2008. The aggregate intrinsic value and weighted average remaining contractual term of stock options vested and expected to vest at December 31, 2008 was \$36.9 million and 4.6 years, respectively. The aggregate intrinsic value and weighted average remaining contractual term of stock options exercisable at December 31, 2008 was \$36.8 million and 4.5 years, respectively.

The following table summarizes information about stock options outstanding at December 31, 2008:

| 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 |
| \$36.31 – \$49.60 | 173,885 | 1.5 | \$ 44.04 | 173,885 | \$ 44.04 |
| \$49.61 – \$53.66 | 595,229 | 3.6 | 50.62 | 595,229 | 50.62 |
| \$53.67 – \$55.63 | 957,892 | 4.3 | 54.99 | 957,892 | 54.99 |
| \$55.64 – \$62.70 | 275,391 | 6.2 | 62.00 | 263,691 | 61.98 |
| \$62.71 – \$73.19 | 303,656 | 7.1 | 66.03 | 288,267 | 65.87 |
| \$73.20 – \$75.85 | 83,327 | 9.3 | 74.74 | 52,452 | 74.08 |
| \$36.31 – \$75.85 | 2,389,380 | 4.7 | \$ 56.00 | 2,331,416 | \$ 55.62 |

The Company values stock options issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2008, 2007 and 2006:

| Weighted average assumptions used | 2008 | 2007 | 2006 |
|-----------------------------------|---------|---------|---------|
| Expected life | 6 years | 6 years | 6 years |
| Expected volatility | 15.9% | 17.1% | 22.4% |
| Risk-free interest rate | 3.2% | 4.5% | 5.0% |
| Dividend yield | 2.5% | 2.5% | 2.6% |

The Company 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 Share Units

During 2008, 2007 and 2006, the Company issued 241,458 RSU, 316,427 RSU and 118,193 RSU with a weighted average grant date fair value of \$77.19, \$71.63 and \$61.77, respectively. The Company values RSU issued under all plans at the fair value of its common shares at the time of grant, as defined by the plan document.

The activity related to the Company's RSU for the years ended December 31, 2008, 2007 and 2006 was as follows:

| | 2008 | 2007 | 2006 |
|------------------------------------|-----------|----------|----------|
| Outstanding at beginning of period | 681,428 | 398,912 | 294,174 |
| Granted | 241,458 | 316,427 | 118,193 |
| Released | (159,636) | (20,510) | (2,990) |
| Forfeited | (11,515) | (13,401) | (10,465) |
| Outstanding at end of period | 751,735 | 681,428 | 398,912 |

Of the 751,735 RSU outstanding at December 31, 2008, 118,766 are subject to a five year delivery date restriction from the grant date and were not released for conversion into shares.

Total unrecognized share-based compensation expense related to unvested RSU was approximately \$16.1 million at December 31, 2008, which is expected to be recognized over a weighted-average period of 1.7 years.

Share Appreciation Rights (SAR)

During 2008, 2007 and 2006, the Company issued 339,920 SAR, 360,228 SAR and 174,770 SAR with a weighted average grant date fair value of \$11.50, \$13.88 and \$14.37, respectively.

The activity related to the Company's SAR for the years ended December 31, 2008, 2007 and 2006 was as follows:

| | 2008 | 2007 | 2006 |
|------------------------------------|----------|----------|----------|
| Outstanding at beginning of period | 510,518 | 164,770 | — |
| Granted | 339,920 | 360,228 | 174,770 |
| Exercised | (2,772) | (1,980) | — |
| Forfeited | (23,628) | (12,500) | (10,000) |
| Outstanding at end of period | 824,038 | 510,518 | 164,770 |

Total unrecognized share-based compensation expense related to unvested SAR was approximately \$4.4 million at December 31, 2008, which is expected to be recognized over a weighted-average period of 1.8 years.

The Company values SAR issued with a Black-Scholes valuation model and used the following assumptions for the years ended December 31, 2008, 2007 and 2006:

| Weighted average assumptions used | 2008 | 2007 | 2006 |
|--|----------------|---------|---------|
| Expected life | 6 years | 6 years | 6 years |
| Expected volatility | 16.0 % | 18.0 % | 23.2 % |
| Risk-free interest rate | 3.3 % | 4.6 % | 4.6 % |
| Dividend yield | 2.6 % | 2.5 % | 2.6 % |

In determining the weighted average assumptions used, the Company used the same methodology as described in stock options above.

11. Dividend Restrictions and Statutory Requirements

The Company's ability to pay common and preferred shareholders' dividends and its expenses is dependent mainly on cash dividends from Partner Reinsurance, PartnerRe Europe 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 Irish 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, 2008, there were no significant restrictions on the payment of dividends by Partner Reinsurance. However, PartnerRe Europe is currently restricted from paying dividends under Irish company law given it has negative retained earnings due to transactions undertaken as part of the reorganization (see Note 1), and PartnerRe U.S. is currently restricted from paying dividends under New York law given it has negative earned surplus.

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, 2008, 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 goodwill and deferred income taxes, valuation of bonds at fair value 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, 2008, 2007 and 2006 was as follows (in thousands of U.S. dollars):

| | 2008 (unaudited) | 2007 | 2006 |
|---------------------|---------------------|------------|------------|
| Partner Reinsurance | \$ 484,070 | \$ 765,394 | \$ 673,274 |
| PartnerRe Europe | (144,591) | (932) | (31) |
| PartnerRe U.S. | (30,105) | 35,924 | 66,643 |

The following table summarizes the statutory shareholders' equity of the Company's reinsurance subsidiaries as of December 31, 2008 and 2007 (in thousands of U.S. dollars):

| | 2008 (unaudited) | 2007 |
|---------------------|---------------------|--------------|
| Partner Reinsurance | \$ 2,625,946 | \$ 2,973,854 |
| PartnerRe Europe | 1,256,493 | 126,613 |
| PartnerRe U.S. | 608,313 | 677,081 |

PartnerRe Europe's statutory net income and shareholders' equity for 2007 and 2006 are prior to its reorganization (see Note 1). At December 31, 2008, the Company's Swiss and French operations are branches of PartnerRe Europe and are regulated by the Irish Financial Regulatory Authority as prescribed by the EU Reinsurance Directive.

12. 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 was fully collateralized, was repaid in 2008 using the proceeds from the issuance of the Senior Notes (see Note 13). PartnerRe U.S. Holdings incurred interest expense of \$8.7 million and paid interest of \$9.6 million for the year ended December 31, 2008 and incurred interest expense and paid interest of \$13.0 million in each of the years ended December 31, 2007 and 2006 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 had an original maturity of April 2009, bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company was not permitted to prepay the loan prior to its maturity, and the loan was 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 15), subject to Citibank, N.A.'s right to substitute cash collateral.

On July 31, 2008, the Company entered into an amendment (Loan Amendment) to the loan agreement with Citibank N.A. Under the terms of the Loan Amendment, the maturity of half of the original \$400.0 million loan was extended to July 12, 2010. The remaining half of the original loan retained its original maturity of April 27, 2009. Under the Loan Amendment, the amended half of the loan will bear interest quarterly at a floating rate of 3-month LIBOR plus 0.50% through April 27, 2009 and at a rate of 3-month LIBOR plus 0.85% thereafter. The interest rate on the unamended half of the loan remained unchanged at 3-month LIBOR plus 0.50%.

The Company incurred interest expense of \$15.2 million, \$23.5 million and \$22.7 million and paid interest of \$16.1 million, \$23.7 million and \$21.8 million for the years ended December 31, 2008, 2007 and 2006, respectively, in relation to this loan.

13. Debt Related to Senior Notes and Capital Efficient Notes
Senior Notes

In May 2008, PartnerRe Finance A LLC (PartnerRe Finance A), an indirect wholly-owned subsidiary of the Company, issued \$250.0 million aggregate principal amount of 6.875% Senior Notes (Senior Notes). The Senior Notes will mature on June 1, 2018 and may be redeemed at the option of the issuer, in whole or in part, at any time. Interest on the Senior Notes is payable semi-annually commencing on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred.

The Senior Notes are ranked as senior unsecured obligations of PartnerRe Finance A. The Company has fully and unconditionally guaranteed all obligations of PartnerRe Finance A under the Senior Notes. The Company's obligations under this guarantee are senior and unsecured and rank equally with all other senior unsecured indebtedness of the Company. The proceeds from the Senior Notes were used to redeem the \$220.0 million, 5.81% fixed rate bank loan owed by PartnerRe U.S. Holdings and the remaining net proceeds were used for general corporate purposes (see Note 12).

Contemporaneously, PartnerRe U.S. Holdings issued a 6.875% promissory note, with a principal amount of \$250.0 million to PartnerRe Finance A. Under the term of the promissory note, PartnerRe U.S. Holdings promises to pay to PartnerRe Finance A the principal amount on June 1, 2018, unless previously paid. Interest on the promissory note is payable semi-

annually commencing on December 1, 2008 at an annual fixed rate of 6.875%, and cannot be deferred. For the year ended December 31, 2008, the Company incurred interest expense of \$10.2 million and paid interest of \$8.8 million.

Capital Efficient Notes (CENTs)

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued \$250.0 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 is 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 are 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 rank junior in priority of payments to the Company's current and long-term debt and Senior Notes. The Company used a portion of the net proceeds from the CENTs to effect the redemption of all of the \$200.0 million liquidation amount of its 7.90% trust preferred securities issued in 2001 and the remaining net proceeds were used for general corporate purposes.

Contemporaneously, PartnerRe U.S. Holdings issued a 6.440% Fixed-to-Floating Rate promissory note, with a principal amount of \$257.6 million to PartnerRe Finance II. 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 is 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%. For the years ended December 31, 2008 and 2007, the Company incurred interest expense of \$16.6 million and \$16.5 million, respectively, and paid interest of \$16.6 million and \$17.7 million, respectively.

The Company does not consolidate PartnerRe Finance A, which issued the Senior Notes, or PartnerRe Finance II, which issued the CENTs, as they do not meet the consolidation requirements under FIN 46(R). The Company has reflected the debt related to the Senior Notes and the CENTs in its Consolidated Balance Sheets.

14. Shareholders' Equity
Authorized Shares

At December 31, 2008 and 2007, the total authorized shares of the Company were 200 million shares, par value \$1.00 per share, as follows (in millions of shares):

| | 2008 | 2007 |
|--|--------------|--------------|
| 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

In September 2008, the Company's Board of Directors increased the shares authorized for repurchase by the Company to 5 million shares. At December 31, 2008, the Company had 5 million common shares remaining under its current share repurchase authorization.

During 2008, the Company repurchased 1.5 million of its common shares pursuant to its repurchase program at a total cost of \$110.0 million, representing an average cost of \$71.79 per share. During 2007, the Company repurchased in the open market 3.6 million of its common shares pursuant to its share repurchase program at a total cost of \$275.0 million, representing an average cost of \$76.06 per share. During 2006, the Company did not repurchase any common shares.

On July 31, 2008, the Company amended its existing forward sale agreement (see Note 15). Under the terms of the amendment, half the contract matured according to its original term beginning on September 26, 2008, while the remaining half is extended to April 2010. Under the maturing forward sale agreement, the Company delivered 3,366,295 common shares to the forward counterparty over the 40 day valuation period for total proceeds of \$211.6 million. The value received per share was the average daily market price per share over the valuation period, subject to a minimum price per share of \$59.37.

At December 31, 2008, approximately 1.3 million common shares are held in treasury and available for reissuance.

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. 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. 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. 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 per Share

The reconciliation of basic and diluted net income per share for the years ended December 31, 2008, 2007 and 2006 is as follows (in thousands of U.S. dollars or shares, except per share amounts):

| Numerator: | 2008 | 2007 | 2006 |
|--|-----------|------------|------------|
| Net income | \$ 46,567 | \$ 717,812 | \$ 749,332 |
| Less: preferred dividends | (34,525) | (34,525) | (34,525) |
| Net income available to common shareholders | \$ 12,042 | \$ 683,287 | \$ 714,807 |
| Denominator: | | | |
| Weighted average number of common shares outstanding — basic | 54,347.1 | 56,104.4 | 56,822.5 |
| Stock options and other ⁽¹⁾ | 1,292.5 | 1,453.5 | 980.3 |
| Weighted average number of common and common share equivalents outstanding — diluted | 55,639.6 | 57,557.9 | 57,802.8 |
| Basic net income per share | \$ 0.22 | \$ 12.18 | \$ 12.58 |
| Diluted net income per share | \$ 0.22 | \$ 11.87 | \$ 12.37 |

⁽¹⁾ At December 31, 2008, 2007 and 2006, stock options to purchase 870.1 thousand, 4.7 thousand and nil common shares, respectively, were excluded from the calculation of diluted weighted average number of common and common share equivalents outstanding because their exercise prices were greater than the average market price of the common shares.

15. Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it agreed to 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 would deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008.

Under the terms of the unamended half of the forward sale agreement, in 2008 the Company delivered 3,366,295 common shares to the forward counterparty for total proceeds of \$211.6 million (see Note 14).

On July 31, 2008, the Company amended the existing forward sale agreement. Under the terms of the amendment, half the contract matured according to its original term beginning on September 26, 2008, while the remaining half is extended to April 2010.

The extension with the forward counterparty allows the Company to deliver 3,366,295 of the 6,732,590 common shares subject to the original contract to the forward counterparty at any time during the remaining term of the agreement, which will mature beginning on April 28, 2010. The future sale price of the Company's common shares under the amended half of the forward sale agreement 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 April 2010, subject to a minimum price per share of \$59.33 and a maximum price per share of \$84.43 at December 31, 2008. 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.

Under the terms of the extended forward sale agreement, contract fees of approximately \$8.1 million were recorded against additional paid-in capital in 2008 and will be paid over the 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, if any, using the treasury stock method prescribed under SFAS 128, "Earnings per Share".

For the fourth quarter of 2007, the diluted net income per share included the dilutive effect of 115,350 shares related to this agreement, as the Company's average share price exceeded the maximum price per share during the fourth quarter of 2007. The 2008 and 2006 diluted net income per share did not include any dilutive effect related to this agreement.

16. 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 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's investment strategy allows for the use of derivative instruments, subject to strict limitations. Derivative instruments may be used to replicate investment positions, manage currency, market exposure and duration risk, or to enhance investment performance that would be allowed under the Company's investment policy if implemented in other ways. 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, the Company diversifies the counterparties to its derivative contracts to reduce credit risk, and 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 represents 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 for different life and alternative risk products. 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 6). 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, monitoring of aged receivable balances and the contractual right to offset premiums receivable or funds held balances against unpaid losses and loss expenses. As of December 31, 2008 and 2007, the Company has recorded a provision for uncollectible premiums receivable of \$6.5 million and \$10.8 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 some 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 2019. 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, 2008 (in thousands of U.S. dollars):

| Period | Amount |
|--------------------------------------|------------|
| 2009 | \$ 26,624 |
| 2010 | 26,124 |
| 2011 | 25,571 |
| 2012 | 23,305 |
| 2013 | 14,754 |
| 2014 through 2019 | 35,158 |
| Total future minimum rental payments | \$ 151,536 |

Rent expense for the years ended December 31, 2008, 2007 and 2006 was \$28.8 million, \$25.9 million and \$25.3 million, respectively.

The Company has 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 \$2.3 million. The leases are renewable at the option of the lessee under certain circumstances.

(c) 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.

(d) 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 \$27.4 million through 2014.

The Company has entered into strategic investments with unfunded capital commitments totaling \$89.1 million through 2012. The Company expects to fund capital commitments of \$51.1 million, \$18.0 million, \$16.5 million and \$3.5 million during 2009, 2010, 2011 and 2012, respectively.

Under the terms of the Company's extended forward sale agreement (see Note 15), the Company will pay approximately \$8.1 million, including interest, in contract fees through 2010.

(e) **Legal Proceedings**
Litigation

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

As of December 31, 2008, the Company was not a party to any litigation or arbitration that it believes could have a material adverse effect on the financial condition, results of operations or liquidity 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 has responded promptly to all requests for information.

17. Derivatives

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 net foreign exchange gains and losses in the Consolidated Statements of Operations.

Foreign exchange forward contracts outstanding with a notional value of \$1,323.9 million had a net unrealized gain of \$20.3 million as of December 31, 2007.

The Company also utilizes foreign exchange forward contracts to hedge a portion of its net investment exposure resulting from the translation of its foreign subsidiaries and branches whose functional currency is other than the U.S. dollar. During the fourth quarter of 2008, the Company entered into foreign exchange forward contracts with notional amounts of Euro 250 million and Canadian \$125 million. A portion of these contracts have been designated as fair value hedges under SFAS 133.

Foreign Currency Option Contracts

The Company also utilizes foreign currency option contracts to mitigate foreign currency risk. For the year ended December 31, 2007, the balances related to contracts maturing on December 31 were a receivable of \$0.8 million. At December 31, 2007, 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

\$485 million at December 31, 2007. The fair value of futures contracts was a net unrealized gain of \$0.9 million at December 31, 2007.

Credit Default Swaps

The Company purchases protection through credit default swaps to mitigate the risk associated with its underwriting operations, most notably in the credit/surety line and to manage market exposures. These credit default swaps are recorded at fair value and the Company uses externally modeled quoted prices that use observable market inputs to estimate the fair value. The fair value of protection purchased through credit default swaps was a net unrealized gain of \$0.3 million and a notional value of \$498 million at December 31, 2007.

The Company assumes credit risk through credit default swaps to replicate investment positions. The original term of these credit default swaps is generally five years or less and there are no recourse provisions associated with these swaps. While the Company would be required to perform under exposure assumed through credit default swaps in the event of a default on the underlying issuer, no issuer was in default at December 31, 2008. The counterparties on the Company's assumed credit default swaps are all highly rated financial institutions. The fair value of the Company's assumed credit default swaps was an unrealized loss of \$2.1 million and the notional value was \$34 million at December 31, 2007.

Weather Derivatives

The Company has entered into various weather derivatives. The fair value of weather derivatives (the Company's net liabilities) was a net unrealized loss of \$1.8 million at December 31, 2007. The notional value of the Company's weather derivatives was \$39 million at December 31, 2007.

Total Return and Interest Rate Swaps

The Company has entered into total return swaps referencing various project and principal 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) was a net unrealized loss of \$33.7 million at December 31, 2007. The notional value of the Company's total return swaps was \$273 million at December 31, 2007.

Pursuant to the Company's adoption of the disclosure requirements of SFAS 161 "Disclosures about Derivative Instruments and Hedging Activities — an amendment of FASB Statement No. 133" (SFAS 161), the fair values and notional values of derivatives included in the Company's Consolidated Balance Sheet at December 31, 2008 were as follows (in thousands of U.S. dollars):

| | Fair Value | Notional Value |
|---|-------------|----------------|
| Derivatives designated as hedges | | |
| Foreign exchange forward contracts (net investment hedge) | \$ (37,470) | \$ 443,210 |
| Derivatives not designated as hedges | | |
| Foreign exchange forward contracts | \$ 32,522 | \$ 1,196,830 |
| Foreign currency option contracts | (8,027) | 123,932 |
| Futures contracts | 7,991 | 1,122,524 |
| Credit default swaps (protection purchased) | 20,305 | 295,665 |
| Credit default swaps (assumed risks) | (16,191) | 46,130 |
| Weather derivatives | (5,393) | 60,000 |
| Total return swaps | (24,898) | 239,733 |
| Interest rate swaps | (12,355) | — |
| Total derivatives not designated as hedges | \$ (6,046) | |
| Total derivatives | \$ (43,516) | |

The fair value of all derivatives at December 31, 2008 is recorded in other invested assets in the Company's Consolidated Balance Sheet. The effect of net investment hedging derivatives for the year ended December 31, 2008 was a \$37.5 million loss recognized in accumulated other comprehensive income and \$nil included in the Consolidated Statement of Operations.

The effect of derivatives not designated as hedges included in the Consolidated Statement of Operations for the year ended December 31, 2008 was as follows (in thousands of U.S. dollars):

| Derivatives not designated as hedges | Location of (loss) gain on derivatives recognized in income | Amount of (loss) gain on derivatives recognized in income |
|---|---|---|
| Foreign exchange forward contracts | Net foreign exchange gains and losses | \$ (19,706) |
| Foreign currency option contracts | Net foreign exchange gains and losses | (15,167) |
| Futures contracts | Net realized and unrealized investment gains and losses | 7,150 |
| Credit default swaps (protection purchased) | Net realized and unrealized investment gains and losses | 19,311 |
| Credit default swaps (assumed risks) | Net realized and unrealized investment gains and losses | (15,581) |
| Weather derivatives | Net realized and unrealized investment gains and losses | 5,367 |
| Total return swaps | Net realized and unrealized investment gains and losses | (1,049) |
| Interest rate swaps | Net realized and unrealized investment gains and losses | (8,795) |
| Other | Net realized and unrealized investment gains and losses | 449 |
| Total derivatives not designated as hedges | | \$ (28,021) |

18. 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, 2008, the total amount of such credit facilities available to the Company was \$794.1 million. 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 \$570.4 million at December 31, 2008, in respect of reported loss and unearned premium reserves.

Included in the total credit facilities available to the Company at December 31, 2008 is a \$700 million five-year syndicated, unsecured credit facility. In February 2009, the Company and its lenders agreed to release one of the participants from its obligations under the syndicated facility. As such, the facility has been reduced from \$700 million to \$660 million. All other terms and conditions remain unchanged. 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 \$660 million to \$960 million, and (iii) a minimum consolidated tangible net worth requirement as defined below. The ability of the Company to increase its available credit to \$960 million is subject to the agreement of the credit facility participants and, given the current financial crisis and related credit environment, this may be limited.

This facility is predominantly used for the issuance of letters of credit, although the Company and its subsidiaries have access to a revolving line of credit of up to \$350 million as part of the Company's syndicated unsecured credit facility. At December 31, 2008 and 2007, there were no borrowings under this revolving line of credit.

Some of the credit facilities contain customary default, cross payment and acceleration 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 the CENts); and
- iii. a minimum consolidated tangible net worth of \$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 the CENts and excludes goodwill. Minimum tangible net worth required at December 31, 2008 was \$2,695.7 million.

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, 2008 and 2007, the Company was not in breach of any of the covenants and no conditions of default existed under its facilities. Its total debt to total capitalization ratio was 12.7% and 11.9%, respectively, and its consolidated tangible net worth was \$4,019.6 million and \$4,142.1 million, at December 31, 2008 and 2007, respectively.

19. Segment Information

The Company monitors the performance of its operations in three segments, Non-life, Life and Corporate & Other. The Non-life segment is further divided into four sub-segments: U.S., Global (Non-U.S.) P&C, Global (Non-U.S.) Specialty and Catastrophe.

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

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 products, net investment income is considered in Management's assessment of the profitability of the Life segment. The following items are not considered in evaluating the results of the Non-life and Life segments: net realized and unrealized investment gains and losses, interest expense, net foreign exchange gains and losses and income tax expense or benefit. 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. Management measures results for the Life segment on the basis of the allocated underwriting result, which includes revenues from net premiums earned, other income or loss and allocated net investment income for Life, and expenses from 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, 2008, 2007 and 2006 (in millions of U.S. dollars, except ratios):

PartnerRe Ltd.
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Segment Information
For the Year Ended December 31, 2008

| | U.S. | Global (Non-U.S.) P&C | Global (Non-U.S.) Specialty | Catastrophe | Total Non-life Segment | Life Segment | Corporate and Other | Total |
|--|----------|-----------------------------|-----------------------------------|-------------|------------------------------|-----------------|---------------------------|----------|
| Gross premiums written | \$ 1,072 | \$ 769 | \$ 1,172 | \$ 413 | \$ 3,426 | \$ 584 | \$ 18 | \$ 4,028 |
| Net premiums written | \$ 1,064 | \$ 765 | \$ 1,150 | \$ 413 | \$ 3,392 | \$ 579 | \$ 18 | \$ 3,989 |
| Decrease (increase) in unearned premiums | 24 | 32 | (104) | (10) | (58) | (3) | — | (61) |
| Net premiums earned | \$ 1,088 | \$ 797 | \$ 1,046 | \$ 403 | \$ 3,334 | \$ 576 | \$ 18 | \$ 3,928 |
| Losses and loss expenses and life policy benefits | (812) | (454) | (721) | (144) | (2,131) | (463) | (15) | (2,609) |
| Acquisition costs | (261) | (198) | (281) | (37) | (777) | (120) | (2) | (899) |
| Technical result | \$ 15 | \$ 145 | \$ 44 | \$ 222 | \$ 426 | \$ (7) | \$ 1 | \$ 420 |
| Other income | | | | | 4 | — | 6 | 10 |
| Other operating expenses | | | | | (231) | (43) | (91) | (365) |
| Underwriting result | | | | | \$ 199 | \$ (50) | n/a | \$ 65 |
| Net investment income | | | | | | 67 | 506 | 573 |
| Allocated underwriting result ⁽¹⁾ | | | | | | \$ 17 | n/a | n/a |
| Net realized and unrealized investment losses | | | | | | | (531) | (531) |
| Interest expense | | | | | | | (51) | (51) |
| Net foreign exchange gains | | | | | | | 6 | 6 |
| Income tax expense | | | | | | | (10) | (10) |
| Interest in losses of equity investments | | | | | | | (5) | (5) |
| Net income | | | | | | | n/a | \$ 47 |
| Loss ratio ⁽²⁾ | 74.6% | 56.9% | 69.0% | 35.8% | 63.9% | | | |
| Acquisition ratio ⁽³⁾ | 24.0 | 24.9 | 26.8 | 9.2 | 23.3 | | | |
| Technical ratio ⁽⁴⁾ | 98.6% | 81.8% | 95.8% | 45.0% | 87.2% | | | |
| Other operating expense ratio ⁽⁵⁾ | | | | | 6.9 | | | |
| Combined ratio ⁽⁶⁾ | | | | | 94.1% | | | |

⁽¹⁾ Allocated underwriting result is defined as net premiums earned, other income or loss 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.

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Segment Information

For the Year Ended December 31, 2007

| | U.S. | Global (Non-U.S.) P&C | Global (Non-U.S.) Specialty | Catastrophe | Total Non-life Segment | Life Segment | Corporate and Other ^(A) | Total |
|--|----------|-----------------------------|-----------------------------------|-------------|------------------------------|-----------------|--|----------|
| Gross premiums written | \$ 1,020 | \$ 740 | \$ 1,049 | \$ 401 | \$ 3,210 | \$ 597 | \$ 3 | \$ 3,810 |
| Net premiums written | \$ 1,020 | \$ 738 | \$ 1,026 | \$ 401 | \$ 3,185 | \$ 569 | \$ 3 | \$ 3,757 |
| (Increase) decrease in unearned premiums | (21) | 20 | (20) | 39 | 18 | 2 | — | 20 |
| Net premiums earned | \$ 999 | \$ 758 | \$ 1,006 | \$ 440 | \$ 3,203 | \$ 571 | \$ 3 | \$ 3,777 |
| Losses and loss expenses and life policy benefits | (608) | (523) | (450) | (46) | (1,627) | (455) | — | (2,082) |
| Acquisition costs | (241) | (191) | (260) | (42) | (734) | (116) | — | (850) |
| Technical result | \$ 150 | \$ 44 | \$ 296 | \$ 352 | \$ 842 | \$ — | \$ 3 | \$ 845 |
| Other income (loss) | | | | | 7 | — | (24) | (17) |
| Other operating expenses | | | | | (214) | (33) | (80) | (327) |
| Underwriting result | | | | | \$ 635 | \$ (33) | n/a | \$ 501 |
| Net investment income | | | | | | 54 | 469 | 523 |
| Allocated underwriting result ⁽¹⁾ | | | | | | \$ 21 | n/a | n/a |
| Net realized investment losses | | | | | | | (72) | (72) |
| Interest expense | | | | | | | (54) | (54) |
| Net foreign exchange losses | | | | | | | (15) | (15) |
| Income tax expense | | | | | | | (82) | (82) |
| Interest in losses of equity investments | | | | | | | (83) | (83) |
| Net income | | | | | | | n/a | \$ 718 |
| Loss ratio ⁽²⁾ | 60.8% | 69.0% | 44.7% | 10.5% | 50.8% | | | |
| Acquisition ratio ⁽³⁾ | 24.1 | 25.2 | 25.9 | 9.6 | 22.9 | | | |
| Technical ratio ⁽⁴⁾ | 84.9% | 94.2% | 70.6% | 20.1% | 73.7% | | | |
| Other operating expense ratio ⁽⁵⁾ | | | | | 6.7 | | | |
| Combined ratio ⁽⁶⁾ | | | | | 80.4% | | | |

^(A) The Company reports the results of ChannelRe Holdings on a one-quarter lag. The 2007 period includes the Company's share of ChannelRe Holdings' net loss and a charge which represents the write-down of its total investment in ChannelRe Holdings due to anticipated unrealized mark-to-market losses on Channel Reinsurance Ltd's credit derivative portfolio, which it expected to incur during the three months ended December 31, 2007, for a total of \$92.8 million (see Note 21).

PartnerRe Ltd.
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Segment Information
For the Year Ended December 31, 2006

| | U.S. | Global (Non-U.S.) P&C | Global (Non-U.S.) Specialty | Catastrophe | Total Non-life Segment | Life Segment | Corporate and Other ^(B) | Total |
|--|----------|-----------------------------|-----------------------------------|-------------|------------------------------|-----------------|--|----------|
| Gross premiums written | \$ 1,030 | \$ 763 | \$ 1,012 | \$ 412 | \$ 3,217 | \$ 507 | \$ 10 | \$ 3,734 |
| Net premiums written | \$ 1,029 | \$ 760 | \$ 991 | \$ 412 | \$ 3,192 | \$ 487 | \$ 10 | \$ 3,689 |
| Decrease (increase) in unearned premiums | 1 | 15 | (12) | (24) | (20) | — | (2) | (22) |
| Net premiums earned | \$ 1,030 | \$ 775 | \$ 979 | \$ 388 | \$ 3,172 | \$ 487 | \$ 8 | \$ 3,667 |
| Losses and loss expenses and life policy benefits | (725) | (505) | (446) | (65) | (1,741) | (363) | (7) | (2,111) |
| Acquisition costs | (243) | (209) | (236) | (43) | (731) | (117) | (1) | (849) |
| Technical result | \$ 62 | \$ 61 | \$ 297 | \$ 280 | \$ 700 | \$ 7 | \$ — | \$ 707 |
| Other income | | | | | 5 | — | 19 | 24 |
| Other operating expenses | | | | | (206) | (29) | (75) | (310) |
| Underwriting result | | | | | \$ 499 | \$ (22) | n/a | \$ 421 |
| Net investment income | | | | | | 51 | 398 | 449 |
| Allocated underwriting result ⁽¹⁾ | | | | | | \$ 29 | n/a | n/a |
| Net realized investment gains | | | | | | | 47 | 47 |
| Interest expense | | | | | | | (61) | (61) |
| Net foreign exchange losses | | | | | | | (24) | (24) |
| Income tax expense | | | | | | | (95) | (95) |
| Interest in earnings of equity investments | | | | | | | 12 | 12 |
| Net income | | | | | | | n/a | \$ 749 |
| Loss ratio ⁽²⁾ | 70.3% | 65.1% | 45.6% | 16.9% | 54.8% | | | |
| Acquisition ratio ⁽³⁾ | 23.7 | 27.1 | 24.1 | 11.1 | 23.1 | | | |
| Technical ratio ⁽⁴⁾ | 94.0% | 92.2% | 69.7% | 28.0% | 77.9% | | | |
| Other operating expense ratio ⁽⁵⁾ | | | | | 6.5 | | | |
| Combined ratio ⁽⁶⁾ | | | | | 84.4% | | | |

^(B) The 2006 period includes the Company's share of ChannelRe Holdings' net income in the amount of \$11.7 million for the period from October 2005 to September 2006, as the Company reports the results of ChannelRe 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, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|-----------------------|------|------|------|
| Non-life | | | |
| Property and casualty | | | |
| Casualty | 15% | 17% | 17% |
| Property | 16 | 17 | 18 |
| Motor | 6 | 5 | 6 |
| Multiline and other | 3 | 3 | 3 |
| Specialty | | | |
| Agriculture | 7 | 4 | 5 |
| Aviation/Space | 5 | 5 | 6 |
| Catastrophe | 10 | 11 | 11 |
| Credit/Surety | 7 | 7 | 6 |
| Engineering | 5 | 5 | 5 |
| Energy | 2 | 2 | 2 |
| Marine | 4 | 4 | 3 |
| Specialty casualty | 4 | 3 | 3 |
| Specialty property | 2 | 2 | 2 |
| Life | 14 | 15 | 13 |
| 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, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|-------------------------------------|------|------|------|
| Europe | 46% | 45% | 42% |
| North America | 41 | 42 | 43 |
| Latin America, Caribbean and Africa | 8 | 7 | 7 |
| Asia, Australia and New Zealand | 5 | 6 | 8 |
| 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 7% of total gross premiums written during the years ended December 31, 2008, 2007 and 2006.

The Company had two brokers that individually accounted for 10% or more of its gross premiums written during the years ended December 31, 2008, 2007 and 2006. The brokers accounted for 23%, 17% and 18% and 19%, 19% and 20% of gross premiums written for the years ended December 31, 2008, 2007 and 2006, respectively.

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, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|-----------------------------|-------------|------|------|
| Non-life | | | |
| U.S. | 71% | 64% | 65% |
| Global (Non-U.S.) P&C | 30 | 29 | 28 |
| Global (Non-U.S.) Specialty | 25 | 19 | 24 |
| Catastrophe | 74 | 47 | 49 |
| Life | 18 | 17 | 15 |

PartnerRe Ltd.
Notes to Consolidated Financial Statements

20. Unaudited Quarterly Financial Information

| (in millions of U.S. dollars, except per share amounts) | 2008 | | | | 2007 | | | |
|--|----------------|---------------|----------------|---------------|----------------|---------------|----------------|---------------|
| | Fourth Quarter | Third Quarter | Second Quarter | First Quarter | Fourth Quarter | Third Quarter | Second Quarter | First Quarter |
| Net premiums written | \$ 752.4 | \$ 869.2 | \$ 956.3 | \$ 1,411.6 | \$ 714.4 | \$ 873.5 | \$ 898.7 | \$ 1,270.6 |
| Net premiums earned | 984.3 | 1,078.5 | 955.5 | 909.8 | 989.7 | 1,056.4 | 889.3 | 842.0 |
| Net investment income | 144.3 | 146.1 | 145.5 | 137.0 | 137.8 | 135.6 | 130.9 | 119.0 |
| Net realized and unrealized investment gains (losses) ⁽¹⁾ | 64.0 | (324.2) | (296.2) | 25.1 | (16.5) | (3.1) | (53.7) | 0.8 |
| Other income (loss) | 7.9 | (3.8) | 4.6 | 1.6 | (14.5) | 5.4 | (8.9) | 0.5 |
| Total revenues | 1,200.5 | 896.6 | 809.4 | 1,073.5 | 1,096.5 | 1,194.3 | 957.6 | 962.3 |
| Losses and loss expenses and life policy benefits | 718.9 | 752.0 | 548.7 | 589.7 | 517.6 | 562.1 | 524.0 | 478.7 |
| Acquisition costs | 233.7 | 232.8 | 228.2 | 204.2 | 227.2 | 215.5 | 206.3 | 200.7 |
| Other operating expenses | 89.1 | 86.9 | 96.7 | 92.3 | 88.5 | 79.1 | 80.0 | 79.0 |
| Interest expense | 12.5 | 11.9 | 14.9 | 11.9 | 13.4 | 13.6 | 13.5 | 13.5 |
| Net foreign exchange (gains) losses | (14.1) | 4.6 | (1.5) | 4.8 | (1.6) | 3.6 | 9.3 | 4.3 |
| Total expenses | 1,040.1 | 1,088.2 | 887.0 | 902.9 | 845.1 | 873.9 | 833.1 | 776.2 |
| Income (loss) before taxes and interest in (losses) earnings of equity investments | 160.4 | (191.6) | (77.6) | 170.6 | 251.4 | 320.4 | 124.5 | 186.1 |
| Income tax expense (benefit) | 59.9 | (39.5) | (53.4) | 42.7 | 4.3 | 34.8 | 22.7 | 19.9 |
| Interest in (losses) earnings of equity investments | (5.2) | 0.4 | (1.8) | 1.1 | (66.5) | (22.7) | 3.2 | 3.0 |
| Net income (loss) | 95.3 | (151.7) | (26.0) | 129.0 | 180.6 | 262.9 | 105.0 | 169.2 |
| 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 | \$ 86.7 | \$ (160.3) | \$ (34.6) | \$ 120.4 | \$ 172.0 | \$ 254.3 | \$ 96.4 | \$ 160.6 |
| Basic net income (loss) per common share | \$ 1.56 | \$ (3.01) | \$ (0.64) | \$ 2.22 | \$ 3.13 | \$ 4.55 | \$ 1.70 | \$ 2.82 |
| Diluted net income (loss) per common share | 1.53 | (3.01) | (0.64) | 2.16 | 3.04 | 4.44 | 1.66 | 2.76 |
| Dividends declared per common share | 0.46 | 0.46 | 0.46 | 0.46 | 0.43 | 0.43 | 0.43 | 0.43 |
| Common share price range: | | | | | | | | |
| High | \$ 72.76 | \$ 74.40 | \$ 77.66 | \$ 82.23 | \$ 83.54 | \$ 80.04 | \$ 77.76 | \$ 71.53 |
| Low | 48.48 | 63.05 | 69.13 | 73.77 | 78.28 | 69.11 | 68.42 | 66.95 |

⁽¹⁾ Following the adoption of SFAS 159 on January 1, 2008, net realized and unrealized investment gains (losses) include both realized and unrealized gains (losses) on investments. Prior to the adoption of SFAS 159, net realized investment gains (losses) included realized gains (losses) on investments and other-than-temporary impairment charges.

21. Summarized Financial Information of ChannelRe Holdings

ChannelRe Holdings is a non-publicly traded financial guaranty reinsurer based in Bermuda, which assumed a portfolio of in-force business from MBIA, and which participates in MBIA reinsurance treaties and provides facultative reinsurance support to MBIA. The Company's investment represents 20% of the common shares of Channel Reinsurance Ltd. ("Channel Reinsurance"), which is a subsidiary and the primary asset of ChannelRe Holdings. The investment in ChannelRe Holdings is accounted for using the equity method. The Company's share of ChannelRe Holdings' net income and accumulated 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 ChannelRe Holdings' net income and accumulated other comprehensive income on the basis of the Company's ownership percentage of ChannelRe Holdings' common shares currently outstanding.

The following tables provide summarized financial information for ChannelRe Holdings. As the Company calculates its share of ChannelRe Holdings' results on a one-quarter lag, the results presented below include summarized financial information for the twelve month periods from October 1 to September 30.

In addition to ChannelRe Holdings' results for the twelve month period ended September 30, 2007 below, the Company recorded an additional charge of \$87 million in its Consolidated Statements of Operations for the year ended December 31, 2007. This additional charge represented the write-down to \$nil of its investment in ChannelRe Holdings due to unrealized mark-to-market losses on Channel Reinsurance's credit derivative portfolio, which Channel Reinsurance expected to incur during the three months ended December 31, 2007, and which were expected to result in ChannelRe Holdings having negative U.S. GAAP shareholders' equity at that date. ChannelRe Holdings' financial statements as of December 31, 2007 and September 30, 2008 did present negative U.S. GAAP shareholders' equity, and accordingly at December 31, 2008, the carrying value of the Company's investment in ChannelRe Holdings remains \$nil.

As ChannelRe Holdings has a financial year-end of December 31, this information is not presented in the annual financial statements of ChannelRe Holdings.

Balance Sheet Data (in millions of U.S. dollars):

| | September 30, 2008 | September 30, 2007 |
|--|-------------------------------|-----------------------|
| Total investments available for sale | \$ 691 | \$ 638 |
| Cash and cash equivalents | 8 | 19 |
| Deferred acquisition costs | 32 | 37 |
| Derivative assets | 86 | 20 |
| Other assets | 9 | 11 |
| Total assets | \$ 826 | \$ 725 |
| Deferred premium revenue | \$ 123 | \$ 145 |
| Loss and loss adjustment expense reserves | 41 | 28 |
| Derivative liabilities | 743 | 115 |
| Other liabilities | 9 | 7 |
| Total liabilities | 916 | 295 |
| Minority interest | (25) | 120 |
| Shareholders' (deficit) equity | (65) | 310 |
| Total liabilities, minority interest and shareholders' (deficit) equity | \$ 826 | \$ 725 |

Income Statement Data (in millions of U.S. dollars):

| | For the period from October 1, 2007 to September 30, 2008 | For the period from October 1, 2006 to September 30, 2007 | For the period from October 1, 2005 to September 30, 2006 |
|---|---|---|---|
| Premiums earned | \$ 48 | \$ 45 | \$ 56 |
| Net investment income | 30 | 29 | 24 |
| Total revenues | 78 | 74 | 80 |
| Losses incurred | 27 | 12 | 7 |
| Acquisition costs | 12 | 12 | 15 |
| Operating expenses | 3 | 4 | 8 |
| Total expenses | 42 | 28 | 30 |
| Realized gains and other settlements on derivatives | 19 | 14 | 10 |
| Unrealized losses on derivatives | (561) | (91) | (1) |
| Net change in fair value of derivatives | (542) | (77) | 9 |
| Other gains (losses) | 1 | 2 | (1) |
| Net realized and unrealized (losses) gains | (541) | (75) | 8 |
| Minority interest | 141 | 8 | (16) |
| Net (loss) income | \$ (364) | \$ (21) | \$ 42 |

22. Subsequent Events

On January 8, 2009, the Company entered into a second amendment to the loan agreement, dated as of October 25, 2005, among the Company, as borrower, Citibank, N.A., as administrative agent, and Citibank, N.A., as lender, which originally evidenced a three-and-a-half year term loan agreement with Citibank, N.A. Under the terms of the second loan amendment, the Company has a right to prepay the half of the original \$400.0 million loan that has a maturity of April 27, 2009. Any such prepayment under the terms of the second loan amendment will be accompanied by payment of accrued and unpaid interest on the prepayment amount. The remaining half of the loan will have a maturity of July 12, 2010 and the Company will not have a right to prepay this amount. The loan is otherwise unchanged.

On January 14, 2009, the Company repaid the half of the original \$400.0 million loan that was due April 27, 2009.