

THE VALUE OF RISK

PartnerRe



“There are three principles that drive our behavior at PartnerRe.

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

Second, we will deliver an appropriate return on our shareholders’ capital, to compensate them for the risk we assume on their behalf. For the last five years, we’ve defined a 13% operating ROE over a cycle as appropriate, and we have achieved that.

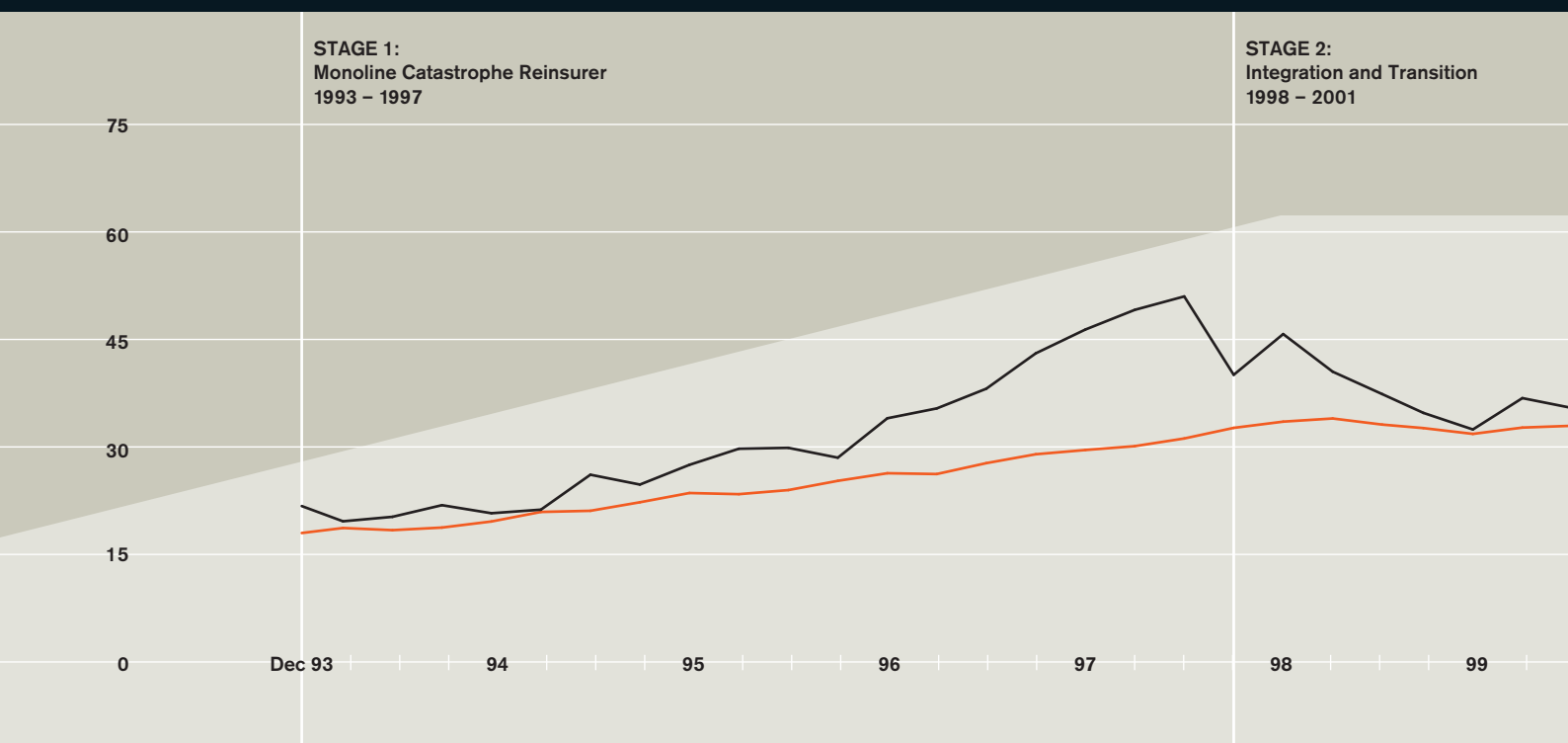
Third, we intend to be a well managed company. For PartnerRe, a company that is well managed is one where things happen for good reason; where decisions are made to benefit all stakeholders, and where people are treated with respect.

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

Patrick Thiele, President and CEO

THE VALUE OF RISK

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



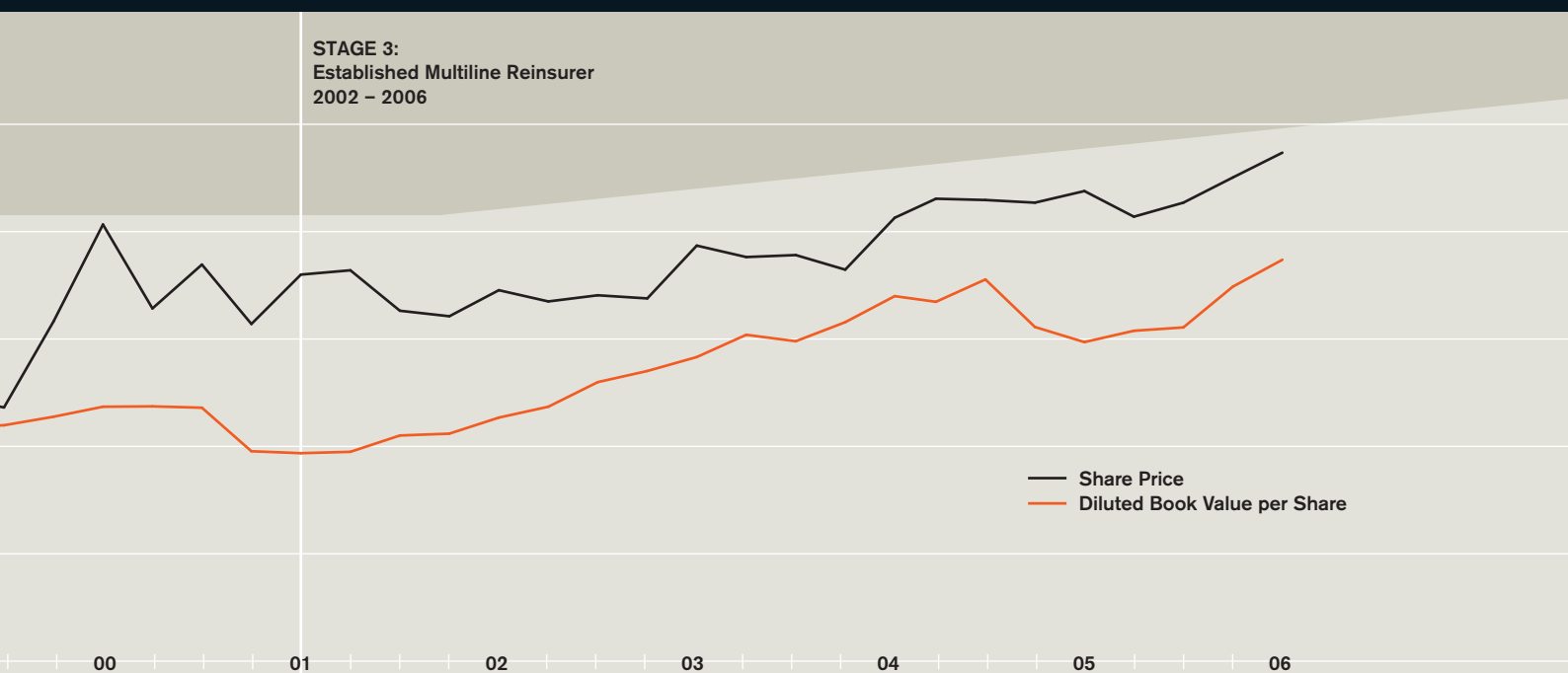
Following the discussions in our previous Annual Reports, "The Business of Risk" (2004) and "Risk Management in Practice" (2005), this year we discuss "The Value of Risk." We demonstrate how our approach to the assumption and management of risk has created value, and will continue to create value, for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

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

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

Operating ROE = 15.9%

STAGE 3:
Established Multiline Reinsurer
2002 - 2006



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

Scott Moore
CEO, PartnerRe U.S.

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

Bruno Meyenhofer
CEO, PartnerRe Global

A Product of Value

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

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

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

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

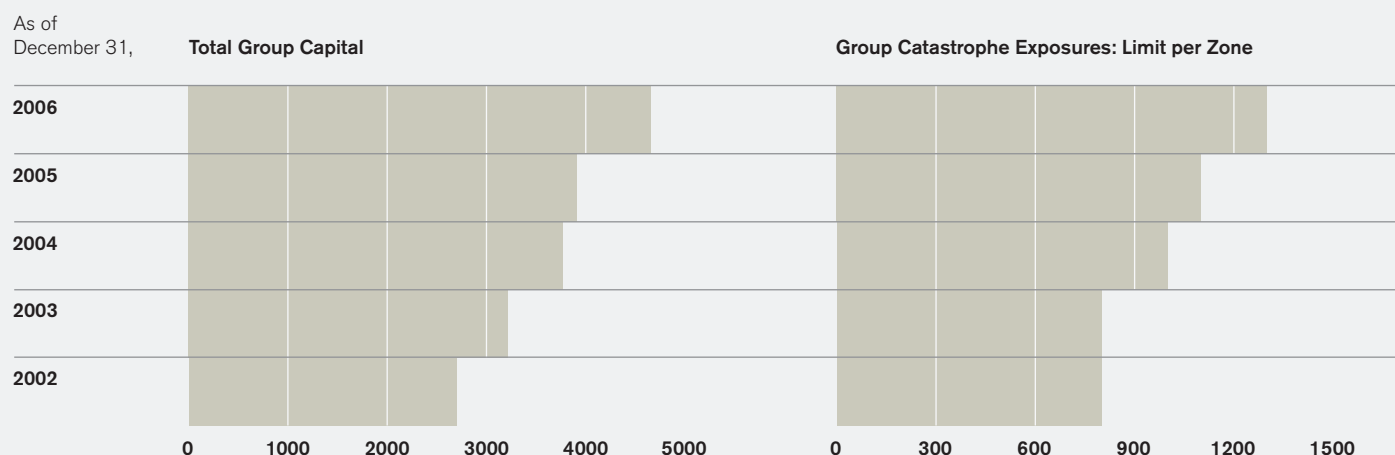
follows such events. We have consistently demonstrated our ability to maintain or increase our capacity after major events. In 2001, following September 11, and again after the storms in 2005, PartnerRe continued to provide substantial capacity where and when it was most needed.

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

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

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

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





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

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



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

John W. Davidson
Head of Investments

Appropriate Risk and Return

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

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

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

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

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

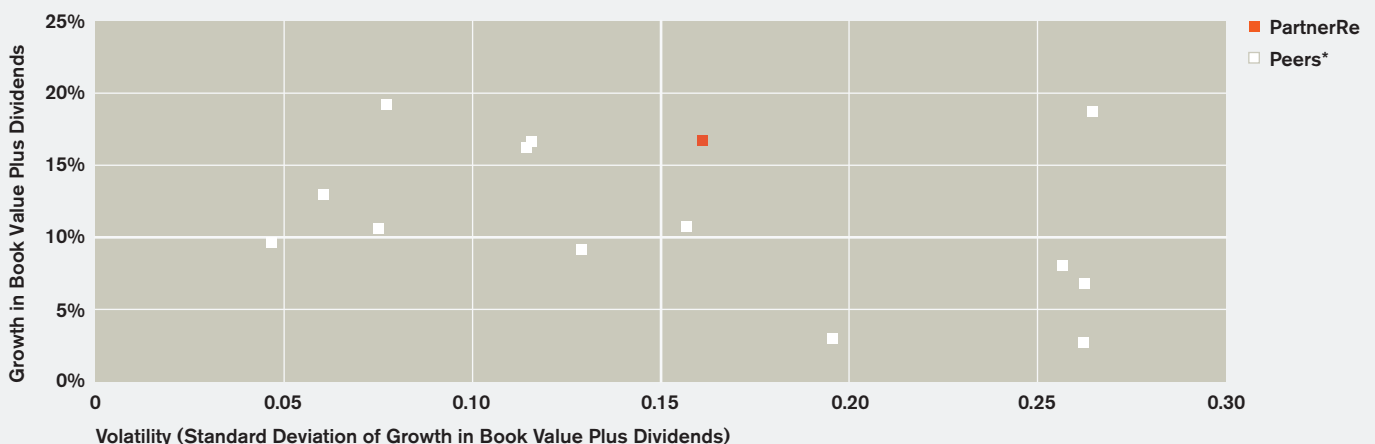
“We don’t think about return without thinking about risk. To gain an understanding of our own risk/return profile, we look at three things – the expected return, the volatility around the return, and the tail factor of the risk itself.”

Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.

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

Bruno Meyenhofer
CEO, PartnerRe Global

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



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

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

Scott Moore
CEO, PartnerRe U.S.

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

Albert Benchimol
EVP and Chief Financial Officer,
PartnerRe Ltd.

A Well Managed Company

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

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

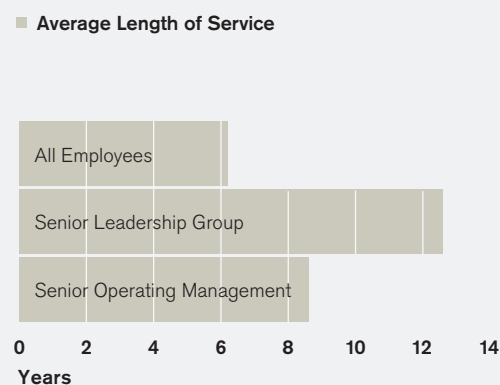
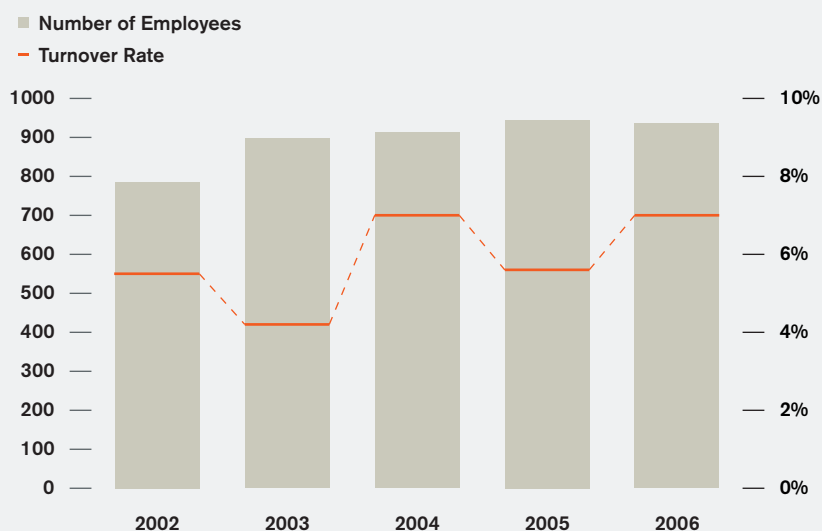
In the same period, we have focused on developing and retaining our people. For our leadership team, we use platforms such as our Senior Leadership Conference to support this commitment. We understand that being open and transparent with the people who make strategic and tactical decisions not only develops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

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

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

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

Continuity of Human Capital





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

Tad Walker
Head of Catastrophe

Our Integrated Risk Management Framework

PartnerRe's Approach to Enterprise Risk Management

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

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

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

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

Risk Management Culture

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

Our Five-Point Strategy

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

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

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

Top Strategic and Assumed Risks

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

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

Top Operational Risks

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

Transparency

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


Risk Appetite and Tolerance

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


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

Catastrophe Risk Limits


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

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

Casualty Reserve Risk Limit

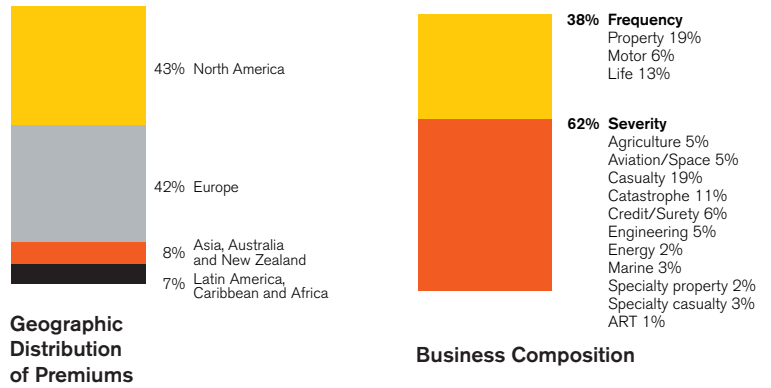
Risk Metric	Absolute Limit
Limit earned premiums for casualty and other long-tail lines for the four most recent underwriting periods	\$3.70 billion
Level of 4-year aggregate long-tail earned premiums as of December 31, 2006	 Limit \$3.70 billion

Equity Investment Risk Limit

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

Diversified Portfolio

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



Prudent Capital Management

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

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