PARTNERRE LTD
Form 10-K
February 29, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from to

Commission file number 1-14536

PartnerRe Ltd.

(Exact name of Registrant as specified in its charter)

Bermuda	**Not Applicable**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
90 Pitts Bay Road, Pembroke, Bermuda	**HM 08**
(Address of principal executive offices)	**(Zip Code)**

(441) 292-0888

(Registrant s telephone number, including area code)

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

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of most recently completed second fiscal quarter (June 30, 2007) was $4,374,784,093 based on the closing sales price of the Registrant s common shares of $77.50 on that date.

The number of the Registrant s common shares (par value $1.00 per share) outstanding, net of treasury shares, as of February 20, 2008 was 54,180,948.

Documents Incorporated by Reference:

Document	Part(s) Into Which Incorporated
Portions of the Registrant s definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, relating to the Registrant s Annual General Meeting of Shareholders scheduled to be held May 22, 2008 are incorporated by reference into Part II and Part III of this report. With the exception of the portions of the Proxy Statement specifically incorporated herein by reference, the Proxy Statement is not deemed to be filed as part of this report.	

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PART I

ITEM 1. BUSINESS

General

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

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

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

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

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

Business Strategy

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

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construct allows the Company to balance cedants need for absolute certainty of claims payment with its shareholders need for an appropriate return on their capital. Operating Return on Equity (ROE) and growth in diluted book value per share are two of the principal metrics used by Management to measure the Company s results. Consequently, the Company has set a goal of an average 13% operating ROE and a compound annual growth rate of 10% in diluted book value per share over a reinsurance cycle. Operating ROE is obtained by dividing operating earnings by the net book value of the common shareholders equity at the beginning of the year. Operating earnings is defined as net income less after-tax net realized investment gains or losses on investments, net after-tax interest in earnings or losses of equity investments and preferred share dividends. Diluted book value per share is calculated using common shareholders equity, defined as total shareholders equity less the aggregate liquidation value of the preferred shares, divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities).

The Company has adopted the following five-point strategy:

Diversify risk across products and geographies: PartnerRe writes most lines of business in approximately 150 countries worldwide. The Company s geographic spread of premiums mirrors that of the global insurance industry. Management believes diversification is a competitive advantage, which increases return per unit of risk, provides access to reinsurance business opportunities worldwide, and reduces the overall volatility of results. It is also the cornerstone of the Company s risk management approach. The reinsurance business is cyclical, but cycles by line of business and by geography are rarely synchronized. This diversification strategy allows the Company to rapidly deploy capital to risk classes and geographies that offer the greatest return over time.

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

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

Add value through underwriting and transactional excellence: Underwriting and transactional excellence is achieved in three principal ways: through the quality of the Company s people, the structure they operate in, and the effectiveness of various processes and tools. Maintaining continuity and depth in the Company s management, underwriting, actuarial and financial areas is critical to maintaining an independent view of risk, a core part of the strategy. Equally as important, the Company believes, is organizing its operations around geography, lines of business, distribution or client characteristics and providing and building the right infrastructure to continually improve its capabilities in all transactional areas: underwriting, financial reporting and controls, reserving, pricing and claims.

Achieve superior returns on invested assets in the context of a disciplined risk framework: Strong underwriting must be complemented with prudent financial management, careful reserving and superior asset management in order to achieve the Company s targeted returns. The Company is committed to maintaining a

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

Reinsurance Operations

General

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

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

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

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

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

The U.S. sub-segment includes property, casualty, motor, multiline, structured risk, agriculture, surety and other risks generally originating in the United States and written by PartnerRe U.S. The Global (Non-U.S.) P&C sub-segment includes property, casualty, motor and structured risk business generally originating outside of the United States, written by Partner Reinsurance and PartnerRe SA. The Global (Non-U.S.) Specialty sub-segment is comprised of business that is generally considered to be specialized due to the sophisticated technical underwriting required to analyze risks, and is global in nature. This sub-segment consists of several lines of business for which the Company believes it has developed specialized knowledge and underwriting capabilities. These lines of business include agriculture, aviation/space, credit/surety, engineering, energy, marine, specialty property, specialty casualty and other lines. The Catastrophe sub-segment consists of catastrophe business written by Partner Reinsurance. The Life segment includes life, health and annuity lines of business. The Corporate and Other segment includes principal finance, insurance-linked securities (including weather related products), investment related activities (net investment income, realized gains and losses, and strategic investments) and corporate items.

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

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

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

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

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

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

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

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

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

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

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

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

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Specialty Property The Company provides specialized reinsurance protection for non-U.S. property business that requires specialized underwriting expertise due to the nature of the underlying risk or the complexity of the reinsurance treaty. This reinsurance protection is offered on a proportional, non-proportional or facultative basis.

Specialty Casualty The Company provides specialized reinsurance protection for non-U.S. casualty business that requires specialized underwriting expertise due to the nature of the underlying risk or the complexity of the reinsurance treaty. This reinsurance protection is offered on a proportional, non-proportional or facultative basis.

Life/Annuity and Health Life treaties provide reinsurance coverage to primary life insurers and pension funds with respect to individual and group life and health risks. Annuity treaties provide reinsurance coverage to insurers who issue annuity contracts offering long-term retirement benefits to consumers who seek protection against outliving their financial resources. Life business is written primarily on a proportional basis through treaty arrangements.

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

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

The Company s business is produced both through brokers and through direct relationships with insurance companies. In North America, business is primarily written through brokers, while in the rest of the world, the business is written on both a direct and broker basis.

For the year ended December 31, 2007, the Company had two brokers that individually accounted for 10% or more of its gross premiums written. Marsh & McLennan Companies (including Guy Carpenter) accounted for approximately $705 million, or 19% of total gross premiums written, while Aon Group accounted for approximately $654 million, or 17% of total gross premiums written. The following table summarizes the percentage of gross premiums written through these two brokers by segment and sub-segment for the year ended December 31, 2007:

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

The Company s business is geographically diversified with premiums being written in approximately 150 countries. See Note 18 to Consolidated Financial Statements in Item 8 of Part II of this report for additional disclosure of the geographic distribution of gross premiums written and financial information about segments and sub-segments.

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

Risk Management

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

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

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

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

Underwriting

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

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

Underwriting Risk and Exposure Controls

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

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exposure to catastrophic and other large losses by (i) attempting to limit its aggregate exposure on catastrophe reinsurance in any particular geographic zone, (ii) selective underwriting practices, (iii) diversification of risks by geographic area and by lines and classes of business, and (iv) to a limited extent by purchasing retrocessional reinsurance.

The Company generally underwrites risks with specified limits per treaty program. Like other reinsurance companies, the Company is exposed to multiple insured losses arising out of a single occurrence, whether a natural event such as hurricane, windstorm, flood or earthquake, or other man-made events. Any such catastrophic event could generate insured losses in one or many of the Company s reinsurance treaties and facultative contracts in one or more lines of business. The Company considers such event scenarios as part of its evaluation and monitoring of its aggregate exposures to catastrophic events.

Retrocessions

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

The Company remains liable to its cedants to the extent the retrocessionaires do not meet their obligations under retrocessional agreements, and therefore retrocessions are subject to credit risk in all cases and to aggregate loss limits in certain cases. The Company holds collateral, including escrow funds, securities and letters of credit under certain retrocessional agreements. Provisions are made for amounts considered potentially uncollectible and reinsurance losses recoverable from retrocessionaires are reported after allowances for uncollectible amounts. At December 31, 2007, the Company had $158 million of reinsurance recoverables under such arrangements.

Claims

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

Reserves

General

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

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

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

Changes in Reserves

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

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

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Development of Loss and Loss Expense Reserves

(in thousands of U.S. dollars)

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

Four years later	417,613	1,089,279	1,373,693	1,354,886	1,924,833	2,248,980	2,219,506
Five years later	450,723	1,158,620	1,508,343	1,465,515	2,086,252	2,433,223	
Six years later	472,093	1,239,898	1,580,951	1,566,719	2,215,412		
Seven years later	513,089	1,291,049	1,652,891	1,643,075			
Eight years later	539,436	1,343,849	1,702,895				
Nine years later	563,015	1,390,425					
Ten years later	590,237						

(1) Liability for unpaid losses and loss expenses includes, for the first time, PartnerRe SA, which the Company acquired in July 1997.
(2) Liability for unpaid losses and loss expenses includes, for the first time, Winterthur Re, which the Company acquired in December 1998.

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The following table provides a reconciliation of the Company s re-estimated gross year-end reserves with the re-estimated net year-end reserves provided above (in thousands of U.S. dollars):

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Reconciliation of gross reserves:										
Gross liability re-estimated as of December 31, 2007	$ 1,112,465	$ 2,438,713	$ 2,854,800	$ 2,937,788	$ 3,777,490	$ 4,253,636	$ 4,653,898	$ 5,227,131	$ 6,816,586	$ 6,853,944
Re-estimated retroceded liability	133,989	253,664	228,414	246,521	248,825	233,823	159,716	134,842	198,474	138,837
Net liability re-estimated as of December 31, 2007	$ 978,476	$ 2,185,049	$ 2,626,386	$ 2,691,267	$ 3,528,665	$ 4,019,813	$ 4,494,182	$ 5,092,289	$ 6,618,112	$ 6,715,107
Gross cumulative (deficiency) redundancy	$ (13,938)	$ 210,667	$ (238,244)	$ (551,756)	$ (771,862)	$ (595,220)	$ 101,161	$ 539,498	$ (78,925)	$ 16,841

The Company s reserve development is composed of the change in ultimate losses from what the Company originally estimated as well as the impact of the foreign exchange revaluation on reserves. The Company conducts its reinsurance operations in a variety of non-U.S. currencies and records its net reserves in the currency of the treaty, with the principal exposures being to the euro, British pound, Swiss franc, Canadian dollar and Japanese yen. The impact of reporting the Company s net reserves based on the foreign exchange rates at the balance sheet date can be a significant component of the cumulative redundancy (deficiency) in net reserves and in some years can be the principal component. The following table provides the amount of foreign exchange included in the cumulative redundancy (deficiency) reported above as well as the redundancy (deficiency) excluding the impact of foreign exchange movements on net reserves (in thousands of U.S. dollars):

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Cumulative (deficiency) redundancy	**$ (6,061)**	**$ 206,933**	**$ (215,812)**	**$ (508,415)**	**$ (737,928)**	**$ (579,174)**	**$ 85,192**	**$ 521,322**	**$ (65,731)**	**$ 17,093**
Less: Cumulative (deficiency) redundancy due to foreign exchange	(48,985)	(69,238)	(165,592)	(337,357)	(549,239)	(521,110)	(316,051)	(15,524)	(595,087)	(396,950)
Cumulative redundancy (deficiency) excluding the impact of foreign exchange	**$ 42,924**	**$ 276,171**	**$ (50,220)**	**$ (171,058)**	**$ (188,689)**	**$ (58,064)**	**$ 401,243**	**$ 536,846**	**$ 529,356**	**$ 414,043**

Since 1997, movements in foreign exchange rates between accounting periods have occasionally resulted in significant variations in the loss reserves of the Company as the U.S dollar, the Company s reporting currency, appreciated/depreciated against multiple currencies. The Company, however, generally holds investments in the same currencies as its net reserves, with the intent of matching the foreign exchange movements on its assets and liabilities. See Quantitative and Qualitative Disclosures about Market Risk contained in Item 7A of Part II of this report for a discussion of the foreign currency risk of the Company s assets and liabilities.

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The Company believes that in order to enhance the understanding of its reserve development, it is useful for investors to evaluate the Company s reserve development excluding the impact of foreign exchange. The following table shows the development of initial net reserves converted at each year s average foreign exchange rates (in thousands of U.S. dollars). Using the historical average foreign exchange rates for the development lines of the table has the effect of linking each year s development with that year s income statement. This table should not be considered as a substitute for the table provided above as it does not reflect a significant portion of the initial net reserve development that is due to foreign exchange revaluation.

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Net liability for unpaid losses and loss expenses	**$ 972,415**	**$ 2,391,982**	**$ 2,410,574**	**$ 2,182,852**	**$ 2,790,737**	**$ 3,440,639**	**$ 4,579,374**	**$ 5,613,611**	**$ 6,552,381**	**$ 6,732,200**
Net liability re-estimated as of:										
One year later	914,558	2,360,763	2,410,462	2,174,981	2,846,855	3,496,102	4,440,338	5,382,101	6,300,633	6,318,157
Two years later	910,660	2,174,414	2,359,852	2,240,526	2,921,908	3,513,647	4,298,493	5,232,707	6,023,025	
Three years later	931,411	2,112,196	2,384,937	2,283,941	2,956,308	3,483,720	4,223,937	5,076,765		
Four years later	907,124	2,083,108	2,400,881	2,322,084	2,964,307	3,491,033	4,178,131			
Five years later	891,916	2,079,706	2,422,798	2,331,252	2,982,347	3,498,703				
Six years later	891,921	2,079,261	2,431,416	2,362,941	2,979,426					
Seven years later	895,662	2,088,745	2,462,104	2,353,910						
Eight years later	904,723	2,121,025	2,460,794							
Nine years later	928,364	2,115,811								
Ten years later	929,491									
Cumulative redundancy (deficiency)	**$ 42,924**	**$ 276,171**	**$ (50,220)**	**$ (171,058)**	**$ (188,689)**	**$ (58,064)**	**$ 401,243**	**$ 536,846**	**$ 529,356**	**$ 414,043**

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The following table summarizes the net incurred losses for the year ended December 31, 2007 relating to the current and prior accident years by sub-segment for the Company s Non-life operations (in millions of U.S. dollars):

	U.S.	Global (Non-U.S.) P&C	Global (Non-U.S.) Specialty	Catastrophe	Total Non-life segment
Net incurred losses related to:					
Current year	$ 680	$ 620	$ 653	$ 88	$ 2,041
Prior years net favorable development	(72)	(97)	(203)	(42)	(414)
Total net incurred losses	$ 608	$ 523	$ 450	$ 46	$ 1,627

See Management s Discussion and Analysis of Financial Condition and Results of Operation for discussion of net prior year reserve development by sub-segment and Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits in Item 7 of Part II of this report for a discussion of the net prior year reserve development by reserving lines for the Company s Non-life operations.

Asbestos, Environmental and Other Exposures

The Company s reserve for unpaid losses and loss expenses as of December 31, 2007 includes $88 million that represents an estimate of its net ultimate liability for asbestos and environmental claims (the gross liability for such claims was $98 million).

Most of the net amount relates to U.S. casualty exposures arising from business written prior to January 1, 1992 by certain companies which were at the time part of the AGF Group and are currently part of the Company s subsidiaries. Ultimate loss estimates for such claims cannot be estimated using traditional reserving techniques and there are significant uncertainties in estimating the amount of the Company s potential losses for these claims. In view of the changes in the legal and tort environment that affect the development of such claims, the uncertainties inherent in estimating asbestos and environmental claims are not likely to be resolved in the near future. The Company actively evaluates potential exposure to asbestos and environmental claims and establishes additional reserves as appropriate. The Company believes that it has made a reasonable provision for these exposures and is unaware of any specific issues that would materially affect its loss and loss expense estimates.

Management believes that the Company may be exposed to claims in its life portfolio that may be significantly higher than expected as a result of spikes in mortality due to causes such as an avian flu pandemic. In addition, the Company may be exposed to Acquired Immune Deficiency Syndrome (AIDS) claims in its life portfolio. However, retrocessional protection mitigates the Company s exposure to losses on life reinsurance.

During 2007, the industry began to recognize an increased likelihood of losses associated with sub-prime mortgage related risk exposures. The majority of the Company s underwriting exposure related to this issue, if any, arises from business written in U.S. specialty casualty, primarily directors and officers exposures, during the underwriting years 2005, 2006 and 2007. The Company also has potential exposure, to a lesser extent, to this issue arising from business written in U.S. surety and Global (Non-U.S.) specialty casualty. Given the information available to date, ultimate losses from this event, if any, cannot be estimated by standard actuarial techniques. To estimate a range of potential losses, the Company performed analyses based on information received from cedants at the time the exposed business was written, current industry data regarding the likelihood of securities class actions and other potential suits against companies exposed more directly to sub-prime mortgages, estimates of exposed industry premium, estimates of the Company s market share of exposed industry premium and estimates of industry-wide insured losses. A significant degree of judgment was used to estimate the range of potential losses and there is a considerable degree of uncertainty related to the range of possible ultimate liabilities.

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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. specialty casualty and other potentially exposed classes of business contemplate a reasonable provision for exposures related to potential sub-prime mortgage risks. The Company is unaware of any specific issues that would materially affect its unpaid losses and loss expense estimates related to this exposure. The Company s unpaid losses and loss expense reserves at December 31, 2007 for U.S. specialty casualty were $1,178 million, of which $687 million relates to the 2005, 2006 and 2007 underwriting years.

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. However, they represent Management s best estimate for ultimate losses based on available information at this time.

Investments

The Company has developed specific investment objectives and guidelines for the management of its investment portfolio. These objectives and guidelines stress diversification of risk, capital preservation, liquidity and stability of portfolio income. Despite the prudent focus of these objectives and guidelines, the Company s investments are subject to general market risk, as well as to risks inherent to particular securities.

The Company s investment strategy is largely unchanged from previous years. To ensure that the Company will have sufficient assets to pay its clients claims, the Company s investment philosophy distinguishes between those assets that are matched against existing liabilities (liability funds) and those that represent shareholders equity (capital funds). Liability funds are invested in high-quality fixed income securities. Capital funds are available for investment in a broadly diversified portfolio, which includes investments in preferred and common stocks, private bond and equity investments, investment-grade and below-investment-grade securities and other asset classes that offer potentially higher returns.

The investment portfolio is divided and managed by strategy and legal entity. Each segregated portfolio is managed against a specific benchmark to properly control the risk of each portfolio as well as the aggregate risks of the combined portfolio. The performance of each portfolio and the aggregate investment portfolio is measured against several benchmarks to ensure that they have the appropriate risk and return characteristics.

In order to manage the risks of the investment portfolio, several controls are in place. First, the overall duration (interest rate risk) of the portfolio is managed relative to the duration of the net reinsurance liabilities, defined as reinsurance liabilities net of all reinsurance assets, so that the economic value of changes in interest rates have offsetting effects on the Company s assets and liabilities. To ensure diversification and avoid aggregation of risks, limits of assets types, economic sector exposure, industry exposure, and individual security exposure are placed on the investment portfolio. These exposures are monitored on an ongoing basis and reported at least quarterly to the Finance and Risk Management Committee of the Board.

See Quantitative and Qualitative Disclosures About Market Risk in Item 7A of Part II of this report for a discussion of the Company s interest rate, equity and currency management strategies.

Competition

The Company competes with other reinsurers, some of which have greater financial, marketing and management resources than the Company, and it also competes with new market entrants. Competition in the types of reinsurance that the Company underwrites is based on many factors, including the perceived financial strength of the reinsurer, pricing and other terms and conditions, services provided, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of reinsurance to be written.

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The Company s competitors include independent reinsurance companies, subsidiaries or affiliates of established worldwide insurance companies, and reinsurance departments of certain primary insurance companies. Management believes that the Company s major competitors are the larger European, U.S. and Bermuda-based international reinsurance companies, as well as specialty reinsurers.

Management believes the Company ranks among the world s largest professional reinsurers and is well-positioned in terms of client services and underwriting expertise. Furthermore, the Company s capitalization and strong financial ratios allow the Company to offer security to its clients.

Employees

The Company had 949 employees at December 31, 2007. The Company may increase its staff over time commensurate with the expansion of operations. The Company believes that its relations with its employees are good.

Regulation

The business of reinsurance is now regulated in most countries, although the degree and type of regulation varies significantly from one jurisdiction to another. As a holding company, PartnerRe Ltd. is not subject to Bermuda insurance regulations, but its various operating subsidiaries are subject to regulations as follows.

Bermuda

The Insurance Act of 1978 of Bermuda, amendments thereto and related regulations (the Act), makes no distinction between insurance and reinsurance business and regulates the business of our Bermuda operating subsidiary, Partner Reinsurance. The Act imposes on Bermuda insurance companies solvency and liquidity standards and auditing and reporting requirements and grants to the Bermuda Monetary Authority (the BMA) powers to supervise, investigate and intervene in the affairs of insurance companies. Under the Act, Partner Reinsurance has been designated as a Class 4 (non-life and life) insurer, which is the designation for the largest companies, requiring capital and surplus in excess of $100 million. Failure to maintain required solvency and liquidity margins would prohibit the Company from declaring and paying any dividends without the prior approval of the Minister of Finance. Material aspects of the Bermuda insurance regulatory framework are set forth below:

Classification of Insurers: The Act distinguishes between insurers carrying on long-term business and those carrying on general business. Long-term business includes life insurance and reinsurance and disability insurance and reinsurance with terms in excess of five years. General business includes all types of insurance and reinsurance that are not long-term business. There are four classifications of insurers carrying on general business, with Class 4 insurers subject to the strictest regulation. Partner Reinsurance carries on both long-term and general business.

Principal Representative: An insurer is required to maintain a principal office in Bermuda and to appoint and maintain a representative in Bermuda. The Company s CEO is the principal representative of Partner Reinsurance.

Approved Independent Auditor: Every registered insurer must appoint an independent auditor who will audit and report annually on the statutory financial statements and the statutory financial return of the insurer, both of which, in the case of Partner Reinsurance, are required to be filed annually with the BMA. Partner Reinsurance s independent auditor must be approved by the BMA.

Loss Reserve Specialist: As a registered Class 4 insurer, Partner Reinsurance is required to submit an opinion of its approved loss reserve specialist with its statutory financial return in respect of its losses and loss expense provisions. The loss reserve specialist must be approved by the BMA.

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Annual Statutory Financial Return and Statutory Financial Statements: Partner Reinsurance is required to file with the BMA a statutory financial return no later than four months after its financial year end, unless specifically extended upon application to the BMA. The statutory financial return for a Class 4 insurer includes, among other items, a report of the approved independent auditor on the statutory financial statements of the insurer, solvency certificates, the statutory financial statements, the opinion of the loss reserve specialist and a schedule of reinsurance ceded. The statutory financial statements are not prepared in accordance with accounting principles generally accepted in the United States (U.S. GAAP) and are distinct from the financial statements prepared for presentation to an insurer s shareholders under The Companies Act 1981 of Bermuda (the Companies Act).

Minimum Solvency Margin and Restrictions on Dividends and Distributions: Under the Act, the value of the general business assets of a Class 4 insurer must exceed the amount of its general business liabilities by an amount greater than the prescribed minimum solvency margin. Partner Reinsurance is required, with respect to its general business, to maintain a minimum solvency margin equal to the greatest of $100 million, 50% of net premiums written, or 15% of net losses and loss expense reserves.

Partner Reinsurance would be prohibited from declaring or paying any dividends during any financial year if it is in breach of its minimum solvency margin or minimum liquidity ratio, or if the declaration or payment of such dividends would cause it to fail to meet such margin or ratio. In addition, if it has failed to meet its minimum solvency margin or minimum liquidity ratio on the last day of any financial year, Partner Reinsurance would be prohibited, without the approval of the BMA, from declaring or paying any dividends during the next financial year. Partner Reinsurance is also prohibited from declaring or paying in any financial year dividends of more than 25% of its total statutory capital and surplus (as shown on its previous financial year s statutory balance sheet) unless it files with the BMA, at least seven days before payment of such dividends, an affidavit stating that it will continue to meet the required margins.

Partner Reinsurance is prohibited, without the approval of the BMA, from reducing by 15% or more its total statutory capital as set out in its previous year s financial statements, and any application for such approval must include an affidavit stating that it will continue to meet the required margins. In addition, if at any time it fails to meet its solvency margin, Partner Reinsurance is required, within 30 days (45 days where total statutory capital and surplus falls to $75 million or less) after becoming aware of such failure or having reason to believe that such failure has occurred, to file with the BMA a written report containing certain information.

Minimum Liquidity Ratio: The Act provides a minimum liquidity ratio for general business insurers. An insurer engaged in general business is required to maintain the value of its relevant assets at not less than 75% of the amount of its relevant liabilities. Relevant assets include, but are not limited to, cash and time deposits, quoted investments, unquoted bonds and debentures, first liens on real estate, investment income due and accrued, accounts and premiums receivable and reinsurance balances receivable. There are some categories of assets which, unless specifically permitted by the BMA, do not automatically qualify as relevant assets, such as unquoted equity securities, investments in and advances to affiliates and real estate and collateral loans. The relevant liabilities are total general business insurance reserves and total other liabilities less deferred income tax and sundry liabilities (by interpretation, those not specifically defined).

At December 31, 2007, Partner Reinsurance s solvency margin and liquidity ratio and statutory capital and surplus were well in excess of the minimum levels required by Bermuda regulations.

Effective December 31, 2008, the BMA will introduce a risk-based capital model, the Bermuda Solvency Capital Requirement (BSCR) to monitor the capital adequacy of Class 4 insurers domiciled in Bermuda, including Partner Reinsurance. The BMA will maintain the existing solvency basis until the 2008 year-end. The BSCR model will calculate a risk-based capital measure by applying capital factors to statutory financial statement and capital and solvency return elements, including investments and other assets, premiums and reserves, and insurer-specific catastrophe exposure measures, in order to establish an overall measure of capital and surplus for statutory solvency purposes. The capital factor established for each risk element, when applied to that element, will produce a required capital and surplus amount. The

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individual capital amounts generated for each risk element are then summed and covariance adjustments will be made to arrive at the BSCR, which may be further adjusted to allow for insurer-specific operational elements. A company s available statutory capital and surplus divided by the BSCR gives the BSCR ratio. It is anticipated that the BSCR ratio will assist the BMA in evaluating the financial strength of each company. In addition, the BSCR model will incorporate stress testing under certain scenarios. It is anticipated that Partner Reinsurance will have capital in excess of the requirements under the new capital model.

In addition, effective December 31, 2008, the BMA will also require Class 4 insurers domiciled in Bermuda, including Partner Reinsurance, to file financial statements prepared in accordance with generally accepted accounting principles. These financial statements will be publicly available on the BMA s website. Partner Reinsurance will provide to the BMA its audited U.S. GAAP financial statements in 2007, one year in advance of the statutory requirements.

In 2007, Partner Reinsurance maintained a branch in Switzerland, however, pursuant to a reorganization of the Company, on January 1, 2008, the branch in Switzerland transferred substantially all of its reinsurance business to the Swiss branch of PartnerRe Europe, which will continue to write substantially all of the transferred business. Foreign insurance entities that are effecting or carrying on exclusively reinsurance business in Switzerland are exempt from insurance and reinsurance supervision, provided such entities are not acting for that purpose through a Swiss subsidiary. The operations of the Swiss branch of Partner Reinsurance were exempt from insurance and reinsurance supervision in Switzerland, although they were subject to Bermuda regulations. In addition, Partner Reinsurance had procured a taxation ruling under which the branch was subject to Swiss tax. As of January 1, 2008, the Swiss branch of Partner Reinsurance ceased its underwriting operations and accordingly will be removed from the commercial register in 2008. Pursuant to the reorganization on January 1, 2008, PartnerRe SA transferred all of the business, assets and liabilities of its Canadian life branch to a new Canadian life branch of Partner Reinsurance. See the discussion of the Canadian life branch regulation below.

Partner Reinsurance has branches in Singapore, Hong Kong and Labuan and the operations of these branches are all subject to Bermuda regulations. In addition to Bermuda regulations, the Singapore branch is subject to regulation by the Monetary Authority of Singapore, the Hong Kong branch is subject to regulation under both the Insurance Companies Ordinance of Hong Kong and the Companies Ordinance of Hong Kong and the Labuan branch is subject to regulation by the Labuan Offshore Financial Services Authority, Malaysia.

France

PartnerRe SA is subject to regulation, mainly pursuant to the French *Code des Assurances* (the French Insurance Code), and to the supervision of the *Autorité de Contrôle des Assurances et des Mutuelles* (the ACAM), an independent administrative authority. Pursuant to the requirements of the French Insurance Code, French reinsurers must present and publish their accounts according to the same principles applicable to direct insurers, subject to specified adaptations relevant to reinsurers. Information required to be provided includes quarterly reports showing (1) for the relevant three-month period, as well as for each of the prior seven three-month periods, (i) the number of reinsurance contracts underwritten in the quarter, (ii) the aggregate amount of premiums and paid losses, (iii) the aggregate amount of business and administrative costs incurred, and (iv) the aggregate net amount of revenues in connection with investments and cash; (2) at the end of the relevant three-month period, as well as at the end of the prior three-month period, (i) the aggregate value of assets (per category of assets) supporting technical reserves, and (ii) the aggregate value of other assets; and (3) the estimated impact of the variation of certain external factors on assets and liabilities. In addition, reinsurers must file each year with the ACAM (1) their financial statements in the form to be approved by the shareholders at the annual shareholders meeting, (2) detailed information on the Company s business and its assets and liabilities, and (3) various technical disclosure statements. The ACAM has authority to monitor and compel reinsurers to comply with requirements regarding the nature, timing and content of published information and documents. Pursuant to a reorganization of the Company, on January 1, 2008, PartnerRe SA transferred all of its reinsurance business, assets and liabilities to the French branch of PartnerRe Europe and ceased its underwriting operations.

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Pursuant to the Reinsurance Directive, the French branch of PartnerRe Europe will be subject to Irish regulation. For a discussion of the impact of the restructuring on the regulation of PartnerRe SA s Canadian branch, see below.

Ireland

PartnerRe Holdings Europe Limited is a holding company for PartnerRe Europe and PartnerRe Ireland Insurance Limited (PartnerRe Ireland Insurance). As a holding company, PartnerRe Holdings Europe Limited is not subject to regulation by the Financial Regulator, Ireland (Financial Regulator).

PartnerRe Ireland Insurance is a non-life insurance company incorporated under the laws of Ireland. It is subject to the regulation and supervision of the Financial Regulator pursuant to the Irish Insurance Acts 1909 to 2000, regulations relating to insurance business made under those Acts or under the European Communities Act, 1972 and the Central Bank Acts, 1942 to 1998 (together, the Insurance Acts and Regulations). PartnerRe Ireland Insurance was authorized on April 1, 2005 to undertake the business of non-life insurance in various classes of business. PartnerRe Ireland Insurance is required to maintain technical reserves as provided for in the Insurance Acts and Regulations. Assets representing its technical reserves are required to cover PartnerRe Ireland Insurance s calculated underwriting liabilities. In addition to filing various statutory returns with the Financial Regulator, PartnerRe Ireland Insurance is obligated to prepare annual accounts (comprising balance sheet, profit and loss account and notes) in accordance with the provisions of the European Communities (Insurance Undertakings: Accounts) Regulations, 1996 (the Insurance Accounts Regulations). The accounts must be filed with the Financial Regulator and with the Registrar of Companies in Ireland. Additionally, PartnerRe Ireland Insurance is required to establish and maintain an adequate solvency margin and a minimum guarantee fund, both of which must be free from all foreseeable liabilities.

PartnerRe Europe is a reinsurance company incorporated under the laws of Ireland. Legislation transposing the Reinsurance Directive was signed into Irish law on July 15, 2006 as the European Communities (Reinsurance) Regulations 2006 (the Regulations). Under the Regulations, all Irish reinsurers established before December 10, 2005 are deemed to be authorized under the Regulations, subject to complying with certain requirements not later than December 10, 2007. PartnerRe Europe has fully complied with the requirements set out in the Regulations and has received formal recognition from the Financial Regulator that it is duly authorized as a reinsurance undertaking to carry on reinsurance business in accordance with the Regulations. These additional requirements include, but are not limited to, the establishment of technical provisions and reserves, investment of assets, maintaining an appropriate solvency margin and maintenance of a guarantee fund. Effective January 1, 2008, the Company underwent a restructuring of its European operations and PartnerRe Europe became the single operating platform in Europe. PartnerRe Europe has established branches in France, Switzerland and Canada. PartnerRe Europe and the Swiss and French branches are subject to Irish regulations. The Canadian branch is subject to regulation in Canada.

Pursuant to Irish company law, PartnerRe Europe is restricted to declaring dividends only out of profits available for distribution . Profits available for distribution are a company s accumulated realized profits less its accumulated realized losses. Such profits may not include profits previously utilized.

United States

PartnerRe U.S. Corporation is a Delaware domiciled holding company for its wholly owned reinsurance subsidiaries, PartnerRe U.S. and PartnerRe Insurance Company of New York (PRNY) (PartnerRe U.S. and PRNY together being the PartnerRe U.S. Insurance Companies). The PartnerRe U.S. Insurance Companies are subject to regulation under the insurance statutes and regulations of their domiciliary state, New York, and all states where they are licensed, accredited or approved to underwrite reinsurance. Currently, the PartnerRe U.S. Insurance Companies are licensed, accredited or approved reinsurers in fifty states and the District of Columbia. Regulations vary from state to state, but generally require insurance holding companies and insurers and

reinsurers that are subsidiaries of holding companies to register and file with their state domiciliary regulatory authorities certain reports, including information concerning their capital structure, ownership, financial condition and general business operations. State regulatory authorities monitor compliance with, and periodically conduct examinations with respect to, state mandated standards of solvency, licensing requirements, investment limitations, restrictions on the size of risks which may be reinsured, deposits of securities for the benefit of reinsureds, methods of accounting for reserves for unearned premiums and losses, and other purposes. In general, such regulations are for the protection of reinsureds and, ultimately, their policyholders, rather than security holders of the PartnerRe U.S. Insurance Companies.

Under New York law, the New York Superintendent of Insurance must approve any dividend declared or paid by the PartnerRe U.S Insurance Companies that, together with all dividends declared or distributed by each of them during the preceding twelve months, exceeds the lesser of 10% of their respective statutory surplus as shown on the latest statutory financial statements on file with the New York Superintendent of Insurance, or 100% of their respective adjusted net investment income during that period. New York does not permit a dividend to be declared or distributed, except out of earned surplus.

State laws also require prior notice and/or regulatory approval of changes in control of an insurer or its holding company and of certain inter-company transfers of assets, payments of dividends and certain other transactions among affiliates, as well as any material changes within the holding company structure. The insurance laws of the state of domicile of the PartnerRe U.S. Insurance Companies provide that no corporation or other person except an authorized insurer may acquire control of a domestic insurance or reinsurance company unless it has given notice to such company and obtained prior written approval of the state s chief insurance regulator. Any purchaser of 10% or more of the outstanding voting securities of PartnerRe Ltd. (the ultimate parent company of the PartnerRe U.S. Insurance Companies) could become subject to such change of control regulations and would be required to file certain notices and reports with the Superintendent of Insurance of New York prior to such acquisition.

A committee of state insurance regulators developed the National Association of Insurance Commissioners (NAIC) Insurance Regulatory Information System (IRIS) primarily to assist state insurance departments in executing their statutory mandates to oversee the financial condition of insurance or reinsurance companies operating in their respective states. IRIS identifies thirteen industry ratios and specifies usual values for each ratio. Generally, a company will become subject to regulatory scrutiny if it falls outside the usual ranges with respect to four or more of the ratios, and regulators may then act, if the company has insufficient capital, to constrain the company s underwriting capacity. No such action has been taken with respect to the PartnerRe U.S. Insurance Companies.

The Risk-Based Capital (RBC) for Insurers Model Act (the Model RBC Act), as it applies to property and casualty insurers and reinsurers, was initially adopted by the NAIC in December 1993. The Model RBC Act or similar legislation has been adopted by the majority of states in the U.S. The main purpose of the Model RBC Act is to provide a tool for insurance regulators to evaluate the capital of insurers with respect to the risks assumed by them and to determine whether there is a need for possible corrective action. U.S. insurers and reinsurers are required to report the results of their RBC calculations as part of the statutory annual statements that such insurers and reinsurers file with state insurance regulatory authorities. The Model RBC Act provides for four different levels of regulatory actions, each of which may be triggered if an insurer s Total Adjusted Capital (as defined in the Model RBC Act) is less than a corresponding level of risk-based capital. The Company Action Level is triggered if an insurer s Total Adjusted Capital is less than 200% of its Authorized Control Level RBC (as defined in the Model RBC Act). At the Company Action Level, the insurer must submit a risk-based capital plan to the regulatory authority that discusses proposed corrective actions to improve its capital position. The Regulatory Action Level is triggered if an insurer s Total Adjusted Capital is less than 150% of its Authorized Control Level RBC. At the Regulatory Action Level, the regulatory authority will perform a special examination of the insurer and issue an order specifying corrective actions that must be followed. The Authorized Control Level is triggered if an insurer s Total Adjusted Capital is less than 100% of its Authorized Control Level RBC,

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and at that level, the regulatory authority is authorized (although not mandated) to take regulatory control of the insurer. The Mandatory Control Level is triggered if an insurer s Total Adjusted Capital is less than 70% of its Authorized Control Level RBC, and at that level, the regulatory authority is required to take regulatory control of the insurer. Regulatory control may lead to rehabilitation or liquidation of an insurer. At December 31, 2007, the Total Adjusted Capital of the PartnerRe U.S. Insurance Companies exceeded applicable RBC levels.

Canada

PartnerRe SA was subject to local regulation for its Canadian branch business, specified principally pursuant to Part XIII of the Insurance Companies Act (the Act) applicable to Foreign Property and Casualty Companies and to Foreign Life Companies. The Office of the Superintendent of Financial Institutions, Canada (OSFI) supervises the application of the Act. The Company s Canadian branch is authorized to insure, in Canada, risks falling within the classes of insurance as specified in the Act and is limited to the business of reinsurance. The branch is licensed in the Provinces of Quebec and Ontario to write both life and non-life reinsurance business. The Company maintained sufficient assets, vested in trust at a Canadian financial institution approved by OSFI, to allow the branch to meet statutory solvency requirements as defined by the regulations. Statutory information required by federal and provincial insurance regulators for both property and casualty and life business includes (1) a yearly business plan (property and casualty and life), (2) quarterly and year-end returns including general information, financial statements, statutory compliance reports and various investment, technical and other information, (3) an auditor s report, and (4) an opinion of an appointed actuary.

The Canadian branch of PartnerRe SA held a composite insurance license to write both life and non-life reinsurance business. Pursuant to the reorganization of the Company on January 1, 2008, PartnerRe SA transferred substantially all of the business, assets and liabilities of its Canadian non-life branch to the new Canadian non-life branch of PartnerRe Europe and the business, assets and liabilities of PartnerRe SA s Canadian life branch were transferred to the new life branch of Partner Reinsurance. The Canadian branch of PartnerRe Europe has obtained a license to write any non-life business and the Canadian branch of Partner Reinsurance has obtained a license to write any life business. Both branches are only authorized to write business in the Province of Ontario, but otherwise are subject to the same regulations by OSFI as detailed above.

Taxation of the Company and its Subsidiaries

The following summary of the taxation of the Company, Partner Reinsurance, PartnerRe SA, PartnerRe Europe and the PartnerRe U.S. Companies is based upon current law. Legislative, judicial or administrative changes may be forthcoming that could affect this summary. Certain subsidiaries, branch offices and representative offices of the Company are subject to taxation related to operations in Canada, Chile, France, Hong Kong, Ireland, Japan, Mexico, Singapore, South Korea, Switzerland and the United States. The discussion below covers the principal locations for which the Company or its subsidiaries are subject to taxation.

Bermuda

The Company and Partner Reinsurance have each received from the Minister of Finance an assurance under The Exempted Undertakings Tax Protection Act, 1966 of Bermuda, to the effect that in the event that there is any legislation enacted in Bermuda imposing tax computed on profits or income, or computed on any capital asset, gain or appreciation, or any tax in the nature of estate duty or inheritance tax, then the imposition of any such tax shall not be applicable to the Company or Partner Reinsurance or to any of their operations or the shares, debentures or other obligations of the Company or Partner Reinsurance until 2016. These assurances are subject to the proviso that they are not construed to prevent the application of any tax or duty to such persons as are ordinarily resident in Bermuda (the Company and Partner Reinsurance are not currently so designated) or to prevent the application of any tax payable in accordance with the provisions of The Land Tax Act 1967 of Bermuda or otherwise payable in relation to the property leased to Partner Reinsurance.

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Switzerland

Prior to 2008, Partner Reinsurance operated a branch in Switzerland that was subject to Swiss taxation, mainly on profits and capital. Following the Company s reorganization on January 1, 2008, the Swiss branch of PartnerRe Europe will be subject to the same Swiss taxation regulations. To the extent that net profits are generated, they are taxed at a rate of approximately 22%. The branch pays capital taxes at a rate of approximately 0.17% on its imputed branch capital calculated according to a procured taxation ruling. See also the discussion of taxation in Ireland below.

France

The Company s French subsidiaries, PartnerRe Holdings SA and PartnerRe SA, conduct business in, and are subject to taxation in France. The current statutory rate of tax on corporate profits in France is 34.43%. Payments of dividends by PartnerRe Holdings SA will be subject to withholding taxes. Following the Company s reorganization on January 1, 2008, the French branch of PartnerRe Europe will be subject to the same French taxation regulations as PartnerRe SA. See also the discussion of taxation in Ireland below.

United States

PartnerRe U.S. Corporation, PartnerRe U.S., PRNY, PartnerRe Capital Markets Corp., PartnerRe Principal Finance Inc., PartnerRe Asset Management Corporation and PartnerRe New Solutions Inc. (collectively the PartnerRe U.S. Companies) transact business in and are subject to taxation in the United States. The Company believes that it and its subsidiaries, other than the PartnerRe U.S. Companies, have operated and will continue to operate their business in a manner that will not cause them to be treated as engaged in a trade or business within the United States. On this basis, the Company does not expect that it and its subsidiaries, other than the PartnerRe U.S. Companies, will be required to pay U.S. corporate income taxes (other than withholding taxes as described below). However, because there is considerable uncertainty as to the activities that constitute a trade or business in the United States, there can be no assurance that the Internal Revenue Service (the IRS) will not contend successfully that the Company, Partner Reinsurance, PartnerRe Europe or PartnerRe SA are engaged in a trade or business in the United States. The maximum federal tax rate is currently 35% for a corporation s income that is effectively connected with a trade or business in the United States. In addition, U.S. branches of foreign corporations may be subject to the branch profits tax, which imposes a tax on U.S. branch after-tax earnings that are deemed repatriated out of the United States, for a potential maximum effective federal tax rate of approximately 54% on the net income connected with a U.S. trade or business.

Foreign corporations not engaged in a trade or business in the United States are subject to U.S. income tax, effected through withholding by the payer, on certain fixed or determinable annual or periodic gains, profits and income derived from sources within the United States as enumerated in Section 881(a) of the Internal Revenue Code, such as dividends and interest on certain investments.

The United States also imposes an excise tax on insurance and reinsurance premiums paid to foreign insurers or reinsurers with respect to risks located in the United States. The rate of tax applicable to reinsurance premiums paid to Partner Reinsurance is 1% of gross premiums.

Canada

PartnerRe SA operates a branch in Canada that is subject to Canadian taxation on its profits. The profits are taxed at the federal level as well as the Ontario and Quebec provincial level at a total rate that varies according to the distribution of profits between the provinces, which rate was approximately 35%. Following the Company s reorganization on January 1, 2008, the Canadian non-life branch of PartnerRe Europe and the Canadian life branch of Partner Reinsurance will be subject to the same Canadian taxation regulations, except that separate returns will be filed for non-life and life. Neither of the branches will be subject to Quebec provincial tax. See also the discussion of taxation in Ireland below.

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Ireland

The Company s Irish subsidiaries, PartnerRe Holdings Europe Ltd., PartnerRe Europe and PartnerRe Ireland Insurance Ltd, conduct business in and are subject to taxation in Ireland. Profits of an Irish trade or business are subject to Irish corporation tax at the rate of 12.5%, whereas profits of a foreign trade or business are taxable at the rate of 25%. In addition, following the Company s reorganization on January 1, 2008, the Swiss, French and Canadian non-life branches of PartnerRe Europe will be subject to taxation in Ireland at the Irish corporation tax rate of 12.5%. However, under Irish domestic tax law, the amount of tax paid in Switzerland, France and Canada can be credited against the Irish corporation tax. As a result, the Company does not expect to incur significant taxation in Ireland with respect to the Swiss, French and Canadian non-life branches.

Where You Can Find More Information

The Company s Annual Reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act are available free of charge through the investor information pages of its website, located at *www.partnerre.com*. Alternatively, the public may read or copy the Company s filings with the Securities and Exchange Commission (SEC) at the SEC s Public Reference Room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC (http://*www.sec.gov*).

ITEM 1A. RISK FACTORS

Introduction

Current and potential shareholders of the Company should be aware that, as with any publicly traded company, investing in our common shares carries risk. Managing risk effectively is paramount to our success and our organization is built around intelligent risk assumptions and careful risk management, as evidenced by our development of the PartnerRe Risk Management Framework, which provides an integrated approach to risk across the entire organization. We have identified what we believe reflect key significant risks to the organization, and in turn the shareholders. These risks should be read in conjunction with other Risk Factors described in more detail below.

First, in order to achieve our targeted growth in book value of 10% a year, we must be able to generate 13% operating ROE. Our ability to do that over a reinsurance cycle is dependent on our individual performance, but also on industry factors that impact the level of competition and the level of cost. The level of competition is determined by supply and demand of capacity. Demand is determined by client buying behavior which ebbs and flows based on the client s perception of the amount of risk, its financial capacity to bear it and the cost of risk transfer. Supply is determined by the existing reinsurance companies level of financial strength and the introduction of capacity from new start-ups or capital markets.

Significant new capacity or significant reduction in demand will depress industry profitability until the supply demand balance is redressed. Extended periods of imbalance could depress industry profitability to a point where we would fail to meet out targets.

Second, we knowingly expose ourselves to significant volatility in our quarterly and annual net income. We create shareholder value by assuming risk from the insurance and capital markets. This exposes us to volatile earnings as untoward events happen to our clients and in the capital markets. Examples of potential large loss events include, without limitation:

- Natural catastrophes such as hurricane, windstorm, flood, earthquake etc.
- Man-made disasters such as terrorism

- Declines in the equity and credit markets
- Systemic increases in the frequency or severity of casualty losses
- New mass tort actions or reemergence of old mass torts such as asbestosis

We manage large loss events through evaluation processes, which are designed to enable proper pricing of these risks over time, but which do little to moderate short term earnings volatility. The only effective tool to manage earnings volatility is through diversification by building a portfolio of uncorrelated risks. We do not buy significant amounts of retrocessional coverage, nor do we use significant capital market hedges or trading strategies in the pursuit of stability in earnings.

Third, we expose ourselves to several very significant risks that are of a size that can impact our financial strength as measured by U.S. GAAP or regulatory capital. We believe that the following are categorized as very significant risks:

- Catastrophe risk
- Casualty reserving risk
- Equity investment risk

Each of these three can accumulate to the point that they exceed a year s worth of earnings and affect the capital base of the Company (for further information about these risks see Other Key Issues of Management Risk Management in Item 7 of Part II of this report).

We rely on our internal risk processes, models and systems to manage these risks at the levels approved by the Board. However, because these models and processes may fail, we also impose limits on our exposure to these risks.

In addition to these enumerated risks, we face numerous other strategic and operational risks that could in the aggregate lead to shortfalls to our long-term goals or add to short-term volatility to our earnings. The following review of important risk factors should not be construed as exhaustive and should be read in conjunction with other cautionary statements that are included herein or elsewhere. The words believe, anticipate, estimate, project, plan, expect, intend, hope, forecast, evaluate, will likely result or will continue or words of similar impact generally involve forward-looking statements. As used in these Risk Factors, the terms we , our or us may, depending upon the context, refer to the Company, to one or more of the Company s consolidated subsidiaries or to all of them taken as a whole.

Risk Factors

Our profitability is affected by the cyclical nature of the reinsurance industry.

Historically, the reinsurance industry has experienced significant fluctuations in operating results due to competition, levels of available capacity, trends in cash flows and losses, general economic conditions and other factors. Demand for reinsurance is influenced significantly by underwriting results of primary insurers, including catastrophe losses, and prevailing general economic conditions. The supply of reinsurance is related directly to prevailing prices and levels of capacity that, in turn, may fluctuate in response to changes in rates of return on investments being realized in the reinsurance industry. If any of these factors were to result in a decline in the demand for reinsurance or an overall increase in reinsurance capacity, our profitability could be impacted.

We operate in a highly competitive environment.

The reinsurance industry is highly competitive and we compete with a number of worldwide reinsurance companies, including, but not limited to, Berkshire Hathaway s General Re, Everest Re Group Ltd, Hannover Re, Lloyds, Munich Re, Paris Re Holdings Ltd, Platinum Underwriters, Swiss Re, Transatlantic Reinsurance

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Company and reinsurance operations of certain primary insurance companies, such as ACE Limited, Axis Capital and XL Capital. Competition in the types of reinsurance that we underwrite is based on many factors, including the perceived financial strength of the reinsurer, pricing, other terms and conditions offered, services provided, ratings assigned by independent rating agencies, speed of claims payment and reputation and experience in the lines of reinsurance to be written. If competitive pressures reduce our prices, we would expect to write less business. In addition, competition for customers will become more intense and we could incur additional expenses relating to customer acquisition and retention, further reducing our operating margins.

Changes in current accounting practices and future pronouncements may materially impact our reported financial results.

Unanticipated developments in accounting practices may require considerable additional expense to comply, particularly if we are required to prepare information relating to prior periods for comparative purposes or to apply the new requirements retroactively. The impact of changes in current accounting practices and future pronouncements cannot be predicted, but may affect the calculation of net income.

Political, regulatory, governmental and industry initiatives could adversely affect our business.

Our reinsurance operations are subject to substantial regulations in each of their respective jurisdictions. Our main subsidiaries regulatory environments are described in detail in Item 1 of Part I of this report under the heading Regulation. Regulations relating to each of our main subsidiaries may in effect restrict each of those subsidiaries ability to write new business, to make certain investments and to distribute funds or assets to us. It is not possible to predict the future impact of changing laws or regulations on our operations, and any such changes may limit the way we currently conduct our business.

Government intervention and the possibility of future government intervention have created uncertainty in the insurance and reinsurance markets. Government regulators are generally concerned with the protection of policyholders to the exclusion of others, including shareholders of reinsurers. We believe it is likely there will be increased regulation of, and other forms of government participation in, our industry in the future, which could adversely affect our business by, among other things:

- Providing reinsurance capacity in markets and to consumers that we target or requiring our participation in industry pools and guaranty associations;
- Expanding the scope of coverage under existing policies;
- Regulating the terms of reinsurance policies; or
- Disproportionately benefiting the companies of one country over those of another.

Such a federal initiative was put forward in response to the tightening of supply in certain insurance and reinsurance markets resulting from, among other things, the September 11th tragedy, and consequently the Terrorism Risk Insurance Act of 2002 (TRIA) was enacted to ensure the availability of commercial insurance coverage for terrorist acts in the U.S. In December 2005, the Terrorism Risk Insurance Extension Act (TRIEA) was enacted which renewed the TRIA for two years. In December 2007, the Terrorism Risk Insurance Program Reauthorization Act (TRIPRA) was enacted, which further renewed TRIA for another 7 years ending December 31, 2014.

Such a state initiative was put forward by the Florida Legislature in response to the tightening of supply in certain insurance and reinsurance markets in Florida resulting from, among other things, recent hurricane damage in Florida, which enacted the Hurricane Preparedness and Insurance Act to ensure the availability of catastrophe insurance coverage for catastrophes in the state of Florida.

The insurance industry is also affected by political, judicial and legal developments that may create new and expanded theories of liability, which may result in unexpected claim frequency and severity and delays or

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cancellations of products and services we provide, which could adversely affect our business. Some direct writers are currently facing lawsuits and other actions designed to expand coverage related to Hurricane Katrina losses beyond that which those insurers believed they would be held liable for prior to that event. It is impossible to predict what impact similar actions may have on us in the future.

Legal and enforcement activities relating to the insurance industry could affect our business and our industry.

The insurance industry has experienced substantial volatility as a result of litigation, investigations and regulatory activity by various insurance, governmental and enforcement authorities concerning certain practices within the insurance industry. These practices include the accounting treatment for finite reinsurance or other non-traditional or loss mitigation insurance and reinsurance products.

These investigations have resulted in changes in the insurance and reinsurance markets and industry business practices. While at this time, none of these changes have caused an adverse effect on our business, we are unable to predict the potential effects, if any, that future investigations may have upon our industry. Future investigations could materially and adversely affect our business.

If we are downgraded by rating agencies, our standing with brokers and customers could be negatively impacted and may adversely impact our results of operations.

Third party rating agencies assess and rate the claims paying ability and financial strength of insurers and reinsurers, such as the Company s subsidiaries. These ratings are based upon criteria established by the rating agencies and can be important in establishing our competitive position in the market. They are not an evaluation directed to investors in our common shares, preferred shares or debt securities, and are not a recommendation to buy, sell or hold our common shares, preferred shares or debt securities. Rating agencies may downgrade or withdraw their ratings at the sole discretion of the rating agencies.

Our current financial strength ratings are:

Standard & Poor s	AA-/stable
Moody s	Aa3/stable
A.M. Best	A+/stable
Fitch	AA/stable

If our ratings were significantly downgraded, our competitive position in the reinsurance industry may suffer, and it could result in a reduction in demand for our products, In addition, certain business that we write contains terms that give the ceding company or derivative counterparty the right to terminate cover and/or require collateral if our ratings are downgraded significantly.

Since we rely on a few reinsurance brokers for a large percentage of our business, loss of business provided by these brokers could reduce our premium volume and net income.

We produce our business both through brokers and through direct relationships with insurance company clients. For the year ended December 31, 2007, approximately 69% of gross premiums were produced through brokers. In 2007, we had two brokers that accounted for 36% of our gross premiums written. Because broker-produced business is concentrated with a small number of brokers, we are exposed to concentration risk. A significant reduction in the business produced by these brokers would reduce our premium volume and net income.

We may require additional capital in the future, which may not be available or may only be available on unfavorable terms.

Our future capital requirements depend on many factors, including our ability to write new business successfully, the frequency and severity of catastrophic events, and our ability to establish premium rates and reserves at levels sufficient to cover losses. We may need to raise additional funds through financings or curtail

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our growth and reduce our assets. Any equity or debt financing, if available at all, may be on terms that are not favorable to us. Equity financings could be dilutive to our existing shareholders and could result in the issuance of securities that have rights, preferences and privileges that are senior to those of our other securities. If we cannot obtain adequate capital on favorable terms or at all, our business, operating results and financial condition could be adversely affected.

If actual losses exceed our estimated loss reserves, our net income will be reduced.

Our success depends upon our ability to accurately assess the risks associated with the businesses that we reinsure. We establish loss reserves to cover our estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that we write. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect our expectation of the costs of the ultimate settlement and administration of claims. Losses for casualty and liability lines often take a long time to be reported, and frequently can be impacted by lengthy, unpredictable litigation and by the inflation of loss costs over time. As a consequence of litigation in all of our lines of business, actual losses and loss expenses paid may deviate substantially from the reserve estimates reflected in our financial statements.

Although we did not operate prior to 1993, we assumed certain asbestos and environmental exposures through our acquisitions. Our reserves for losses and loss expenses include an estimate of our ultimate liability for asbestos and environmental claims for which we cannot estimate the ultimate value using traditional reserving techniques, and for which there are significant uncertainties in estimating the amount of our potential losses. We and certain of our subsidiaries have received and continue to receive notices of potential reinsurance claims from ceding insurance companies, which have in turn received claims asserting asbestos and environmental losses under primary insurance policies, in part reinsured by us. Such claims notices are often precautionary in nature and are generally unspecific, and the primary insurers often do not attempt to quantify the amount, timing or nature of the exposure. Given the lack of specificity in some of these notices, and the legal and tort environment that affects the development of claims reserves, the uncertainties inherent in valuing asbestos and environmental claims are not likely to be resolved in the near future. In addition, the reserves that we have established may be inadequate. If ultimate losses and loss expenses exceed the reserves currently established, we will be required to increase loss reserves in the period in which we identify the deficiency to cover any such claims.

As a result, even when losses are identified and reserves are established for any line of business, ultimate losses and loss expenses (that is, the administrative costs of managing and settling claims) may deviate, perhaps substantially, from estimates reflected in loss reserves in our financial statements. Variations between our loss reserve estimates and actual emergence of losses could be material and could have a material adverse effect on our results of operations and financial condition.

The volatility of the business that we underwrite may result in volatility of our earnings and limit our ability to write future business.

Catastrophe reinsurance comprises approximately 11% of our net premiums written and a larger percentage of our capital at risk. Catastrophe losses result from events such as windstorms, hurricanes, earthquakes, floods, hail, tornadoes, severe winter weather, fires, explosions and other man-made or natural disasters, the incidence and severity of which are inherently unpredictable. Because catastrophe reinsurance accumulates large aggregate exposures to man-made and natural disasters, our loss experience in this line of business could be characterized as low frequency and high severity. This is likely to result in substantial volatility in our financial results for any fiscal quarter or year, and may create downward pressure on the market price of our common shares and limit our ability to make dividend payments and payments on our debt securities.

Notwithstanding our endeavors to manage our exposure to catastrophic and other large losses, the effect of a single catastrophic event or series of events affecting one or more geographic zones, or changes in the relative frequency or severity of catastrophic or other large loss events, could reduce our earnings and limit the funds

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available to make payments on future claims. The effect of an increase in frequency of mid-size losses in any one reporting period affecting one or more geographic zones, such as an unusual level of hurricane activity, could also reduce our earnings. Should we incur more than one very large catastrophe loss, our ability to write future business may be adversely impacted.

By way of illustration, during the past five calendar years, we have incurred the following pre-tax large catastrophe losses, net of reinsurance (in millions of U.S. dollars):

Calendar year	Pre-tax large catastrophe losses	
2007	$	50
2006		
2005		900
2004		176
2003		

The loss incurred in 2007 was as the result of one large catastrophe event, whereas the losses in 2005 and 2004 were incurred as the result of multiple large catastrophe events.

We could face unanticipated losses from man-made catastrophic events and these or other unanticipated losses could impair our financial condition, reduce our profitability and decrease the market price of our shares.

We may have substantial exposure to unexpected, large losses resulting from future man-made catastrophic events, such as acts of terrorism, acts of war and political instability, or from other perils. Although we may exclude losses from terrorism and certain other similar risks from some coverage we write, we may continue to have exposure to such unforeseen or unpredictable events. It is difficult to predict the timing of such events with statistical certainty, or estimate the amount of loss any given occurrence will generate. Under U.S. GAAP, we are not permitted to establish reserves for potential losses associated with man-made or other catastrophic events until an event that may give rise to such losses occurs. If such an event were to occur, our reported income would decrease in the affected period. In particular, unforeseen large losses could reduce our profitability or impair our financial condition.

Emerging claim and coverage issues could adversely affect our business.

Unanticipated developments in the law, as well as changes in social and environmental conditions, could potentially result in unexpected claims for coverage under our insurance, reinsurance and other contracts. These developments and changes may adversely affect our business by either extending coverage beyond our underwriting intent or by increasing the number or size of claims. With respect to our casualty businesses, these legal, social and environmental changes may not become apparent until some time after their occurrence. Our exposure to these uncertainties could be exacerbated by an increase in insurance and reinsurance contract disputes, arbitration and litigation.

The full effects of these and other unforeseen emerging claim and coverage issues are extremely hard to predict. As a result, the full extent of our liability under our coverages, and in particular, our casualty reinsurance contracts, may not be known for many years after a contract is issued.

We are exposed to credit risk relating to our reinsurance brokers and cedants and other counterparties.

In accordance with industry practice, we may pay amounts owed under our policies to brokers, and they in turn pay these amounts to the ceding insurer. In some jurisdictions, if the broker fails to make such an onward payment, we might remain liable to the ceding insurer for the deficiency. Conversely, the ceding insurer may pay premiums to the broker, for onward payment to us in respect of reinsurance policies issued by us. In certain

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jurisdictions, these premiums are considered to have been paid to us at the time that payment is made to the broker, and the ceding insurer will no longer be liable to us for those amounts, whether or not we have actually received the premiums. We may not be able to collect all premiums receivable due from any particular broker at any given time. We also assume credit risk by writing business on a funds withheld basis. Under such arrangements, the cedant retains the premium they would otherwise pay to the reinsurer to cover future loss payments. In addition, we may be exposed to credit risk from transactions involving banks or derivative counterparties and the credit risk of reinsurers from whom we may purchase retrocessional reinsurance.

The exposure of our investments to interest rate, credit and market risks may limit our net investment income and net income and may affect the adequacy of our capital.

We invest the net premiums we receive until such time as we pay out losses. Investment results comprise a substantial portion of our income. For the year ended December 31, 2007, we had net investment income of $523 million, which represented approximately 12% of total revenues. While our Management has implemented what it believes to be prudent risk management and investment asset allocation practices, we are exposed to interest rate risk, credit and default risk, liquidity risk and market volatility.

Changes in interest rates can negatively affect us in two ways. In a declining interest rate environment, we will be required to invest our funds at lower rates, which would have a negative impact on investment income. In a rising interest rate environment, the market value of our fixed income portfolio may decline.

Our fixed income portfolio is primarily invested in high quality, investment-grade securities. However, we invest a smaller portion of the portfolio in below investment-grade securities, including high yield bonds, bank loans, and convertible bonds. These securities, which pay a higher rate of interest, also have a higher degree of credit or default risk. These securities may also be less liquid in times of economic weakness or market disruptions. While we have put in place procedures to monitor the credit risk and liquidity of our invested assets, it is possible that, in periods of economic weakness, we may experience default losses in our portfolio, which may impact net income and capital.

We invest a portion of our portfolio in preferred and common stocks or equity-related securities. The value of these assets fluctuates with equity markets. In times of economic weakness, the market value and liquidity of these assets may decline, and may impact net income and capital.

We also invest in alternative investments, which have different risk characteristics than traditional equity and fixed income securities. These alternative investments include mutual funds, equity hedge funds, and private bond and equity investments. Our percentage allocation to these alternative investments, which at December 31, 2007 was approximately 4 percent of our total investment portfolio, may increase or decrease. Fluctuations in the fair value of our alternative investments may reduce our income in any period or year or cause a reduction in our capital.

Our debt, credit and International Swap Dealers Association (ISDA) agreements may limit our financial and operational flexibility, which may affect our ability to conduct our business.

We have incurred indebtedness, and may incur additional indebtedness in the future. Additionally, we have entered into credit facilities and ISDA agreements with various institutions. Under these credit facilities, the institutions provide revolving lines of credit to us and our major operating subsidiaries and issue letters of credit to our clients in the ordinary course of business.

The agreements relating to our debt, credit facilities and ISDA agreements contain various covenants that may limit our ability, among other things, to borrow money, make particular types of investments or other restricted payments, sell assets, merge or consolidate. Some of these agreements also require us to maintain specified ratings and financial ratios, including a minimum net worth covenant. If we fail to comply with these covenants or meet required financial ratios, the lenders or counterparties under these agreements could declare a default and demand immediate repayment of all amounts owed to them.

If we are in default under the terms of these agreements, then we would also be restricted in our ability to declare or pay any dividends, redeem, purchase or acquire any shares or make a liquidation payment.

If our non-U.S. operations become subject to U.S. income taxation, our net income will decrease.

We believe that the Company and our non-U.S. subsidiaries and branches have operated, and will continue to operate, our respective businesses in a manner that will not cause us to be viewed as engaged in a trade or business in the United States and, on this basis, we do not expect that either we or our non-U.S. subsidiaries and branches will be required to pay U.S. corporate income taxes (other than potential withholding taxes on certain types of U.S.-source passive income). Because there is considerable uncertainty as to the activities that constitute being engaged in a trade or business within the United States, the IRS may contend that either we or our non-U.S. subsidiaries and branches are engaged in a trade or business in the United States. If either we or our non-U.S. subsidiaries and branches are subject to U.S. income tax, our shareholders equity and earnings will be reduced by the amount of such taxes, which might be material.

PartnerRe U.S. Corporation, PartnerRe U.S., PRNY, PartnerRe Capital Markets Corp., PartnerRe Principal Finance Inc., PartnerRe Asset Management Corporation and PartnerRe New Solutions Inc. conduct business in the United States, and are subject to U.S. corporate income taxes.

If proposed legislation before both Houses of Congress is passed, our individual U.S. shareholders would no longer qualify for current capital gains rates on our dividends.

Currently, our individual U.S. shareholders are taxed on dividends at advantageous capital gains rates rather than ordinary income tax rates. There is proposed legislation before both Houses of Congress that would exclude shareholders of foreign corporations from this advantageous capital gains rate treatment unless either (i) the corporation is organized or created in a country that has entered into a comprehensive income tax treaty with the U.S. or (ii) the stock of such corporation is readily tradable on an established securities market in the U.S., and the corporation is organized or created in a country that has a comprehensive income tax system that the U.S. Secretary of the Treasury determines is satisfactory for this purpose. We would not satisfy either of these tests and, accordingly, if this legislation became law, individual U.S. shareholders would no longer qualify for the advantageous capital gains rates on our dividends.

The impact of Bermuda s letter of commitment to the Organization for Economic Cooperation and Development to eliminate harmful tax practices is uncertain and could adversely affect our tax status in Bermuda.

The Organization for Economic Cooperation and Development (OECD) has published reports and launched a global dialogue among member and non-member countries on measures to limit harmful tax competition. These measures are largely directed at counteracting the effects of tax havens and preferential tax regimes in countries around the world. Bermuda was not listed in the most recent report as an uncooperative tax haven jurisdiction because it had previously committed to eliminate harmful tax practices, to embrace international tax standards for transparency, to exchange information and to eliminate an environment that attracts business with no substantial domestic activity. We are not able to predict what changes will arise from the commitment or whether such changes will subject us to additional taxes.

We are a holding company and, if our subsidiaries do not make dividend and other payments to us, we may not be able to pay dividends or make payments on our debt securities and other obligations.

We are a holding company with no operations or significant assets other than the capital stock of our subsidiaries. We rely primarily on cash dividends and payments from our subsidiaries to pay the operating and interest expenses, shareholder dividends and other obligations of the holding company that may arise from time to time. We expect future dividends and other permitted payments from these subsidiaries to be our principal source of funds to pay expenses and dividends. The payment of dividends by our reinsurance subsidiaries to us is

limited by the laws of their respective jurisdictions and certain insurance statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business. Therefore, our reinsurance subsidiaries may not always be able to, or may not, pay dividends to us sufficient to pay our expenses, dividends or other obligations.

Because we are a holding company, our right, and hence the right of our creditors and shareholders, to participate in any distribution of assets of any subsidiary of ours, upon our liquidation or reorganization or otherwise, is subject to the prior claims of policyholders and creditors of these subsidiaries.

Investors may encounter difficulties in service of process and enforcement of judgments against us in the United States.

We are a Bermuda company and some of our directors and officers are residents of various jurisdictions outside the United States. All, or a substantial portion, of the assets of our officers and directors and of our assets are or may be located in jurisdictions outside the United States. Although we have appointed an agent and irrevocably agreed that the agent may be served with process in New York with respect to actions against us arising out of violations of the United States Federal securities laws in any Federal or state court in the United States, it could be difficult for investors to effect service of process within the United States on our directors and officers who reside outside the United States. It could also be difficult for investors to enforce against us or our directors and officers judgments of a United States court predicated upon civil liability provisions of United States Federal securities laws.

There is no treaty in force between the United States and Bermuda providing for the reciprocal recognition and enforcement of judgments in civil and commercial matters. As a result, whether a United States judgment would be enforceable in Bermuda against us or our directors and officers depends on whether the United States court that entered the judgment is recognized by the Bermuda court as having jurisdiction over us or our directors and officers, as determined by reference to Bermuda conflict of law rules. A judgment debt from a United States court that is final and for a sum certain based on United States Federal securities laws will not be enforceable in Bermuda unless the judgment debtor had submitted to the jurisdiction of the United States court, and the issue of submission and jurisdiction is a matter of Bermuda law and not United States law.

In addition to and irrespective of jurisdictional issues, Bermuda courts will not enforce a United States Federal securities law that is either penal or contrary to public policy. An action brought pursuant to a public or penal law, the purpose of which is the enforcement of a sanction, power or right at the instance of the state in its sovereign capacity, will not be entered by a Bermuda court. Certain remedies available under the laws of United States jurisdictions, including certain remedies under United States Federal securities laws, would not be available under Bermuda law or enforceable in a Bermuda court, as they would be contrary to Bermuda public policy. Further, no claim can be brought in Bermuda against us or our directors and officers in the first instance for violation of United States Federal securities laws because these laws have no extra jurisdictional effect under Bermuda law and do not have force of law in Bermuda. A Bermuda court may, however, impose civil liability on us or our directors and officers if the facts alleged in a complaint constitute or give rise to a cause of action under Bermuda law.

Operational risks, including human or systems failures, are inherent in our business.

Operational risks and losses can result from many sources including fraud, errors by employees, failure to document transactions properly or to obtain proper internal authorization, failure to comply with regulatory requirements or information technology failures.

We believe our modeling, underwriting and information technology and application systems are critical to our business and reputation. Moreover, our technology and applications have been an important part of our underwriting process and our ability to compete successfully. Such technology is and will continue to be a very important part of our underwriting process. We have also licensed certain systems and data from third parties.

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We cannot be certain that we will have access to these, or comparable service providers, or that our technology or applications will continue to operate as intended. In addition, we cannot be certain that we would be able to replace these service providers or consultants without slowing our underwriting response time. A major defect or failure in our internal controls or information technology and application systems could result in management distraction, harm to our reputation, a loss or delay of revenues or increased expense.

Foreign currency fluctuations may reduce our net income and our capital levels.

Through our multinational reinsurance operations, we conduct business in a variety of foreign (non-U.S.) currencies, the principal exposures being the euro, the British pound, the Swiss franc, the Canadian dollar and the Japanese yen. Assets and liabilities denominated in foreign currencies are exposed to changes in currency exchange rates. Our reporting currency is the U.S. dollar, and exchange rate fluctuations relative to the U.S. dollar may materially impact our results and financial position. We employ various strategies (including hedging) to manage our exposure to foreign currency exchange risk. To the extent that these exposures are not fully hedged or the hedges are ineffective, our results may be reduced by fluctuations in foreign currency exchange rates.

We have imposed various limitations on voting and ownership of our shares, which will limit the ability of investors to acquire more than a certain percentage of our voting shares. The anti-takeover provisions in our bye-laws may discourage takeover attempts.

Under our bye-laws, subject to waiver by our board of directors, no transfer of our common shares or preferred shares is permitted if such transfer would result in a shareholder controlling more than 9.9% of the voting power of our outstanding shares. Any person controlling more than the specified number of shares will be permitted to dispose of any shares purchased which violate the restriction. If we become aware of such ownership, our bye-laws provide that the voting rights with respect to shares directly or indirectly beneficially or constructively owned by any person so owning more than 9.9% of the voting power of the outstanding shares, including our common shares and preferred shares, will be limited to 9.9% of the voting power. The voting rights with respect to all shares held by such person in excess of the 9.9% limitation will be allocated to the other holders of shares, pro rata based on the number of shares held by all such other holders of shares, subject only to the further limitation that no shareholder allocated any such voting rights may exceed the 9.9% limitation as a result of such allocation.

Our bye-laws also contain provisions that may entrench directors and make it more difficult for shareholders to replace directors, even if the shareholders consider it beneficial to do so. These provisions include a classified board of directors, meaning that the members of only one of three classes of our directors are elected each year, which could delay or prevent a change of control that a shareholder might consider favorable. These provisions may adversely affect the prevailing market price of our common shares if they are viewed as discouraging change in management and takeover attempts in the future.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
The Company leases office space in Bermuda where the Company s principal executive offices are located. Additionally, the Company leases office space in various locations, including Beijing, Dublin, Greenwich (Connecticut), Hong Kong, Mexico City, Paris, Santiago, Seoul, Singapore, Tokyo, Toronto and Zurich.

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ITEM 3. 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, 2007, the Company was not a party to any litigation or arbitration that it believes could have a material adverse effect on the financial condition or business of the Company.

Subpoenas

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

In January 2007, PartnerRe U.S. received a subpoena from the Attorney General for the State of Connecticut requesting information relating to the Company s participation in certain underwriting agreements that existed in 2002 and prior. The Company has responded promptly to all requests for information.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of shareholders of the Company during the fourth quarter of the fiscal year ended December 31, 2007.

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PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company has the following securities (with their related symbols) traded on the New York Stock Exchange:

Common shares	PRE
6.75% Series C cumulative preferred shares	PRE-PrC
6.5% Series D cumulative preferred shares	PRE-PrD

As of February 20, 2008, the approximate number of common shareholders was 49,500.

The following table provides information about purchases by the Company during the quarter ended December 31, 2007, of equity securities that are registered by the Company pursuant to Section 12 of the Exchange Act.

Issuer Purchases of Equity Securities

Period	(a) Total number of shares purchased (1)	(b) Average price paid per share	(c) Total number of shares purchased as part of publicly announced program (1)(2)	(d) Maximum number of shares that may yet be purchased under the program (2)
10/01/2007-10/31/2007	113,700	81.71	113,700	3,256,979
11/01/2007-11/30/2007	1,205,587	81.65	1,205,587	4,650,900
12/01/2007-12/31/2007	180,400	82.75	180,400	4,470,500
Total	1,499,687	81.78	1,499,687	

(1) The Company repurchased an aggregate of 1,499,687 of its common shares in the open market during the three months ended December 31, 2007 pursuant to its repurchase program.

(2) In November 2007, the Company s Board of Directors approved an increase in the Company s stock repurchase authorization up to a maximum of 5 million common shares. Of this authorization, 4,470,500 common shares remain eligible for repurchase. Unless terminated earlier by resolution of the Company s Board of Directors, the program will expire when the Company has repurchased all shares authorized for repurchase thereunder.

Other information with respect to the Company s common shares and related stockholder matters is contained in Notes 10, 11, 13, 14 and 19 to Consolidated Financial Statements in Item 8 of Part II of this report; and in the Proxy Statement and is incorporated by reference to this item.

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ITEM 6. SELECTED FINANCIAL DATA
Selected Consolidated Financial Data

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

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

	For the years ended December 31,				
Statement of Operations Data	**2007**	**2006**	**2005**	**2004**	**2003**
Gross premiums written	**$ 3,810**	$ 3,734	$ 3,665	$ 3,888	$ 3,625
Net premiums written	**3,757**	3,689	3,616	3,853	3,590
Net premiums earned	**$ 3,777**	$ 3,667	$ 3,599	$ 3,734	$ 3,503
Net investment income	**523**	449	365	298	262
Net realized investment (losses) gains	**(72)**	47	207	117	87
Other (loss) income	**(17)**	24	35	17	21
Total revenues	**4,211**	4,187	4,206	4,166	3,873
Losses and loss expenses and life policy benefits	**2,082**	2,111	3,087	2,476	2,366
Total expenses	**3,328**	3,355	4,244	3,673	3,381
Income (loss) before distributions related to trust preferred and mandatorily redeemable preferred securities, taxes and interest in (losses) earnings of equity investments	**883**	832	(38)	493	492
Distributions related to trust preferred and mandatorily redeemable preferred securities					22
Income tax expense	**82**	95	23	7	2
Interest in (losses) earnings of equity investments	**(83)**	12	10	6	
Net income (loss)	**$ 718**	$ 749	$ (51)	$ 492	$ 468
Basic net income (loss) per common share	**$ 12.18**	$ 12.58	$ (1.56)	$ 8.80	$ 8.23
Diluted net income (loss) per common share	**$ 11.87**	$ 12.37	$ (1.56)	$ 8.71	$ 8.13
Dividends declared and paid per common share	**$ 1.72**	$ 1.60	$ 1.52	$ 1.36	$ 1.20
Weighted average number of common and common share equivalents outstanding	**57.6**	57.8	55.0	54.0	53.9
Non-life Ratios					
Loss ratio	**50.8%**	54.8%	87.3%	65.6%	65.6%
Acquisition ratio	**22.9**	23.1	23.0	23.0	22.2
Other operating expense ratio	**6.7**	6.5	6.0	6.0	5.6
Combined ratio	**80.4%**	84.4%	116.3%	94.6%	93.4%

	At December 31,				
Balance Sheet Data	**2007**	**2006**	**2005**	**2004**	**2003**
Total investments and cash	**$ 11,572**	$ 10,679	$ 9,579	$ 8,398	$ 6,797
Total assets	**16,037**	14,948	13,744	12,680	10,903
Unpaid losses and loss expenses and policy benefits for life and annuity contracts	**8,773**	8,301	7,962	7,044	5,917
Long-term debt	**620**	620	620	220	220
Debt related to capital efficient notes	**258**	258			

Debt related to trust preferred securities			206	206	206
Mandatorily redeemable preferred securities					200
Total shareholders equity	**4,322**	3,786	3,093	3,352	2,594
Diluted book value per common and common share equivalents	**$ 67.96**	$ 56.07	$ 44.57	$ 50.99	$ 42.48
Number of common shares outstanding, net of treasury shares	**54.3**	57.1	56.7	54.9	53.7

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ITEM 7. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION
Executive Overview

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

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

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

The Company generates its revenue primarily from premiums. Premium rates and terms and conditions vary by line of business depending on market conditions. Pricing cycles are driven by supply of capital in the industry and demand for reinsurance and other risk transfer products. The reinsurance business is also influenced by several other factors, including variations in interest rates and financial markets, changes in legal, regulatory and judicial environments, loss trends, inflation and general economic conditions.

Throughout the late 1990s, the industry s operating profitability and cash flows declined as a result of declining prices, a deterioration in terms and conditions and increasing loss costs. These negative trends were, however, offset by high investment returns that led to continued growth in capital. Premium rates began to increase in 2001, when the large loss events of that year, including the September 11 tragedy and the Enron bankruptcy, in addition to steep declines in interest rates and equity values, added to the pressure for improvements in pricing and underwriting conditions. These improvements continued through the middle of 2003. In the second half of 2003 through 2004, the Company began to see a flattening in the rate of improvement in the terms and conditions of the most profitable lines, and a slower rate of improvement in those lines that had not yet reached their peak in terms of profitability. During 2005, pricing was generally flat to down, except for those lines specifically affected by the 2004 hurricanes. However, 2005 eventually developed into the worst year in the history of the industry in terms of catastrophe losses, with Hurricane Katrina being the largest insured event ever, two other significant Atlantic hurricanes, Rita and Wilma, as well as a significant windstorm and a flood in Europe. Consequently, the Company observed in 2006 strong pricing increases in the lines and geographies that were affected by the large 2005 catastrophic loss events, including catastrophe covers in the southeastern U.S. and in the U.S. property and energy lines. Pricing in other lines was generally stable. In 2007, pricing remained strong for U.S. wind-exposed lines, while all other lines saw pricing declines.

The January 1, 2008 renewals saw a continuation of trends characteristic of a market in transition. The market was more competitive than at January 1, 2007, yet still rational. There were pricing declines in most major markets and most lines of business. There was a continuation of the trend toward increasing risk retention by cedants, and restructuring proportional coverages to non-proportional treaties, which led to the continued reduction in the amount of premiums in the reinsurance marketplace. Nevertheless, the Company wrote a

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considerable amount of new business during the January 1, 2008 renewals and believes it has maintained priced profitability on business renewed above its long-term priced return on deployed capital target of 13% over a cycle. Despite challenging market conditions, the Company has not changed its strategy or approach and continues to be opportunistic in writing business in its core reinsurance activities, as well as exploring opportunities in the capital markets. The Company intends to continue to maintain balance and diversification in its overall portfolio.

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

Within the Company s Life segment, the reinsurance market is differentiated between mortality and longevity products, with mortality being the larger market and longevity being smaller, but growing. For the mortality markets in which the Company writes business, the Company observed stable pricing for continental Europe and Latin America. In contrast, there are much more competitive conditions in the U.K. and Ireland, and while these two markets remain attractive, appropriate risk selection and pricing is important. The Company does not write life business in the U.S. market.

The Company s profitability is significantly affected by the level of its losses and loss expenses incurred. The Company recognizes losses and loss expenses on the basis of actual and expected claims on business written and earned. The Company s Non-life net reserve position at December 31, 2007 was $7.1 billion. Management believes that it follows prudent reserving policies to maintain a strong financial position. A key challenge for the Company is the accurate estimation of loss reserves for each line of business, which is critical in order to accurately determine the profitability of each line and allocate the optimal amount of capital to each line. Another key challenge for the Company is to appropriately allocate capital in a manner that optimizes profitability.

The Company also generates revenue from its substantial and high quality investment portfolio. The Company follows prudent investment guidelines through a strategy that seeks to maximize returns while managing investment risk in line with the Company s overall objectives of earnings stability and long-term book value growth. Liability funds are used to support the Company s net reinsurance liabilities, defined as the Company s operating and reinsurance liabilities, net of reinsurance assets, and are invested in a way that generally matches them to the corresponding liabilities in terms of both duration and currency composition to protect the Company against changes in interest and foreign exchange rates. The Company invests the liability funds in high-quality fixed income securities with the primary objective of preserving liquidity and protecting capital. Capital funds are invested to achieve total returns that enhance growth in shareholders equity and are invested in investment-grade and below investment-grade fixed income securities and equity instruments. A key challenge for the Company is achieving the right balance between current investment income and total returns (that include price appreciation or depreciation) in changing market conditions. The Company regularly reviews the allocation of investments to asset classes within its investment portfolio and reallocates investments to those asset classes the Company anticipates will outperform in the near future, subject to limits and guidelines. The Company may also lengthen or shorten the duration of its fixed income portfolio in anticipation of changes in interest rates, or increase or decrease the amount of credit risk it assumes, depending on credit spreads and anticipated economic conditions.

The Company s capital markets unit, which includes both public and private market investments, experienced a difficult second half of 2007 with the collapse of the credit markets, and the market turmoil

continues into 2008. The collapse of the U.S. sub-prime mortgage market affected a large number of collateralized debt obligations (CDOs) that contained sub-prime securities and developed into a liquidity and credit crisis. The potential impact of the turmoil in the credit markets has been substantially mitigated by the Company s high quality asset portfolio described above and the Company did not have direct exposure to sub-prime mortgages in its investment portfolio at December 31, 2007. Even in this environment, the Company s total return on the capital markets risks was positive during 2007, though below the risk-free rate of return. The Company believes that even though there will be years where capital markets risks return less than the risk-free rate of return, or potentially even results in a negative return, the rewards for assuming these risks in a disciplined and measured way will produce a positive excess return to the Company over time. Additionally, since capital markets risks are not fully correlated with the Company s reinsurance risks, this element of our strategy increases the overall diversification of the Company s risk portfolio.

Key Financial Measures

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

Diluted Book Value per Share: Management uses growth in diluted book value per share as a prime measure of the value the Company is generating for its common shareholders, as Management believes that growth in the Company s diluted book value per share ultimately translates into growth in the Company s stock price. Diluted book value per share is calculated using common shareholders equity (shareholders equity less the liquidation value of preferred shares) divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities). Diluted book value per share is impacted by the Company s net income and external factors such as interest rates and equity markets, which can drive changes in unrealized gains or losses on its investment portfolio. Since December 31, 2002, the Company has generated a compound annual growth rate in diluted book value per share in excess of 14%.

ROE: Management uses operating return on beginning shareholders equity (ROE) as a measure of profitability that focuses on the return to common shareholders. It is calculated using net operating earnings (loss) available to common shareholders (net income or loss excluding net after-tax realized gains or losses on investments, net after-tax interest in earnings or losses of equity investments and preferred share dividends) divided by beginning common shareholders equity. Management has set a minimum 13% ROE target over the reinsurance cycle, which Management believes provides an attractive return to shareholders for the risk assumed. Each business unit and support department throughout the Company is focused on seeking to ensure that the Company meets the 13% return objective. This means that most economic decisions, including capital allocation and underwriting pricing decisions, incorporate an ROE impact analysis. For the purpose of that analysis, an appropriate amount of capital (equity) is allocated to each transaction for determining the transaction s priced return on deployed capital. Subject to an adequate return for the risk level as well as other factors, such as the contribution of each risk to the overall risk level and risk diversification, capital is allocated to the transactions generating the highest priced return on deployed capital. Management s challenge consists of (i) allocating an appropriate amount of capital to each transaction based on the incremental risk created by the transaction, (ii) properly estimating the Company s overall risk level and the impact of each transaction on the overall risk level, and (iii) assessing the diversification benefit, if any, of each transaction. The risk for the Company lies in mis-estimating any one of these factors, which are critical in calculating a meaningful priced return on deployed capital, and entering into transactions that do not contribute to the Company s 13% ROE objective.

Combined Ratio: The combined ratio is used industry-wide as a measure of underwriting profitability for Non-life business. The combined ratio is the sum of the technical ratio (losses and loss expenses and acquisition costs divided by net premiums earned) and the other operating expense ratio (other operating expenses divided by net premiums earned). A combined ratio under 100% indicates underwriting profitability, as the total losses and loss expenses, acquisition costs and other operating expenses are less than the premiums earned on that

business. While an important metric of success, the combined ratio does not reflect all components of profitability, as it does not recognize the impact of interest income earned on premiums between the time premiums are received and the time loss payments are ultimately made to clients. Since 2001, the Company has had five years of underwriting profitability reflected in combined ratios of less than 100% for its Non-life segment. In 2005, when the industry recorded its worst year in history in terms of catastrophe losses, with Hurricane Katrina being the largest insured event ever, the Company recorded a net underwriting loss and Non-life combined ratio of 116.3% as a result of the significant catastrophic loss events that year. The key challenges in managing the combined ratio metric consist of (i) focusing on underwriting profitable business even in the weaker part of the reinsurance cycle, as opposed to growing the book of business at the cost of profitability, (ii) diversifying the portfolio to achieve a good balance of business, with the expectation that underwriting losses in certain lines or markets may potentially be offset by underwriting profits in other lines or markets, and (iii) maintaining control over expenses.

Other Key Issues of Management

Enterprise Culture

Management is focused on ensuring that the structure and culture of the organization promote intelligent, prudent, transparent and ethical decision-making. Management believes that a sound enterprise culture starts with the tone at the top. The Executive Management holds regular company-wide information sessions to present and review Management s latest decisions, whether operational, financial or structural, as well as the financial results of the Company. Employees are encouraged to address questions related to the Company s results, strategy or Management decisions, either anonymously or otherwise to Management so that they can be answered during these information sessions. Management believes that these sessions provide a consistent message to all employees about the Company s value of transparency. Management also strives to promote a work environment that (i) aligns the skill set of individuals with challenges encountered by the Company, (ii) includes segregation of duties to ensure objectivity in decision making, and (iii) provides a compensation structure that encourages and rewards intelligent and ethical behavior. To that effect, the Company has a written Code of Business Conduct and Ethics and provides employees with a direct communication channel to the Audit Committee in the event they become aware of questionable behavior of Management or anyone else. Finally, Management believes that building a sound internal control environment, including a strong internal audit function, helps ensure that behaviors are consistent with the Company s cultural values.

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

Capital Adequacy

A key challenge for Management is to maintain an appropriate level of capital. Management s first priority is to hold sufficient capital to meet all of the Company s obligations to cedants, meet regulatory requirements and support its position as one of the stronger reinsurers in the industry. Holding an excessive amount of capital, however, will reduce the Company s ROE. Consequently, Management closely monitors its capital needs and

capital level throughout the cycle, and actively takes steps to increase or decrease the Company s capital in order to achieve the proper balance of financial strength and shareholder returns. Capital management is achieved by either deploying capital to fund attractive business opportunities, or in times of excess capital, returning capital to shareholders by way of share repurchases and dividends.

Liquidity and Cash Flows

The Company aims to be a reliable and financially secure partner to its cedants. This means that the Company must maintain sufficient liquidity at all times so that it can support its cedants by settling claims quickly. The Company generates cash flows primarily from its underwriting and investment operations. Management believes that a profitable, well-run reinsurance organization will generate sufficient cash from premium receipts to pay claims, acquisition costs and operating expenses in most years. To the extent that underwriting cash flows are not sufficient to cover operating outflows in any year, the Company may utilize cash flows generated from investments and may ultimately liquidate assets from its investment portfolio. Management ensures that its liquidity requirements are supported by maintaining a high-quality, well-balanced and liquid portfolio, and by matching the duration of its investment portfolio with that of its net reinsurance liabilities. In 2008, the Company expects to continue to generate positive operating cash flows. Management also maintains credit facilities with banks that can provide efficient access to cash in the event of an unforeseen cash requirement.

Risk Management

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

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

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

The Company believes that it maintains a risk appetite moderately above the average of the reinsurance market because Management believes that this position offers the best potential for creating shareholder value at an acceptable risk level. The most profitable products generally present the most volatility and potential

downside risk. The Company manages that risk through diversification, risk appetite for different risk classes and absolute limits on any one risk. The Company accepts that results on a quarterly basis may be volatile; however, it seeks to protect itself from downside risk that can materially impair its balance sheet. The limits imposed represent the boundaries of risk tolerance and are based on the amount of capital that may be lost over the return period.

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

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

Other risks such as interest rate risk and credit risk have the ability to impact results substantially and may result in volatility in results from quarter to quarter, but Management believes that by themselves, they are unlikely to represent a material downside threat to the Company s long-term economic value. See Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of this report for additional disclosure on interest rate risk, foreign currency risk, credit risk and equity price risk.

Catastrophe Risk

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

The Company imposes an absolute limit to catastrophe risk from any single loss through exposure limit caps in each zone and to each peril, with the largest zonal limit set at a maximum of $1.4 billion. The largest zonal limit used at December 31, 2007 was $1.3 billion. This risk is managed through the real time allocation of catastrophe exposure capacity on each exposure zone to different business units, regular modeling of aggregate loss scenarios through proprietary models and a combination of quantitative and qualitative analysis. A zone is a geographic area in which the insurance risks are considered to be correlated to a single catastrophic event. Not all zones have the same limit and zones are broadly defined so that it would be highly unlikely for any single event to substantially erode the aggregate exposure limits from more than one zone. Even extremely high severity/low likelihood events will only partially exhaust the limits in any zone, as they are likely to only affect a part of the area covered by a wide zone.

The Company also limits its exposures so that the chance that an economic loss to the Company from all catastrophe losses in aggregate in any one year exceeding $1.0 billion has a modeled probability of occurring less than once in 75 years. To measure this probability, the Company uses proprietary models that take into account not only the exposures in any zone, but also the likely frequency and severity of catastrophic events. This quantitative analysis is supplemented with the professional judgment of experienced underwriters. At December 31, 2007, the modeled economic loss to the Company from a one in 75 year catastrophic loss was $680 million, in aggregate, for all zones.

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Casualty Reserving Risk

The Company defines this risk as the risk that the estimates of ultimate losses that underlie its booked reserves for casualty and other long-tail lines will prove to be too low, leading to substantial reserve strengthening. The tolerance set by the Company for this risk is measured using total earned premium for casualty and other long-tail lines for the four most recent underwriting periods. Total earned premiums for casualty and other long-tail lines for the four most recent underwriting periods was limited to a maximum of $4.2 billion, compared to an actual of $3.0 billion, as of December 31, 2007.

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

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

Equity Investment Risk

The Company defines this risk as the risk of a substantial decline in the value of its equity and equity-like securities (defined as all securities, including private investments, other than investment-grade securities) during the year. The tolerance set by the Company for this risk is measured using the value of equity and equity-like securities as a percentage of economic capital and was set at a maximum of $2.8 billion, compared to an actual of $1.4 billion, as of December 31, 2007. Assuming equity risk (and equity-like risks such as high yield bonds and convertible securities) within that part of the investment portfolio that is not required to support liability funds provides valuable diversification from other risk classes, along with the potential for higher returns. However, an overweight position could lead to a large loss of capital and impair the balance sheet in the case of a market crash. The Company sets strict limits on investments in any one name and any one industry, which creates a diversified portfolio and allows Management to focus on the systemic effects of equity risks. Systemic risk is managed by asset allocation, subject to strict caps on other than investment-grade bonds as a percentage of capital. The Company s fully integrated information system provides real-time data on the investment portfolios, allowing for continuous monitoring and decision-support. Each portfolio is managed against a pre-determined benchmark to enable alignment with appropriate risk parameters and achievement of desired returns. See Quantitative and Qualitative Disclosures about Market Risk Equity Price Risk in Item 7A of Part II of this report.

Critical Accounting Policies and Estimates

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

estimates used by Management, there could be material adjustments to prior estimates that could potentially adversely affect the Company s results of operations, financial condition and liquidity. These critical accounting policies and estimates should be read in conjunction with the Company s Notes to Consolidated Financial Statements, including Note 2, Significant Accounting Policies, for a full understanding of the Company s accounting policies. The sensitivity estimates that follow are based on outcomes that the Company considers reasonably likely to occur.

Losses and Loss Expenses and Life Policy Benefits

Losses and Loss Expenses

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

The amount of time that elapses before a claim is reported to the cedant and then subsequently reported to the reinsurer is commonly referred to in the industry as the reporting tail. Lines of business for which claims are reported quickly are commonly referred to as short-tail lines; and lines of business for which a longer period of time elapses before claims are reported to the reinsurer are commonly referred to as long-tail lines. In general, for reinsurance, the time lags are longer than for primary business due to the delay that occurs between the cedant becoming aware of a loss and reporting the information to its reinsurer(s). The delay varies by reinsurance market (country of cedant), type of treaty, whether losses are paid by the cedant and the size of the loss. The delay could vary from a few weeks to a year or sometimes longer. The Company considers agriculture, catastrophe, energy, property, motor business written in the U.S., proportional motor business written outside of the U.S., specialty property and structured risk to be short-tail lines; aviation/space, credit/surety, engineering, marine and multiline to be medium-tail lines; and casualty, non-proportional motor business written outside of the U.S. and specialty casualty to be long-tail lines of business. For all lines, the Company s objective is to estimate ultimate losses and loss expenses. Total loss reserves are then calculated by subtracting losses paid. Similarly, IBNR reserves are calculated by subtraction of case reserves and ACRs from total loss reserves.

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

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

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

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

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

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

The main strengths of the method are that it is reactive to loss emergence (payments) and that it makes full use of historical experience on claim emergence (payments). For homogeneous low volatility lines, under stable economic conditions the method can often produce good estimates of ultimate liabilities and reserves. However, the method has weaknesses when the underlying assumption of stable patterns is not true. This may be the consequence of changes in the mix of business, changes in claim inflation trends, changes in claim reporting practices or the presence of large claims, among other things. Furthermore, the method tends to produce volatile estimates of ultimate liabilities in situations where there is volatility in reported (paid) patterns. In particular, when the expected percentage reported (paid) is low, small deviations between actual and expected claims can lead to very volatile estimates of ultimate liabilities and reserves. Consequently, this method is often unsuitable for projections at early development stages of an underwriting year. Finally, the method fails to incorporate any information regarding market conditions, pricing, etc., which could improve the estimate of liabilities and reserves. It therefore tends not to perform very well in situations where there are rapidly changing market conditions.

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Expected Loss Ratio (ELR) Method

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

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

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

Benktander (B-K) Methods (Reported or Paid)

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

In determining the Company s loss reserves, the selected best estimate is often a blend of the results from two or more methods (e.g., weighted averages). The judgment as to which method(s) is most appropriate for a particular underwriting year and reserving cell could change over time as new information emerges regarding underlying loss activity and other data issues. Furthermore, as each line is typically composed of several reserving cells, it is likely that the reserves for the line will be dependent on several reserving methods. This is because reserves for a line are the result of aggregating the reserves for each constituent reserving cell and that a different method could be selected for each reserving cell. Although it is not appropriate to refer to reserves for a line as being determined by a particular method, the table below summarizes the methods that were given principal weight in selecting the best estimates of reserves in each reserving line and can therefore be viewed as key drivers of selected reserves. The table distinguishes methods for mature and immature underwriting years, as they are often different. The definition of maturity is specific to a line and is related to the reporting tail. If at the reserve evaluation date, a significant proportion of losses for the underwriting year are expected to have been reported, then the underwriting year is deemed to be mature, otherwise it is deemed to be immature. For short-tail lines, such as property or agriculture, immature years can refer to the one or two most recent underwriting years, while for longer tail lines, such as casualty, immature years can refer to the three or four most recent underwriting years.

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

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

(1) The other reserving line is primarily related to structured risk reinsurance and non-active lines of business.

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

(i) the loss development factors used to form an expectation of the evolution of reported and paid claims for several years following the inception of the underwriting year. These are often derived by examining the Company s data after due consideration of the underlying factors listed below. In some cases, where the Company lacks sufficient volume to have statistical credibility, external

benchmarks are used to supplement the Company s data;

(ii) the tail factors used to reflect development of paid and reported losses after several years have elapsed since the inception of the underwriting year;

(iii) the *a priori* loss ratios used as inputs in the B-F methods; and

(iv) the selected loss ratios used as inputs in the Expected Loss Ratio method.

The validity of all parameter assumptions used in the reserving process is reaffirmed on a quarterly basis. Reaffirmation of the parameter assumptions means that the actuaries determine that the parameter assumptions

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

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

(i) the cedant s business practices will proceed as in the past with no material changes either in submission of accounts or cash flows;

(ii) any internal delays in processing accounts received by the cedant are not materially different from that experienced historically, and hence the implicit reserving allowance made in loss reserves through the methods continues to be appropriate;

(iii) case reserve reporting practices, particularly the methodologies used to establish and report case reserves, are unchanged from historical practices;

(iv) the Company s internal claim practices, particularly the level and extent of use of ACRs are unchanged;

(v) historical levels of claim inflation can be projected into the future and will have no material effect on either the acceleration or deceleration of claim reporting and payment patterns;

(vi) the selection of reserving cells results in homogeneous and credible future expectations for all business in the cell and any changes in underlying treaty terms are either reflected in cell selection or explicitly allowed in the selection of trends;

(vii) in cases where benchmarks are used, they are derived from the experience of similar business; and

(viii) the Company can form a credible initial expectation of the ultimate loss ratio of recent underwriting years through a review of pricing information, supplemented by qualitative information on market events.

The Company s best estimate of total loss reserves is typically in excess of the midpoint of the actuarial reserve estimates. The Company believes that there is potentially significant risk in estimating loss reserves for long-tail lines of business and for immature underwriting years that may not be adequately captured through traditional actuarial projection methodologies. As discussed above, these methodologies usually rely heavily on projections of prior year trends into the future. In selecting its best estimate of future liabilities, the Company considers both the results of actuarial point estimates of loss reserves as well as the potential variability of these

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estimates as captured by a reasonable range of actuarial reserve estimates. Selected reserves are always within the indicated reasonable range of estimates indicated by the Company s actuaries. In determining the appropriate best estimate, the Company reviews (i) the position of overall reserves within the actuarial reserve range, (ii) the result of bottom up analysis by underwriting year reflecting the impact of parameter uncertainty in actuarial calculations, and (iii) specific qualitative information on events that may have an effect on future claims but which may not have been adequately reflected in actuarial mid-estimates, such as potential for outstanding litigation, claims practices of cedants, etc.

During 2007, 2006 and 2005, the Company reviewed its estimate for prior year losses for each sub-segment of the Non-life segment and, in light of developing data, determined to adjust its ultimate loss ratios for prior accident years. The following table summarizes the net prior year favorable (adverse) reserve development for the Company s Non-life operations, for the years ended December 31, 2007, 2006 and 2005 (in millions of U.S. dollars):

	2007	**2006**	**2005**
Prior year net favorable (adverse) reserve development:			
Non-life segment:			
U.S.	**$ 72**	$ 2	$ (47)
Global (Non-U.S.) P&C	**97**	66	67
Global (Non-U.S.) Specialty	**203**	208	202
Catastrophe	**42**	(24)	9
Total net Non-life prior year reserve development	**$ 414**	$ 252	$ 231

For a discussion of net prior year favorable (adverse) reserve development by segment and sub-segment, see Results by Segment below and Note 4 to Consolidated Financial Statements in Item 8 of Part II of this report.

The table below summarizes the net prior year reserve development for the year ended December 31, 2007 by reserving line for the Company s Non-life segment (in millions of U.S. dollars):

Reserving lines	**Net favorable (adverse) prior year reserve development**
Property / Specialty Property	$ 61
Casualty / Specialty Casualty	108
Multiline	(5)
Motor U.S. business	1
Motor Non-U.S. Proportional business	14
Motor Non-U.S. Non-proportional business	20
Agriculture	17
Aviation/Space	64
Catastrophe	42
Credit/Surety	46
Engineering	16
Energy Onshore	6
Marine/Energy Offshore	21
Other	3
Total net Non-life prior year reserve development	$ 414

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The following paragraphs discuss how losses paid and reported during the year ended December 31, 2007 compared with the Company s expectations, and how the Company modified its reserving parameter assumptions in line with the emerging development in each reserving line.

Property: Aggregate losses reported for the U.S. property line were lower than expected, and the Company selected reserving methods that gave a greater weight to the observed development mainly for the 2006 underwriting year. Losses reported for the Non-U.S. property line were lower than expected for all years except the 2005 underwriting year, and the Company reflected this experience by using reserving methods that give more weight to the actual development and by lowering its loss ratio picks for those years.

Casualty: Aggregate losses reported and paid for the Non-U.S. casualty line were significantly below the Company s expectations for all underwriting years, and the Company reflected this experience by lowering its loss ratio picks. This change was partially offset by an increase in *a priori* loss ratios, mainly in France. Aggregate losses reported for the U.S. casualty line were lower than expected mainly for the 2003-2005 underwriting years, but higher than expected for underwriting years 2002 and prior. The Company reduced loss ratio picks for recent years due to this favorable experience and used reserving methods giving more weight to the actual experience for the recent years, which was partially offset by lengthening the loss development factors for underwriting years 2004 and prior.

Multiline: Aggregate reported losses were higher than expected for underwriting years 2005 and prior. The Company reflected this experience by selecting slightly higher tail factors and longer loss development patterns.

Motor:

Aggregate losses reported for the U.S. motor line were slightly lower than expected. The Company reflected this development by selecting lower loss ratios, mainly in the 2004 underwriting year.

Aggregate losses reported for the Non-U.S. motor proportional line were slightly lower than expected in most underwriting years, and the Company reflected this experience by selecting lower loss ratios.

Aggregate losses reported and paid for the Non-U.S. motor non-proportional line were significantly lower than expectations in most countries except France. The Company did not materially change its loss development assumptions in those countries (except for France) due to the long-tail nature of the exposure, but reduced loss ratio picks to reflect the positive experience. In France, reported losses were slightly higher than expectations, and the Company increased its *a priori* loss ratios and loss ratio picks.

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

Aviation/Space: The overall losses reported during the year were significantly lower than the Company s expectations, primarily for the 2005 underwriting year, but the effect was uniform across all underwriting years. The Company reflected this experience by selecting faster development patterns and selecting lower loss ratios.

Catastrophe: Losses reported in this line are largely a function of the presence or absence of catastrophic events during the year. Losses reported in respect of prior year catastrophe events were overall in line with expectations. However, the Company reduced its reserves for the 2005 U.S. catastrophe losses as a result of reduced concerns on litigation developments that may affect some of the Company s cedants in the future and hence the claims reported to the Company.

Credit/Surety: The aggregate losses reported during the year were significantly lower than expected, primarily for the 2006 underwriting year, but also for several more mature underwriting years. The Company reduced loss ratio picks particularly for the 2006 year due to this favorable experience, and also reduced its loss development factors.

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Engineering: The aggregate reported losses were modestly lower than expectations. The Company did not materially change its reserving assumptions, but reflected this experience by selecting lower loss ratios.

Energy Onshore: Aggregate reported losses were significantly lower than expected, although to a large extent this is due to the relative absence of large losses during the 2007 and 2006 calendar years, as loss reporting for this line is very sensitive to the presence or absence of large losses. The Company did not materially change its reserving assumptions for this line.

Marine/Energy Offshore: The aggregate reported losses during the year were significantly lower than expected, especially for the 2005 underwriting year. The Company reflected this favorable experience by reducing its loss development factor assumptions and loss ratio selections for underwriting years 2005 and prior.

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

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

Reserving lines selected sensitivity (in million of U.S. dollars)	**Higher *a priori* loss ratios**	**Higher loss development factors**	**Higher tail factors (*)**	**Lower *a priori* loss ratios**	**Lower loss development factors**	**Lower tail factors (*)**
Property / Specialty Property	$ 25	$ 25	$	$ (25)	$ (20)	$
Casualty / Specialty Casualty	245	150	145	(235)	(130)	(145)
Multiline	15	20	20	(5)	(5)	(10)
Motor U.S. business	5	5	5	(5)	(5)	(5)
Motor Non-U.S. Proportional business	5	5		(5)	(10)	
Motor Non-U.S. Non-proportional business	25	50	50	(25)	(45)	(50)
Agriculture	5	5		(5)	(5)	
Aviation/Space	5	30	15	(5)	(20)	(10)
Catastrophe						
Credit/Surety	15	10	5	(15)	(10)	(5)
Engineering	25	30	20	(25)	(25)	(20)
Energy Onshore						
Marine/Energy Offshore	5	10	5	(5)	(10)	(5)

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

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

Case reserves are reported to the Company by its cedants, while ACRs and IBNR are estimated by the Company. The following table shows the gross reserves reported by cedants (case reserves), those estimated by the Company (ACRs and IBNR) and the total net loss reserves recorded as of December 31, 2007 by reserving line for the Company s Non-life operations (in millions of U.S. dollars):

Reserving lines	Case reserves	ACRs	IBNR reserves	Total gross loss reserves recorded	Ceded loss reserves	Total net loss reserves recorded
Property / Specialty Property	$ 491	$	$ 301	$ 792	$	$ 792
Casualty / Specialty Casualty	972	113	2,072	3,157	(50)	3,107
Multiline	81	18	121	220		220
Motor U.S. business	55	2	57	114		114
Motor Non-U.S. Proportional business	173		31	204	(20)	184
Motor Non-U.S. Non-proportional business	452	6	522	980	(2)	978
Agriculture	11	1	125	137		137
Aviation/Space	225	9	183	417	(37)	380
Catastrophe	109	143	34	286		286
Credit/Surety	197	2	90	289		289
Engineering	160	1	198	359	(6)	353
Energy Onshore	39	8	28	75	(1)	74
Marine/Energy Offshore	93	3	80	176	(16)	160
Other	4		21	25		25
Total Non-life reserves	$ 3,062	$ 306	$ 3,863	$ 7,231	$ (132)	$ 7,099

The net loss reserves represent the Company s best estimate of future losses and loss expense amounts. Loss reserves are estimates involving actuarial and statistical projections at a given time to reflect the Company s expectations of the costs of the ultimate settlement and administration of claims. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. In the event that the business environment and social trends diverge from historical trends, the Company may have to adjust its loss reserves to amounts falling significantly outside its current estimate. Management believes that the recorded loss reserves represent its best estimate of future liabilities based on information available as of December 31, 2007. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided, for which any adjustments will be reflected in the period in which the need for an adjustment is determined. The Company estimates its net loss reserves using single actuarial point estimates. Ranges around these actuarial point estimates are developed using stochastic simulations and techniques and provide an indication as to the degree of variability of the loss reserves. The Company interprets the ranges produced by these techniques as confidence intervals around the Company s best estimates for each Non-life sub-segment. However, due to the inherent volatility in the business written by the Company, there can be no guarantee that the final settlement of the loss reserves will fall within these ranges.

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The actuarial point estimates recorded by the Company, and the range of estimates around these point estimates at December 31, 2007 and 2006, were as follows for each Non-life sub-segment (in millions of U.S. dollars):

	Recorded Point Estimate	High	Low
2007 Net Non-life segment loss reserves:			
U.S.	**$ 2,486**	**$ 2,764**	**$ 1,887**
Global (Non-U.S.) P&C	**2,498**	**2,637**	**2,150**
Global (Non-U.S.) Specialty	**1,829**	**1,923**	**1,577**
Catastrophe	**286**	**300**	**252**
2006 Net Non-life segment loss reserves:			
U.S.	$ 2,359	$ 2,651	$ 1,897
Global (Non-U.S.) P&C	2,259	2,395	1,964
Global (Non-U.S.) Specialty	1,688	1,760	1,457
Catastrophe	426	441	371

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

During 2007, the industry began to recognize an increased likelihood of losses associated with sub-prime mortgage related risk exposures. The majority of the Company s underwriting exposure related to this issue, if any, arises from business written in U.S. specialty casualty, primarily directors and officers exposures, during the underwriting years 2005, 2006 and 2007. The Company also has potential exposure, to a lesser extent, to this issue arising from business written in U.S. surety and Global (Non-U.S.) specialty casualty. Given the information available to date, ultimate losses from this event, if any, cannot be estimated by standard actuarial techniques. To estimate a range of potential losses, the Company performed analyses based on information received from cedants at the time the exposed business was written, current industry data regarding the likelihood of securities class actions and other potential suits against companies exposed more directly to sub-prime mortgages, estimates of exposed industry premium, estimates of the Company s market share of exposed industry premium and estimates of industry-wide insured losses. A significant degree of judgment was used to estimate the range of potential losses and there is a considerable degree of uncertainty related to the range of possible ultimate liabilities.

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. specialty casualty and other potentially exposed classes of business contemplate a reasonable provision for exposures related to potential sub-prime mortgage risks. The Company is unaware of any specific issues that would materially affect its unpaid losses and loss expense estimates related to this exposure. The Company s unpaid losses and loss expense reserves at December 31, 2007 for U.S. specialty casualty were $1,178 million, of which $687 million relates to the 2005, 2006 and 2007 underwriting years.

Included in the business that is considered to have a long reporting tail is the Company s exposure to asbestos and environmental claims. The Company s net reserves for unpaid losses and loss expenses as of December 31, 2007 included $88 million that represents an estimate of its net ultimate liability for asbestos and environmental claims. The majority of this loss and loss expense reserve relates to U.S. casualty exposures arising from business written by PartnerRe SA and PartnerRe U.S. (See Note 4 to Consolidated Financial Statements).

Life Policy Benefits

Policy benefits for life and annuity contracts relate to the business in the Company s Life operations, which predominately include reinsurance of longevity, subdivided into standard and non-standard annuities, and

mortality business, which includes traditional death and disability covers (with various riders), term assurance and critical illness (TCI) written in the UK and Ireland, and guaranteed minimum death benefit (GMDB) written in Continental Europe.

The Company categorizes life reserves into three types of reserves: reported outstanding loss reserves (case reserves), incurred but not reported (IBNR) reserves and reserves for future policy benefits. Case reserves represent unpaid losses reported by the Company s cedants and recorded by the Company. 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. Reserves for future policy benefits, which relate to future events occurring on policies in force over an extended period of time, are calculated as the present value of future expected benefits to be paid reduced by the present value of future expected premiums. Such liabilities are established based on methods and underlying assumptions in accordance with U.S. GAAP and applicable actuarial standards. Principal assumptions used in the establishment of reserves for future policy benefits have been determined based upon information reported by cedants, supplemented by the Company s estimates of mortality, morbidity, persistency, expenses and future investment income, with appropriate provision to reflect uncertainty.

For the traditional life portfolio, case reserves, IBNR reserves and reserves for future policy benefits are mainly calculated at the treaty level. The Company updates its estimates for each of the aforementioned categories on a quarterly basis using information received from its cedants.

For the products that are covered by the long duration provisions of SFAS No. 60 Accounting and Reporting by Insurance Enterprises (SFAS 60), a reserve adequacy test is performed at least once a year based on the latest best estimate assumptions by line of business, including an experience analysis and a review of likely future experience. If such review produces reserves in excess of those currently held, then the locked-in assumptions will be revised and a loss recognized.

Longevity

The reserving methodology for the annuity portfolio of reinsurance contracts within the longevity book is in accordance with SFAS 60 as amended by SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments (SFAS 97). Many of these contracts subject the Company to risks arising from policyholder mortality over a period that extends beyond the periods in which premiums are collected. Annuity payments and expenses for policies within the annuity reinsurance portfolio are projected over the lifetime of the contract to calculate a net present value of future cash flows. Assumptions for each element (mortality, expenses and interest) are determined at the issue of the contract and are locked-in throughout the term of the contract unless a premium deficiency exists. The assumptions are best estimate assumptions plus provisions for adverse deviations on the key risk elements (i.e., mortality and interest). Provisions for adverse deviation are designed to cover reasonable deviations from the best estimate outcome of the contract.

For standard annuities, the main risk is a faster increase in future life span than expected in the medium to long term. Non-standard annuities are annuities sold to people with aggravated heath conditions and are usually medically underwritten on an individual basis. The main risk in non-standard annuities is an inadequate assessment of the future life span of the people insured.

For the year ended December 31, 2007, the Company increased net prior year reserves by $26 million, including $11 million of loss recognition as required by SFAS 60 for the impaired life annuity portfolio. The increase in net prior year reserves was due to worse than expected loss development in the year and a change in assumptions used to value future policy benefits for the non-standard annuity business. For the year ended December 31, 2006, the Company increased net prior year reserves by $5 million due to higher losses reported by cedants. The longevity line reported no development on prior accident years in 2005.

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Mortality

The reserves for the short-term traditional mortality business are established in accordance with the short duration provisions of SFAS 60. They consist of case reserves and IBNR, calculated at the treaty level based upon cedant information and use the Expected Loss Ratio method, described in the Losses and Loss Expenses section above. Given the very short-term loss development of this portion of the portfolio, this method is appropriate for the life short-term portfolio.

The reserves for the long term traditional mortality and TCI reinsurance portfolio are established in accordance with the long duration provisions of SFAS 60. Assumptions for each element (mortality, critical illness, lapses, expenses and interest) are determined at the issue of the contract and are locked-in throughout the term of the contract unless a premium deficiency exists. The assumptions are best estimate assumptions plus provisions for adverse deviations on the key risk elements (i.e., mortality, critical illness, lapses and interest).

The reserves for the GMDB reinsurance business are established in accordance with the universal life provisions of SFAS 97. Key assumptions for this business are mortality, lapses, interest rates and stock market performance. For the last parameter, a stochastic option pricing approach is used and the benefits used in calculating the liabilities are based on the average benefits payable over a range of scenarios. The assumptions of investment performance and volatility are consistent with the historical experience of the respective underlying funds (correlated to the EuroStoxx50 or the CAC 40 Index). The Company regularly evaluates the assumptions used and adjusts them if actual experience or other evidence suggests that the earlier assumptions should be revised.

For the year ended December 31, 2007, the Company decreased net prior year reserves by $24 million. The reduction in net prior year reserves was predominately due to favorable reserve development on long and short-term traditional mortality products and TCI. For the year ended December 31, 2006, the Company decreased net prior year reserves by $17 million due to the refinement of the Company s reserving methodologies related to certain GMDB treaties and the receipt of additional reported loss information from cedants. The mortality line reported no development on prior accident years in 2005.

The following table provides the reserve details for the Company s life reinsurance book (in millions of U.S. dollars):

Reserving lines	Case reserves	IBNR reserves	Reserves for future policy benefits	Total Life reserves recorded
Longevity	$ 1	$ 71	$ 658	$ 730
Mortality	132	338	342	812
Total gross reserves	133	409	1,000	1,542
Ceded reserves	(8)	(29)	(6)	(43)
Total net reserves	$ 125	$ 380	$ 994	$ 1,499

Included in the total reserves for future policy benefits at December 31, 2007 was $64 million of provisions for adverse deviation.

As an example of the sensitivity of the Company s policy benefits for life and annuity contracts to reserving parameter assumptions, the table below summarizes, by reserving line, the effect of different assumption selections.

Reserving lines	Factors	Change	Impact on total Life reserves (in million of U.S. dollars)
Longevity			
Impaired life annuity	Life expectancy	+ 1 year	$ 15
Other annuities	Mortality	+ 1%	15
Mortality			

Long-term and TCI	Mortality	+ 1%	12
GMDB	Stock market performance	- 10%	5

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It is not appropriate to sum the total impact for a specific line or the total impact for a specific factor because the reinsurance portfolios are not perfectly correlated.

Premiums and Acquisition Costs

The Company provides proportional and non-proportional reinsurance coverage to cedants (insurance companies). In most cases, cedants seek protection for business that they have not yet written at the time they enter into reinsurance agreements and have to estimate the volume of premiums they will cede to the Company. Reporting delays are inherent in the reinsurance industry and vary in length by reinsurance market (country of cedant) and type of treaty. As delays can vary from a few weeks to a year or sometimes longer, the Company produces accounting estimates to report premiums and acquisition costs until it receives the cedants actual results. Approximately 44% of the Company s reported net premiums written for 2007, 2006 and 2005 were based upon estimates.

Under proportional treaties, which represented 70% of gross premiums written for the year December 31, 2007, the Company shares proportionally in both the premiums and losses of the cedant and pays the cedant a commission to cover the cedant s acquisition costs. Under this type of treaty, the Company s ultimate premiums written and earned and acquisition costs are not known at the inception of the treaty and must be estimated until the cedant reports its actual results to the Company. Under non-proportional treaties, which represented 30% of gross premiums written for the year December 31, 2007, the Company is typically exposed to loss events in excess of a predetermined dollar amount or loss ratio and receives a fixed or minimum premium, which is subject to upward adjustment depending on the premium volume written by the cedant.

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

The magnitude and impact of a change in premium estimate differs for proportional and non-proportional treaties. Non-proportional treaties generally include a fixed minimum premium and an adjustment premium, which is generally less than 5% of the fixed minimum premium. While fixed minimum premiums require no estimation, adjustment premiums are estimated and could be subject to changes in estimates. Although proportional treaties may be subject to larger changes in premium estimates, as the Company generally receives cedant statements in arrears and must estimate all premiums for periods ranging from one month to more than one year (depending on the frequency of cedant statements), the pre-tax impact is mitigated by changes in the cedant s related reported acquisition costs and losses. The impact of the change in estimate on premiums earned and pre-tax results varies depending on when the change becomes known during the risk period and the underlying profitability of the treaty. For the year ended December 31, 2007, the Company recorded reductions of $23 million and $12 million of net premiums written and net premiums earned, respectively, related to changes in Non-life premium estimates of prior year reported premiums. These reductions, after the corresponding adjustments to acquisition costs and losses and loss expenses, decreased pre-tax income by approximately $3 million.

A 5% increase (decrease) in net premium written estimates and the corresponding acquisition costs for all of the Company s Non-life non-proportional treaties would increase (decrease) the 2007 pre-tax income by approximately $21 million, assuming the changes become known at the mid-point of the risk period.

For proportional treaties, the impact of a change in net premium written estimates on pre-tax income varies depending on the losses and loss expenses and acquisition costs of the treaty affected by the change. For example, a 5% increase (decrease) in net premiums written and the corresponding acquisition costs and losses in 2007 across all Non-life proportional treaties would increase (decrease) pre-tax income by approximately $14 million, assuming the 2007 reported technical ratio and that the changes become known at the mid-point of the risk period.

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. The recovery of deferred policy acquisition costs is dependent upon the future profitability of the related business. Deferred policy acquisition costs recoverability testing is performed at least once a year together with the reserve adequacy test, based on the latest best estimate assumptions by line of business.

A 1% increase (decrease) in acquisition costs for all of the Company s Non-life treaties (both proportional and non-proportional) for the year ended December 31, 2007, would decrease (increase) pre-tax income by approximately $4 million, assuming no change in premium estimates and that the changes become known at the mid-point of the risk period.

Other-than-Temporary Impairment of Investments

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

To determine whether securities with unrealized investment losses are impaired, the Company evaluates, for each specific issuer or security, whether events have occurred that are likely to prevent the Company from recovering its investment in the security. In the determination of other-than-temporary impairment, the Company considers several factors and circumstances, including general economic and financial market conditions, the issuer s overall financial condition, the issuer s credit and financial strength ratings, general market conditions in the industry or geographic region in which the issuer operates, the length of time for which the fair value of an issuer s securities remains below cost or amortized cost on a continuous basis, and other factors that may raise doubt about the issuer s ability to continue as a going concern. During 2007, 2006 and 2005, the Company recorded other-than-temporary impairment charges of $125 million, $27 million and $8 million, respectively.

As of December 31, 2007, the Company held approximately 500 investment positions that carried total gross unrealized losses of $80 million, including $22 million on securities that carried unrealized losses for more than 12 continuous months. Most unrealized losses were caused by increases in interest rates since the Company s purchase of the investments, and the Company intends to hold these investments until recovery. Also in Management s judgment, the Company had no significant unrealized losses caused by other factors or circumstances, including an issuer s specific corporate risk or due to industry or geographic risk, for which an other-than-temporary impairment charge has not been taken. If the Company had written down 10% of all securities that were in an unrealized loss position for more than 12 continuous months at December 31, 2007, net income for 2007 would have been reduced by $2 million, pre-tax. However, there would be no change in the Company s carrying value of investments, comprehensive income or shareholders equity, as the realization of the unrealized market value depreciation would transfer the loss from the accumulated other comprehensive income section of the Consolidated Balance Sheet to net income on the Consolidated Statement of Operations and retained earnings on the Consolidated Balance Sheet. See Financial Condition, Liquidity and Capital Resources.

Following the adoption of SFAS 159 on January 1, 2008, the Company will no longer be required to determine whether its available for sale investments are impaired and will not be required to record other-than-temporary impairment charges as changes in market value will be recorded in net income. See New Accounting Pronouncements below for a discussion of SFAS 159.

Income Taxes

FASB Statement No. 109 Accounting for Income Taxes (SFAS 109) provides that a deferred tax asset or liability is recognized for the estimated future tax effects attributable to temporary differences and carryforwards. SFAS 109 also establishes procedures to assess whether a valuation allowance should be established for deferred tax assets. All available evidence, both positive and negative, is considered to determine whether, based on the weight of that evidence, a valuation allowance is needed for some portion or all of a deferred tax asset. Management must use its judgment in considering the relative impact of positive and negative evidence. The Company also establishes tax liabilities relating to uncertain tax positions as defined in FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). See Note 2(i) and Note 7 to Consolidated Financial Statements in Item 8 of Part II of this report.

The Company has estimated the future tax effects attributed to temporary differences and has a deferred tax asset at December 31, 2007 of $136 million. The most significant components of the deferred tax asset relate to loss reserve discounting for tax purposes in the United States and operating tax loss carryforwards in France. At December 31, 2007, the deferred tax asset relating to the French tax loss carryforward was $49 million, which is subject to an indefinite carryforward period.

The Company has projected future taxable income in the tax jurisdictions in which the deferred tax assets arise. These projections are based on Management s projections of premium and investment income, and technical and expense ratios. Based on these projections, Management evaluates the need for a valuation allowance. The Company did not have any valuation allowance at December 31, 2007 or 2006. A 10% reduction in the deferred tax asset of $136 million as of December 31, 2007 would result in a $14 million charge to net income and a corresponding reduction in total assets.

The deferred tax liabilities as of December 31, 2007 were $163 million. In accordance with SFAS 109, the Company has assumed that the future reversal of deferred tax liabilities will result in an increase in taxes payable in future years. Underlying this assumption is an expectation that the Company will continue to be subject to taxation in the various tax jurisdictions and the Company will continue to generate taxable revenues in excess of deductions. A 10% reduction in the deferred tax liability as of December 31, 2007 would result in a tax benefit of $16 million booked to net income and a corresponding reduction in total liabilities.

The Company s unrecognized tax benefit related to FIN 48 was $24.8 million at December 31, 2007. A 10% reduction in the unrecognized tax benefit as of December 31, 2007 would result in a tax benefit of $3 million booked to net income and a corresponding reduction in total liabilities.

Goodwill

SFAS 142 requires that the Company make an annual assessment as to whether the value of the Company s goodwill asset is impaired. Impairment, which can be either partial or full, is based on a fair value analysis by individual reporting unit. Based upon the Company s assessment at the reporting unit level, there was no impairment of its goodwill asset of $430 million as of December 31, 2007.

In making an assessment of the value of its goodwill, the Company uses both market based and non-market based valuations. Assumptions underlying these valuations include an analysis of the Company s stock price relative to both its book value and its net income in addition to forecasts of future cash flows and future profits. Significant changes in the data underlying these assumptions could result in an assessment of impairment of the Company s goodwill asset. In addition, if the current economic environment and/or the Company s financial

performance were to deteriorate significantly, this could lead to an impairment of goodwill, the write-off of which would be recorded against net income in the period such deterioration occurred. If a 10% decline in the fair value of the reporting units occurred, this would not result in an impairment of the goodwill asset at December 31, 2007.

Valuation of Certain Derivative Financial Instruments

The Company has entered into non-traded weather derivatives and total return and interest rate swaps. The changes in fair value of these derivatives are recorded in other income in the Consolidated Statements of Operations and are included in the determination of net income in the period in which they are recorded. The Company recorded a loss of $24 million, income of $19 million and income of $26 million for the years ended December 31, 2007, 2006 and 2005, respectively. The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment, such as the timing of future cash flows of reference securities, credit spreads and general levels of interest rates. The Company uses its best estimate of assumptions to estimate the fair value of its derivative positions. Significant changes in the data underlying these assumptions could result in a significantly different valuation of the derivatives and significant adjustments to net income in the period in which the Company makes the adjustment.

On aggregate, the Company is not significantly exposed to changes in the valuation of its total return and interest rate swap portfolio due to changes in the general level of interest rates. However, at December 31, 2007, the Company estimated that a 100 basis point increase or decrease in all risk spread assumptions used in the Company s internal valuation models would result in a $6 million decrease or increase, respectively, in the fair value of its total return and interest rate swap portfolio.

The Company is exposed to changes in the expected amount of future cash flows of the reference assets in its total return swap portfolio. The Company s total return swap portfolio references many different underlying assets with a number of risk factors. At December 31, 2007, the notional value of the total return swap portfolio was $273 million and the fair value of the assets underlying the total return swap portfolio was $244 million. The Company estimated that each 1% increase or decrease in the amount of all expected future cash flows related to the reference assets would result in a $2.4 million increase or decrease, respectively, in the fair value of its total return swap portfolio.

For weather derivatives, the Company develops assumptions for weather measurements as of the valuation date of the derivative and for probable future weather observations based on forecasts and statistical analysis of historical data. At December 31, 2007, the Company estimated that the valuation of its outstanding weather derivative contract could either increase or decrease by up to $1 million based on historical and forecasted weather patterns known as of that date.

Results of Operations

The following discussion of Results of Operations contains forward-looking statements based upon assumptions and expectations concerning the potential effect of future events that are subject to uncertainties. See Item 1A of Part I of this report for a complete list of the Company s risk factors. Any of these risk factors could cause actual results to differ materially from those reflected in such forward-looking statements.

The Company s reporting currency is the U.S dollar. The Company s subsidiaries and branches have one of the following functional currencies: U.S. dollar, euro or Canadian dollar. As a significant portion of the Company s operations is transacted in foreign currencies, fluctuations in foreign exchange rates may affect year over year comparisons. To the extent that fluctuations in foreign exchange rates affect comparisons, their impact has been quantified, when possible, and discussed in each of the relevant sections. See Note 2(j) to Consolidated Financial Statements in Item 8 of Part II of this report for a discussion on translation of foreign currencies.

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

- the U.S. dollar weakened, on average, against the euro and other currencies, except for the Japanese yen, in 2007 compared to 2006;
- the U.S. dollar strengthened, on average, against the euro and other currencies, except the Canadian dollar, in 2006 compared to 2005; and
- the U.S. dollar weakened against most currencies at December 31, 2007 compared to December 31, 2006.

Overview

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

As the Company s reinsurance operations are exposed to low-frequency high-severity risk events, some of which are seasonal, results for certain years may include unusually low loss experience, while results for other years may include significant catastrophic losses. For example, the Company s results for 2007 and 2005 included losses from large catastrophic events, while 2006 included no significant catastrophic loss. To the extent that losses related to large catastrophic events affect the year over year comparison of the Company s results, their impact has been quantified and discussed in each of the relevant sections.

Net income or loss, preferred dividends, net income or loss available to common shareholders and diluted net income or loss per share for the years ended December 31, 2007, 2006 and 2005 were as follows (in millions of U.S. dollars, except per share data):

	2007	2006	2005
Net income (loss)	**$ 718**	$ 749	$ (51)
Less: preferred dividends	**35**	34	35
Net income (loss) available to common shareholders	**$ 683**	$ 715	$ (86)
Diluted net income (loss) per share	**$ 11.87**	$ 12.37	$ (1.56)

Net income, net income available to common shareholders and diluted net income per share for 2007 have decreased compared to 2006, primarily as a result of higher net realized investment losses, losses from the Company s interest in the results of equity investments and other losses from the Company s principal finance line, which were partially offset by an increase in the Non-life underwriting result, higher net investment income and a lower income tax expense compared to 2006.

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

Review of Net Income (Loss)

Management analyzes the Company s net income (loss) in three parts: underwriting result, investment results and other components of net income. Underwriting result consists of net premiums earned and other

income or loss less losses and loss expenses and life policy benefits, acquisition costs and other operating expenses. Net investment income includes interest and dividends, net of investment expenses, generated by the Company s investment portfolio, as well as interest income generated on funds held, principal finance and insurance-linked securities transactions. Net realized investment gains and losses includes the sales of the Company s fixed income and equity investments, other-than-temporary impairment charges and other net realized and unrealized gains and losses. Interest in earnings or losses of equity investments includes the Company s strategic investments, including ChannelRe Holdings. Other components of net income include other income or loss, other operating expenses, interest expense, net foreign exchange gains and losses and income tax expense.

The components of net income (loss) for the years ended December 31, 2007, 2006 and 2005 were as follows (in millions of U.S. dollars):

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Underwriting result:					
Non-life	**$ 635**	**27%**	$ 499	NM	$ (508)
Life	**(33)**	**44**	(22)	(33)%	(33)
Investment result:					
Net investment income	**523**	**16**	449	23	365
Net realized investment (losses) gains	**(72)**	**NM**	47	(77)	207
Interest in (losses) earnings of equity investments	**(83)**	**NM**	12	23	10
Corporate and Other:					
Technical result	**3**	**NM**			
Other (loss) income	**(24)**	**NM**	19	(31)	26
Other operating expenses	**(80)**	**6**	(75)	30	(58)
Interest expense	**(54)**	**(12)**	(61)	87	(33)
Net foreign exchange losses	**(15)**	**(33)**	(24)	NM	(4)
Income tax expense	**(82)**	**(14)**	(95)	316	(23)
Net income (loss)	**$ 718**	**(4)**	$ 749	NM	$ (51)

NM: not meaningful

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

2007 over 2006

The underwriting result for the Non-life segment increased by $136 million, from $499 million in 2006 to $635 million in 2007. The increase was principally attributable to:

- an increase of $162 million in net favorable development on prior accident year losses, from $252 million in 2006 to $414 million in 2007; and

- an increase in the volume of premiums earned of $31 million and normal fluctuations in profitability between periods of approximately $1 million; partially offset by

an increase in the level of large catastrophic losses of $50 million, net of reinstatement premiums, relating to European windstorm Kyrill in 2007; and

an increase in other operating expenses of $8 million.

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The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in the next section.

Underwriting result for the Life segment decreased from a loss of $22 million in 2006 to a loss of $33 million in 2007, primarily due to a decrease of $14 million in net prior year reserve development in 2007 compared to 2006, and higher operating expenses, partially offset by an increase in profitability in the mortality line.

The Company reported net investment income of $523 million in 2007 compared to $449 million in 2006. The 16% increase in net investment income was primarily attributable to the increase in the asset base resulting from the investment of the Company s significant cash flows from operations, which totaled $1,227 million in 2007 and from higher reinvestment rates during 2007. Changes in average foreign exchange rates contributed 3% of the increase as a result of the weakening of the U.S. dollar, on average, in 2007 compared 2006.

Net realized investment (losses) gains decreased by $119 million, from a gain of $47 million in 2006 to a loss of $72 million in 2007, mainly due to an increase in other-than-temporary impairment charges of $98 million in 2007 over 2006. Realized investment gains and losses are generally a function of multiple factors, with the most significant being the prevailing interest rates and equity market conditions, the timing of disposition of fixed maturities and equity securities, and charges for the recognition of other-than-temporary impairments in the Company s investment portfolio. The other-than-temporary impairment charges were primarily due to the increase in interest rates and to equity securities with large unrealized loss positions that were written down. See Net Realized Investment (Losses) Gains for more details on other realized gain and loss activity.

Interest in the results of equity investments decreased from income of $12 million in 2006 to a loss of $83 million in 2007, primarily due to the write-down of the Company s investment in ChannelRe Holdings due to unrealized mark-to-market losses of Channel Reinsurance s credit derivative portfolio. See the discussion in Corporate and Other below.

Technical results and other (loss) income are from principal finance transactions and insurance-linked securities. The increase of $3 million in the technical result for 2007 compared to 2006 resulted primarily from the insurance-linked securities line. The decrease of $43 million in other (loss) income in 2007 compared to 2006 was primarily attributable to a decrease of $35 million from the principal finance line due to write-downs and mark-to-market adjustments on various transactions in 2007, while 2006 benefited from accelerated profit recognition on the early termination of a number of long term contracts. See the discussion in Corporate and Other below.

Other operating expenses included in Corporate and Other increased by $5 million, primarily due to an increase in personnel costs and increases in consulting and professional fees.

Interest expense decreased by $7 million in 2007 compared to 2006, primarily due to an expense of $6 million incurred in December 2006 upon the redemption of the Company s trust preferred securities, representing the unamortized portion of the trust preferred securities issuance costs.

Net foreign exchange losses were $15 million and $24 million in 2007 and 2006, respectively. The Company hedges a significant portion of its currency risk exposure, as discussed in Quantitative and Qualitative Disclosures about Market Risk in Item 7A of Part II of this report. The decrease in the foreign exchange loss in 2007 is largely a function of (1) the comparative interest rate differential between the functional currency of the reporting unit and the currency being hedged, which decreased the cost of hedging instruments used by the Company; (2) currency movements against the Company s functional currencies for unhedged positions; and (3) the difference between the period-end foreign exchange rates, which are used to revalue the balance sheet, and the average foreign exchange rates, which are used to revalue the income statement.

Income tax expense decreased by $13 million, from $95 million in 2006 to $82 million in 2007. The decrease resulted primarily from a tax benefit of $7 million in 2007 due to a net reduction of the FIN 48 liability

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for unrecognized tax benefits relating primarily to the expiration of various statutes of limitations and completion of tax audits, and from a favorable tax benefit of $8 million related to the weakening of the U.S. dollar against the Swiss franc and the euro.

2006 over 2005

The underwriting result for the Non-life segment increased by $1,007 million, from a loss of $508 million in 2005 to a gain of $499 million in 2006. The increase was principally attributable to:

- a decrease in the level of large catastrophic losses of $900 million, net of reinstatement premiums;
- an increase in the volume of premiums earned of $4 million and normal fluctuations in profitability between periods of approximately $97 million; and
- an increase of $21 million in net favorable reserve development on prior accident years, from $231 million in 2005 to $252 million in 2006, including net adverse development of $22 million (net of reinstatement premiums of $9 million) related to the large 2005 catastrophic loss events; and was partially offset by
- an increase in other operating expenses of $15 million, resulting primarily from higher bonus accruals in 2006.

The components of the net favorable loss development are described in more detail in the discussion of individual sub-segments in the next section.

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

The Company reported net investment income of $449 million in 2006 compared to $365 million in 2005. The 23% increase in net investment income was primarily attributable to the increase in the asset base resulting from the investment of the Company s significant cash flows from operations, which totaled $882 million before the purchase of approximately $390 million of trading securities in 2006, and a full year of net investment income on cash proceeds of $549 million from the Company s capital raises in October 2005. The higher interest rates prevailing during 2006 relative to 2005 for the U.S. dollar, euro and other currencies also contributed to the increase in net investment income.

Net realized investment gains decreased by $160 million, from $207 million in 2005 to $47 million in 2006. Although the sale of equity securities generated net realized investment gains in 2006, net realized investment gains on equity securities were $71 million lower than 2005. Following a rise in interest rates during 2006, the majority of the Company s fixed income securities decreased in value compared to December 31, 2005, and the Company reported net realized investment losses of $53 million from sales of investments and other-than-temporary impairments, compared to net realized investment gains of $25 million in 2005.

Interest in the results of equity investments increased from income of $10 million in 2005 to income of $12 million in 2006, which represents the Company s share of ChannelRe Holdings net income.

The decrease of $7 million in other income in 2006 compared to 2005 was primarily attributable to a decrease of $9 million from the insurance-linked securities line resulting from weather conditions in Japan, partially offset by an increase of $2 million from the principal finance line, which benefited from accelerated profit recognition on the early termination of a number of long term contracts.

Other operating expenses included in Corporate and Other increased by $17 million, primarily due to an increase in personnel costs, including bonus accruals, partially offset by decreases in consulting and professional fees and other costs.

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

Net foreign exchange losses were $24 million and $4 million in 2006 and 2005, respectively. The increase in net foreign exchange losses is explained by the combined effect of the fluctuation of the U.S. dollar against the euro and other currencies, as well as the Company s hedging activities.

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

Results by Segment

As a result of recent organizational changes, during the fourth quarter of 2007, the Company redefined its financial reporting segments. Segment data for the years ended December 31, 2006 and 2005 has been recast to conform to the current year presentation.

Subsequent to the reorganization, the Company monitors the performance of its underwriting 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. Segments and sub-segments represent markets that are reasonably homogeneous in terms of geography, client types, buying patterns, underlying risk patterns and approach to risk management. See the description of the Company s segments and sub-segments as well as a discussion of how the Company measures its segment results in Note 18 to Consolidated Financial Statements included in Item 8 of Part II of this report.

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

Non-life Segment

U.S.

The technical result of the U.S. sub-segment has fluctuated in the last three years reflecting varying levels of large loss events and development on prior years reserves, which impacted year-to-year comparisons as discussed below. This sub-segment includes the U.S. casualty line, which represented approximately 50%, 52% and 60% of net premiums written in this sub-segment for 2007, 2006 and 2005, respectively. This line typically tends to have a higher loss ratio and a lower technical result, due to the long-tail nature of the risks involved. Casualty treaties typically provide for investment income on premiums invested over a longer period as losses are typically paid later than for other lines. Investment income, however, is not considered in the calculation of technical result.

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

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Gross premiums written	**$ 1,020**	**(1)%**	$ 1,030	8%	$ 951
Net premiums written	**1,020**	**(1)**	1,029	8	951
Net premiums earned	**$ 999**	**(3)**	$ 1,030	8	$ 957
Losses and loss expenses	**(608)**	**(16)**	(725)	(16)	(862)
Acquisition costs	**(241)**	**(1)**	(243)	12	(218)
Technical result (1)	**$ 150**	**143**	$ 62	NM	$ (123)
Loss ratio (2)	**60.8%**		70.3%		90.1%
Acquisition ratio (3)	**24.1**		23.7		22.8
Technical ratio (4)	**84.9%**		94.0%		112.9%

NM: not meaningful

(1) Technical result is defined as net premiums earned less losses and loss expenses and acquisition costs.
(2) Loss ratio is obtained by dividing losses and loss expenses by net premiums earned.
(3) Acquisition ratio is obtained by dividing acquisition costs by net premiums earned.
(4) Technical ratio is defined as the sum of the loss ratio and the acquisition ratio.

Premiums

The U.S. sub-segment represented 27%, 28% and 26% of total net premiums written in 2007, 2006 and 2005, respectively.

2007 over 2006

Gross and net premiums written and net premiums earned decreased 1%, 1% and 3% respectively, in 2007 compared to 2006. The small decrease resulted from all lines of business, with the exception of the multiline and surety lines, which increased compared to 2006. Net premiums written were also impacted by higher negative premium adjustments received from cedants in 2007. The decline in net premiums earned in 2007 compared to 2006 is primarily due to a shift in the mix of business from loss occurring to risk attaching business, which earns premiums at a slower pace. Notwithstanding the increased competition prevailing in certain lines and markets of this sub-segment and the increased risk retention by cedants, the Company was able to write business that met its profitability objectives.

2006 over 2005

Gross and net premiums written and net premiums earned increased 8% in 2006 compared to 2005. The increase resulted from the property, casualty, agriculture and surety lines and was partially offset by a decrease in motor, multiline and other lines. As the property line was the line most affected by the 2005 hurricanes, catastrophe-exposed business benefited from improvements in pricing and terms and conditions in 2006. Net premiums written were also impacted by lower negative premium adjustments received from cedants in 2006 and $13 million of reinstatement premiums in 2005 related to the large catastrophic events.

Losses and loss expenses and loss ratio

2007 over 2006

The losses and loss expenses and loss ratio reported for 2007 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of $72 million, or 7.2 points on the loss ratio of this sub-segment; and c) a decrease in the book of business and exposure, as evidenced by the decrease in net premiums earned. The net favorable loss development of $72 million 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 for prior accident years of $5 million. Loss information provided by cedants in 2007 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios primarily for all lines of business (increased for multiline), which had the net effect of decreasing (increasing for multiline) prior year loss estimates.

The decrease of $117 million in losses and loss expenses for 2007 compared to 2006 included:

- an increase of $70 million in net favorable prior year development; and
- a decrease in losses and loss expenses of approximately $47 million resulting from a combination of the lower loss ratio picks for the 2007 underwriting year, based on favorable pricing indications, lower net premiums earned and normal fluctuations in profitability between periods.

2006 over 2005

The losses and loss expenses and loss ratio reported for 2006 reflected a) no large catastrophic losses; b) net favorable development on prior accident years of $2 million, or 0.2 points on the loss ratio of this sub-segment; and c) an increase in the book of business and exposure as evidenced by the increase in net premiums earned. The net favorable loss development of $2 million included net favorable loss development for prior accident years primarily in the agriculture, casualty and multiline lines of $27 million, partially offset by net adverse development for prior accident years 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 in 2006 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Upon consideration of the attritional loss information, the Company decreased its overall expected ultimate loss estimates for the agriculture, casualty and multiline lines (increased for the property, motor, surety and structured risk lines), which had the net effect of decreasing (increasing for the property, motor, surety and structured risk lines) prior year loss estimates.

The decrease of $137 million in losses and loss expenses for 2006 compared to 2005 included:

- a decrease in large catastrophic losses of $158 million; and
- an improvement of $49 million in net prior year development; and was partially offset by
- an increase in losses and loss expenses of approximately $70 million resulting from a combination of the increase in the book of business and exposure, modestly lower profitability on the business written in 2005 and 2006 that was earned in 2006 and normal fluctuations in profitability between periods.

Acquisition costs and acquisition ratio

2007 over 2006

The acquisition costs decreased in 2007 compared to 2006 primarily as a result of lower net premiums earned. The increase in the acquisition ratio in 2007 compared to 2006 was the result of a modest shift from non-proportional to proportional business, which generally carries a higher acquisition ratio.

2006 over 2005

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

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Technical result and technical ratio

2007 over 2006

The increase of $88 million in the technical result and corresponding decrease in the technical ratio for 2007 compared to 2006 was primarily explained by an increase in net favorable prior year development of $70 million, and an increase of $18 million resulting from the normal fluctuations in profitability between periods.

2006 over 2005

The increase of $185 million in the technical result and corresponding decrease in the technical ratio for 2006 compared to 2005 was primarily explained by a reduction in large catastrophic losses of $145 million, net of reinstatement premiums, and an improvement in net favorable prior year development of $49 million, partially offset by a decrease of $9 million resulting from the normal fluctuations in profitability between periods.

2008 Outlook

During the January 1, 2008 renewals, the Company saw diverse market conditions. Aside from isolated increased demand and market dislocation for the agriculture business, most lines of business continued on a downward trend. Terms and conditions weakened and pricing declined in several markets as a result of increased competition and increased risk retention by cedants. The Company s book of business increased at the January 1, 2008 renewals in this sub-segment primarily due to increased opportunities in the agriculture line. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects a continuation of these trends and conditions for the remainder of 2008.

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

The Global (Non-U.S.) P&C sub-segment is composed of short-tail business, in the form of property and proportional motor business, that represented approximately 80% of net premiums written for 2007 in this sub-segment, and long-tail business, in the form of casualty and non-proportional motor business, that represented the balance of net premiums written.

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

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Gross premiums written	**$ 740**	**(3)%**	$ 763	(9)%	$ 837
Net premiums written	**738**	**(3)**	760	(9)	835
Net premiums earned	**$ 758**	**(2)**	$ 775	(10)	$ 860
Losses and loss expenses	**(523)**	**4**	(505)	(21)	(637)
Acquisition costs	**(191)**	**(9)**	(209)	(3)	(217)
Technical result	**$ 44**	**(28)**	$ 61	1,000	$ 6
Loss ratio	**69.0%**		65.1%		74.1%
Acquisition ratio	**25.2**		27.1		25.3
Technical ratio	**94.2%**		92.2%		99.4%

Premiums

The Global (Non-U.S.) P&C sub-segment represented 20%, 21% and 23% of total net premiums written in 2007, 2006 and 2005, respectively.

2007 over 2006

Gross and net premiums written and net premiums earned decreased by 3%, 3% and 2%, respectively, in 2007 compared to 2006. The decrease resulted from the property and motor lines and was partially offset by an increase in the casualty line. Net premiums written were impacted by lower negative premium adjustments received from cedants in 2007. The weakening of the U.S. dollar, on average, in 2007 compared to 2006 also partially offset the decrease in premiums written in this sub-segment, as premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S dollars at higher average exchange rates. The foreign exchange fluctuations increased gross and net premiums written and net premiums earned by 7%. The Company has remained selective in an increasingly competitive environment and has chosen to retain business that met its profitability objectives instead of focusing on premium volume.

2006 over 2005

Gross and net premiums written and net premiums earned decreased by 9%, 9% and 10%, respectively, in 2006 compared to 2005. The decline resulted from the motor and casualty lines and was partially offset by a slight increase in the property line. Competitive market conditions, as well as increases in risk retention by cedants prevailed in 2006, which reduced the opportunities for growth. In addition to the increased risk retention by cedants, the reduction in the motor line resulted from the Company s decision to non-renew treaties that did not meet the Company s profitability objectives. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 also contributed 3% to the decrease in gross and net premiums written in this sub-segment.

Losses and loss expenses and loss ratio

2007 over 2006

The losses and loss expenses and loss ratio reported in 2007 reflected a) losses related to European windstorm Kyrill of $12 million, or 1.7 points on the loss ratio; b) a higher level of mid-sized losses; c) net favorable loss development on prior accident years of $97 million, or 12.8 points on the loss ratio; and d) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net favorable loss development of $97 million included net favorable development in all lines of business and was primarily due to favorable loss emergence, as losses reported by cedants during 2007 for prior accident years were lower than the Company expected. Loss information provided by cedants in 2007 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, which had the net effect of decreasing prior year loss estimates.

The increase of $18 million in losses and loss expenses for 2007 compared to 2006 included:

- an increase in loss and loss expenses resulting from higher level of mid-sized losses, partially offset by the decrease in the book of business and exposure, and normal fluctuations in profitability between periods totaling approximately $37 million; and
- an increase in large catastrophic losses of $12 million; and was partially offset by
- an increase of $31 million in net favorable prior year development.

2006 over 2005

The losses and loss expenses and loss ratio reported in 2006 reflected a) no large catastrophic losses; b) net favorable loss development on prior accident years of $66 million, or 8.6 points on the loss ratio of this sub-segment, including $6 million of net favorable loss development on the large 2005 catastrophic loss events; and c) a decrease in the book of business and exposure as evidenced by the decrease in net premiums earned. The net favorable loss development of $66 million, which included net favorable development of $79 million in the property and casualty lines, partially offset by net adverse development of $13 million in the motor and other lines, resulted from a reassessment of the loss development assumptions used by the Company to estimate future

liabilities due to what it believed were favorable experience trends in these lines of business (adverse experience trends for the motor line), as losses reported by cedants during 2006 for prior accident years, and for treaties where the risk period expired, were lower (higher for the motor line) than the Company expected. Loss information provided by cedants in 2006 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for the property and casualty lines (increased for the motor line), which had the net effect of decreasing (increasing for the motor line) prior year loss estimates.

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

- a decrease in losses and loss expenses of approximately $72 million resulting from a combination of the effect of the decrease in the book of business and exposure, modestly lower profitability on the business written in 2005 and 2006 that was earned in 2006 and normal fluctuations in profitability between periods; and

- a decrease in large catastrophic losses of $61 million; and was partially offset by

- a decrease of $1 million in net favorable prior year development.

Acquisition costs and acquisition ratio

2007 over 2006

The decrease in acquisition costs in 2007 compared to 2006 was primarily due to the reduction in the Company s book of business and exposure, as evidenced by the decrease in net premiums earned and higher acquisition costs in 2006 from sliding scale and profit commission adjustments.

2006 over 2005

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

Technical result and technical ratio

2007 over 2006

The decrease of $17 million in the technical result and corresponding increase in the technical ratio for 2007 compared to 2006 was primarily explained by a decrease of $36 million resulting from a higher level of mid-sized losses and normal fluctuations in profitability between periods, including the impact of premiums adjustments, and higher catastrophic losses of $12 million, partially offset by an increase of $31 million in net favorable prior year development.

2006 over 2005

The increase of $55 million in the technical result and corresponding decrease in the technical ratio for 2006 compared to 2005 was primarily explained by a decrease of $61 million in large catastrophic losses, partially offset by a decrease of profitability of $5 million resulting from a combination of the reduction in the book of business and exposure, and a higher *a priori* loss ratio in 2006 reflecting compressed margins as pricing was not keeping up with loss cost trends, and a reduction in net favorable prior year development of $1 million.

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2008 Outlook

During the January 1, 2008 renewals, the Company observed a continuation of the trend by cedants to increase their retentions and reinsurers to increase their competitive behavior. Terms and conditions weakened and pricing declined in several markets as a result of the increased competition. The increase in cedants retentions was the primary reason for the reduction of the Company s book of business at the January 1, 2008 renewals. However, due to the acquisition of the renewal rights of the international reinsurance business of the French Monceau Group in 2007, the Company was able to add a significant amount of new business to this sub-segment, which partially offset the impact of increased cedant retentions. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects a continuation of these trends and conditions for the remainder of 2008.

Global (Non-U.S.) Specialty

The Global (Non-U.S.) Specialty sub-segment is primarily comprised of lines of business that are thought to be either short or medium-tail. The short-tail lines consist of agriculture, energy and specialty property and accounted for 19% of the net premiums written in 2007 in this sub-segment. Aviation/space, credit/surety, engineering and marine are considered by the Company to have a medium-tail and represented 69% of the net premiums written while specialty casualty is considered to be long-tail and represented 12% of the net premiums written in 2007 in this sub-segment.

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

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Gross premiums written	**$ 1,049**	**4%**	$ 1,012	(2)%	$ 1,030
Net premiums written	**1,026**	**4**	991	(1)	997
Net premiums earned	**$ 1,006**	**3**	$ 979	2	$ 962
Losses and loss expenses	**(450)**	**1**	(446)	(22)	(569)
Acquisition costs	**(260)**	**10**	(236)	(2)	(241)
Technical result	**$ 296**		$ 297	96	$ 152
Loss ratio	**44.7%**		45.6%		59.1%
Acquisition ratio	**25.9**		24.1		25.1
Technical ratio	**70.6%**		69.7%		84.2%

Premiums

The Global (Non-U.S.) Specialty sub-segment represented 27%, 27% and 28% of total net premiums written in 2007, 2006 and 2005, respectively.

2007 over 2006

Gross and net premiums written and net premiums earned increased by 4%, 4% and 3%, respectively, in 2007 compared to 2006. The increase resulted from most lines of business, with the exception of aviation and energy, which decreased compared to 2006. Net premiums written were also impacted by lower positive premium adjustments received from cedants in 2007. The weakening of the U.S. dollar, on average, in 2007 compared to 2006 contributed significantly to the increase in premiums written, as premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S dollars at higher average exchange rates. The foreign exchange fluctuations contributed 5% to the increase in gross and net premiums written and net premiums earned. Notwithstanding the increased competition prevailing in certain lines and markets of this sub-segment and the increased risk retention by cedants, the Company was able to write business that met its profitability objectives.

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2006 over 2005

Gross and net premiums written decreased by 2% and 1%, respectively, and net premiums earned increased by 2% in 2006 compared to 2005. While higher cedant retention and increased competition resulted in a decrease in premiums written in most lines of business in this sub-segment for 2006, the Company observed some improvements in pricing and terms and conditions for catastrophe-exposed lines, such as energy and marine lines. In response to the level of demand and attractive risk-adjusted pricing, Management increased the allocation of capacity to these catastrophe-exposed lines, which resulted in growth in premiums written for those lines of business in 2006 compared to 2005. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 impeded growth in premiums written in this sub-segment and contributed 2% to the decline in gross and net premiums written and decreased net premiums earned by 1%.

Losses and loss expenses and loss ratio

2007 over 2006

The losses and loss expenses and loss ratio reported in 2007 reflected a) losses related to European windstorm Kyrill of $7 million, or 0.7 points on the loss ratio; b) net favorable loss development on prior accident years of $203 million, or 20.1 points on the loss ratio; and c) an increase in the book of business and exposure as evidenced by the increase in net premiums earned. The net favorable loss development of $203 million included net favorable loss development for prior accident years in all lines of business and was primarily due to favorable loss emergence, as losses reported by cedants during 2007 for prior accident years were lower than the Company expected. Loss information provided by cedants in 2007 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, which had the net effect of decreasing the level of prior year loss estimates.

The increase of $4 million in losses and loss expenses for 2007 compared to 2006 included:

- an increase in large catastrophic losses of $7 million; and
- a decrease of $5 million in net favorable prior year development; and was partially offset by
- a decrease in losses and loss expenses of approximately $8 million resulting from a combination of normal fluctuations in profitability between periods, partially offset by the increase in the book of business and exposure.

2006 over 2005

The losses and loss expenses and loss ratio reported in 2006 reflected a) no large catastrophic losses; and b) net favorable loss development on prior accident years of $208 million, or 21.3 points on the loss ratio of this sub-segment, including net favorable loss development of $12 million related to the large 2005 catastrophic losses. The net favorable loss development of $208 million included net favorable loss development for all lines of business and was primarily due to net favorable loss emergence, as losses reported by cedants during 2006 for prior accident years, including treaties where the risk period expired, were lower than the Company expected. Loss information provided by cedants in 2006 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratios for all lines, which had the net effect of decreasing the level of prior year loss estimates.

The decrease of $123 million in losses and loss expenses for 2006 compared to 2005 included:

- a decrease in large catastrophic losses of $68 million;

a decrease in losses and loss expenses of approximately $49 million resulting from the normal fluctuations in profitability between periods, partially offset by an increase in the book of business and exposure; and

an increase of $6 million in net favorable prior year development.

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Acquisition costs and acquisition ratio

2007 over 2006

The increase in acquisition costs and acquisition ratio in 2007 compared to 2006 was attributable to an increase in net premiums earned, a modest shift between lines of business that carry different acquisition ratios, deterioration in the acquisition cost ratio in the credit/surety line of business, and profit commission adjustments.

2006 over 2005

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

Technical result and technical ratio

2007 over 2006

The decrease of $1 million in the technical result and corresponding increase in the technical ratio for 2007 compared to 2006 was primarily explained by an increase of $7 million in the level of large catastrophic losses and a decrease of $5 million in net favorable prior year development, partially offset by an increase of $11 million resulting from normal fluctuations in profitability between periods.

2006 over 2005

The increase of $145 million in the technical result and corresponding decrease in the technical ratio for 2006 compared to 2005 was primarily explained by a decrease in large catastrophic losses of $72 million, net of reinstatement premiums, an increase of $67 million resulting from normal fluctuations in profitability between periods and an increase in net favorable prior year development of $6 million.

2008 Outlook

During the January 1, 2008 renewals, the Company observed a continuation of the trend by cedants to increase their retentions. Terms and conditions weakened and pricing declined in several markets as a result of increased competition. Due to the acquisition of the renewal rights of the international reinsurance business of the French Monceau Group in 2007, the Company was able to add new business to this sub-segment. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects a continuation of these trends and conditions for the remainder of 2008.

Catastrophe

The Catastrophe sub-segment is exposed to volatility resulting from catastrophic losses, and thus, profitability in any one year is not necessarily predictive of future profitability. The results of 2007, 2006 and 2005 demonstrate this volatility, as 2007 and 2006 had an unusually low level of large catastrophic losses, while 2005 contained an unprecedented level of large catastrophic losses. This impacted the technical result and ratio and affected year-to-year comparisons as discussed below.

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

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Gross premiums written	**$ 401**	**(3)%**	$ 412	3%	$ 398
Net premiums written	**401**	**(3)**	412	3	398
Net premiums earned	**$ 440**	**13**	$ 388		$ 389
Losses and loss expenses	**(46)**	**(30)**	(65)	(91)	(698)
Acquisition costs	**(42)**	**(1)**	(43)	(17)	(52)
Technical result	**$ 352**	**26**	$ 280	NM	$ (361)
Loss ratio	**10.5%**		16.9%		179.4%
Acquisition ratio	**9.6**		11.1		13.3
Technical ratio	**20.1%**		28.0%		192.7%

NM: not meaningful

Premiums

The Catastrophe sub-segment represented 11% of total net premiums written in 2007, 2006 and 2005.

2007 over 2006

Gross and net premiums written decreased by 3% and net premiums earned increased by 13% in 2007 compared to 2006. The increase in net premiums earned in 2007 compared to 2006 was primarily the result of refining the application of the Company s methodology related to its U.S. wind earnings pattern. The weakening of the U.S. dollar, on average, in 2007 compared to 2006 partially offset the decrease in premiums written in this sub-segment, as premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S dollars at higher average exchange rates. The foreign exchange fluctuations increased gross and net premiums written by 2% and contributed 3% to the increase in net premiums earned.

2006 over 2005

Gross and net premiums written increased by 3% in 2006 compared to 2005, while net premiums earned were flat. While 2005 included $53 million of reinstatement premiums and $11 million of back-up covers related to the large catastrophic events, 2006 included no reinstatement premiums or back-up covers. As a result of the 2005 large catastrophic events, the Company observed improvements in pricing and terms and conditions in 2006 for the catastrophe line. In response to the level of demand and attractive risk-adjusted pricing, Management increased the allocation of capacity to this line, which resulted in the growth in premiums written in 2006 compared to 2005. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 impeded growth in premiums written in this sub-segment and decreased gross and net premiums written by 3% and net premiums earned by 1%.

Losses and loss expenses and loss ratio

2007 over 2006

The losses and loss expenses and loss ratio reported in 2007 reflected a) losses related to European windstorm Kyrill of $33 million, or 7.5 points on the loss ratio; and b) net favorable loss development on prior accident years of $42 million, or 9.7 points on the loss ratio. The net favorable loss development of $42 million was primarily due to favorable loss emergence, as losses reported by cedants during 2007 for prior accident years were lower than the Company expected and the reduction of the additional IBNR reserve established by the

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Company in 2006 on the large 2005 catastrophic loss events due to reduced concerns on litigation developments and evolving out of court settlement trends that may affect some of the Company s cedants in the future. Based on the Company s assessment of this loss information, the Company decreased its expected ultimate loss ratio for the catastrophe line, which had the net effect of decreasing the level of prior year loss estimates.

The decrease of $19 million in losses and loss expenses for 2007 compared to 2006 included:

- an improvement of $66 million in net prior year development; partially offset by
- an increase in large catastrophic losses of $33 million; and
- an increase in losses and loss expenses of approximately $14 million resulting from normal fluctuations in profitability between periods.

2006 over 2005

The losses and loss expenses and loss ratio reported in 2006 reflected a) no large catastrophic losses; and b) net adverse loss development on prior accident years in the amount of $24 million, or 6.4 points on the loss ratio of this sub-segment, including net adverse loss development of $36 million related to the large 2005 catastrophic losses. The net adverse loss development on the large 2005 catastrophic loss events included $20 million of an additional IBNR reserve established by the Company as a result of litigation developments and evolving out of court settlement trends that may affect some of the Company s cedants in the future. Other than for losses related to the 2005 hurricanes, loss information provided by cedants during 2006 for prior accident years included no individually significant losses or reductions of losses but a series of attritional losses or reductions. Overall, the Company increased its expected ultimate loss ratio for the catastrophe line, which had the net effect increasing the level of prior year loss estimates.

The decrease of $633 million in losses and loss expenses for 2006 compared to 2005 included:

- a decrease in large catastrophic losses of $673 million; and was partially offset by
- an increase of $33 million in net adverse prior year development; and
- an increase in losses and loss expenses of approximately $7 million resulting from normal fluctuations in profitability between periods.

Acquisition costs and acquisition ratio

2007 over 2006

The decrease in acquisition costs and acquisition ratio in 2007 compared to 2006 was primarily due to a modest shift from proportional to non-proportional business.

2006 over 2005

The decrease in acquisition costs and acquisition ratio in 2006 compared to 2005 was primarily attributable to normal shifts in business that carry different acquisition ratios and acquisition cost adjustments related to certain earthquake treaties in 2005.

Technical result and technical ratio

2007 over 2006

The increase of $72 million in the technical result and corresponding decrease in the technical ratio for 2007 compared to 2006 was primarily explained by an improvement of $66 million in net favorable prior year development, an increase of $37 million in net premiums earned and normal fluctuations in profitability between periods, partially offset by an increase of $31 million in large catastrophic losses, net of reinstatement premiums.

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2006 over 2005

The increase of $641 million in the technical result and corresponding decrease in the technical ratio for 2006 compared to 2005 was primarily explained by a decrease of $622 million in large catastrophic losses, net of reinstatement premiums and acquisition costs, and an increase in profitability of $52 million resulting from normal fluctuations in profitability between periods, partially offset by an increase in net adverse prior year development of $33 million.

2008 Outlook

During the January 1, 2008 renewals, the Company observed a continuation of the trend by cedants to increase their retentions. Terms and conditions weakened and pricing declined primarily as a result of increased competition. Based on overall pricing indications and renewal information received from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects a continuation of these trends and conditions for the remainder of 2008, absent a large catastrophe event.

Life Segment

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

	2007	**% Change 2007 over 2006**	**2006**	**% Change 2006 over 2005**	**2005**
Gross premiums written	**$ 597**	**18%**	$ 507	13%	$ 448
Net premiums written	**569**	**17**	487	12	434
Net premiums earned	**$ 571**	**17**	$ 487	13	$ 430
Life policy benefits	**(455)**	**25**	(363)	14	(320)
Acquisition costs	**(116)**	**(1)**	(117)	(3)	(120)
Technical result	**$**	**(93)**	$ 7	NM	$ (10)
Other operating expenses	**(33)**	**11**	(29)	28	(23)
Net investment income	**54**	**4**	51	8	48
Allocated underwriting result (1)	**$ 21**	**(26)**	$ 29	98	$ 15

NM: not meaningful

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

Premiums

The Life segment represented 15%, 13% and 12% of total net premiums written in 2007, 2006 and 2005, respectively.

2007 over 2006

The increases in gross and net premiums written and net premiums earned in 2007 compared to 2006 resulted from an increase in the mortality and health lines, partially offset by a decrease in the longevity line. Growth in the mortality line resulted from intrinsic growth in the business written by the Company s cedants, which resulted in more volume ceded to the Company on existing treaties, and new business generated by the Company. The weakening of the U.S. dollar, on average, in 2007 compared to 2006 contributed to the increase in premiums written in this segment, as premiums denominated in currencies that have appreciated against the U.S. dollar were converted into U.S dollars at higher average

exchange rates. The foreign exchange fluctuations contributed 8% to the increase in gross and net premiums written and net premiums earned.

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2006 over 2005

The increase in gross and net premiums written and net premiums earned in 2006 compared to 2005 resulted from an increase in all lines of business, but was more evident in the mortality line. Growth in the mortality line resulted from intrinsic growth in the business written by the Company s cedants and new business generated by the Company and the longevity line reported a modest increase of 1%. Furthermore, the strengthening of the U.S. dollar, on average, in 2006 compared to 2005 impeded growth in premiums written in this segment and decreased gross and net premiums written and net premiums earned by 1%.

Life policy benefits

2007 over 2006

Life policy benefits increased by $92 million in 2007 compared to 2006. This was primarily attributable to the growth in the Company s book of business and exposure, as evidenced by the 17% increase in net premiums earned for this segment. Life policy benefits for 2007 included net adverse prior year development of $2 million compared to net favorable prior year development of $12 million in 2006. The net adverse development of $2 million reported in 2007 included net adverse loss development in the longevity line of $26 million, partially offset by net favorable loss development in the mortality line of $24 million. The net adverse loss development in the longevity line in 2007 was primarily due to losses developing worse than expected and a change in assumptions used to value future policy benefits for the non-standard annuity business, while the net favorable loss development in the mortality line in 2007 was primarily due to favorable reserve development on long and short-term traditional mortality products and TCI.

2006 over 2005

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

Acquisition costs

2007 over 2006

The decrease of $1 million in acquisition costs in 2007 compared to 2006 was primarily attributable to a change in reporting by a cedant to reduce acquisition costs on a mortality treaty compared to 2006. In addition, the 2006 period included higher acquisition costs for the health line resulting from sliding scale and profit commission adjustments and higher acquisition cost adjustments reported by a cedant for a longevity treaty compared to 2007.

2006 over 2005

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

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Net investment income

2007 over 2006

Net investment income increased by $3 million in 2007 compared to 2006 as a result of higher invested assets from the growth in the book of business. The comparison was also affected by the commutation of a financing treaty in 2007, which resulted in a decrease of net investment income of $4 million. In addition, net investment income reported by a cedant for a longevity treaty was $6 million lower in 2007 compared to 2006.

2006 over 2005

Net investment income increased by $3 million in 2006 compared to 2005 as a result of higher invested assets from the growth in the book of business and higher net investment income reported by a cedant on a longevity treaty in 2006 compared to 2005.

Allocated underwriting result

2007 over 2006

The decrease of $8 million in allocated underwriting result in 2007 compared to 2006 is primarily explained by the increase in net adverse prior year development of $14 million and higher operating expenses, partially offset by an increase in profitability of the mortality line, and an increase in net investment income of $3 million.

2006 over 2005

The increase of $14 million in allocated underwriting result in 2006 compared to 2005 was primarily explained by the increase in net favorable prior year development of $12 million and an increase in net investment income of $3 million, partially offset by higher operating expenses, resulting principally from higher bonus accruals in 2006.

2008 Outlook

Based on pricing indications and renewal information received from cedants and brokers, and assuming constant foreign exchange rates, Management expects growth in the Company s mortality book of business, partially offset by the cancellation of a significant longevity treaty at the end of 2007.

Premium Distribution by Line of Business

The distribution of net premiums written by line of business for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	**2006**	**2005**
Non-life			
Property and casualty			
Casualty	**17%**	17%	18%
Property	**17**	18	17
Motor	**5**	6	8
Multiline and other	**3**	3	4
Specialty			
Agriculture	**4**	5	3
Aviation/Space	**5**	6	6
Catastrophe	**11**	11	11
Credit/Surety	**7**	6	7
Engineering	**5**	5	4
Energy	**2**	2	1
Marine	**4**	3	3

Specialty casualty	**3**	3	4
Specialty property	**2**	2	2
Life	**15**	13	12
Total	**100%**	100%	100%

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There were modest shifts in the distribution of net premiums written by line and segment in 2007, 2006 and 2005, which reflected the Company s response to existing market conditions. Additionally, the distribution of net premiums written may also be affected by the shift in treaty structure from a proportional to non-proportional basis, which can significantly reduce premiums written. In addition, foreign exchange fluctuations affected the comparison for all lines.

Motor: the decrease in both 2007 and 2006 resulted from higher risk retention by cedants, prevailing market conditions and Management s decision not to renew certain treaties when the profitability did not meet the Company s objectives.

Life: as part of its diversification strategy, the Company continues to steadily increase the proportion of its life portfolio.

2008 Outlook

During the January 1, 2008 renewals, the Company observed a continuation of the trend by cedants to increase their retentions. Terms and conditions weakened and pricing declined in several markets, as a result of increased competition. Due to the acquisition of the renewal rights of the international reinsurance business of the French Monceau Group in 2007, the Company was able to add new business. Based on renewal information received from cedants and brokers, and assuming similar trends and conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects the premium distribution by line in 2008 to be similar to 2007.

Premium Distribution by Treaty Type

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

The distribution of gross premiums written by treaty type for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	**2006**	**2005**
Non-life Segment			
Proportional	**52%**	51%	50%
Non-Proportional	**28**	30	33
Facultative	**4**	5	5
Life Segment			
Proportional	**15**	13	11
Non-Proportional	**1**	1	1
Total	**100%**	100%	100%

The distribution of gross premiums written by treaty type is affected by changes in the allocation of capacity among lines of business, the timing of receipt by the Company of cedant accounts, premium adjustments by cedants, as well as reinstatement premiums related to large catastrophic losses, which originate from non-proportional treaties. In addition, foreign exchange fluctuations affected the comparison for all treaty types.

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The increase in the percentage of proportional gross premiums written for the Life segment resulted from the increase in the Company s mortality business. The decrease in the percentage of non-proportional gross premiums written for the Non-life segment in 2007 and 2006 compared to 2005 was mainly due to $48 million of non-proportional reinstatement premiums related to the large 2005 catastrophic losses recorded in 2005.

2008 Outlook

Based on renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects the distribution of gross premiums written by treaty type in 2008 to be similar to 2007.

Premium Distribution by Geographic Region

The geographic distribution of gross premiums written for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Europe	**45%**	42%	46%
North America	**42**	43	41
Asia, Australia and New Zealand	**6**	8	8
Latin America, Caribbean and Africa	**7**	7	5
Total	**100%**	100%	100%

The distribution of gross premiums written by geographic region was largely comparable between periods. The distribution of gross premiums for all non-U.S. regions was affected by foreign exchange fluctuations which increased the non-U.S. premiums in 2007 (decreased in 2006) as premiums denominated in currencies that have appreciated (depreciated in 2006) against the U.S. dollar were converted at higher average exchange rates in 2007 (lower average exchange rates in 2006) and distorts the year-to-year comparisons. In addition, Management increased the allocation of capacity to areas exposed to U.S. wind in 2006 as U.S. wind-exposed lines showed improvements in pricing and terms and conditions following the 2005 hurricanes, which resulted in growth of premiums written in North America in 2006.

2008 Outlook

Based on renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects the distribution of gross premiums written by geographic region in 2008 to be similar to 2007.

Premium Distribution by Production Source

The Company generates its gross premiums written both through brokers and through direct relationships with cedants. The percentage of gross premiums written by source for the years ended December 31, 2007, 2006 and 2005 was as follows:

	2007	2006	2005
Broker	**69%**	69%	63%
Direct	**31**	31	37

The distribution of gross premiums written was comparable in 2007 and 2006. The shift from direct to broker in 2006 compared to 2005 reflected the increase of gross premiums written in North America, where premiums are written predominantly on a broker basis, and a modest shift of gross premiums written from direct to broker for the rest of the world.

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2008 Outlook

Based on renewal information from cedants and brokers, and assuming similar conditions experienced during the January 1, 2008 renewals continue throughout the year, Management expects the production source of gross premiums written in 2008 to be similar to 2007.

Corporate and Other

Corporate and Other is comprised of the Company s capital markets and investment related activities, including principal finance transactions, insurance-linked securities (previously referred to as weather-related products) and strategic investments, and its corporate activities, including other operating expenses.

Net Investment Income

The table below provides net investment income by asset source for the years ended December 31, 2007, 2006 and 2005 (in millions of U.S. dollars):

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Fixed maturities	**$ 422**	**26%**	$ 334	16%	$ 288
Short-term investments, trading securities, and cash and cash equivalents	**56**	**(9)**	61	141	26
Equities	**36**	**10**	33	21	27
Funds held and other	**32**	**(20)**	40	(1)	41
Investment expenses	**(23)**	**16**	(19)	13	(17)
Net investment income	**$ 523**	**16**	$ 449	23	$ 365

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 (see Life segment above). The following discussion includes net investment income from all investment activities, including the net investment income allocated to the Life segment.

2007 over 2006

Net investment income increased in 2007 compared to 2006 due to:

an increase in net investment income from fixed maturities and equities primarily due to an increase in the asset base resulting from the reinvestment of cash flows from operations of $1,099 million, before the net sales of $128 million of trading securities, in 2007 and higher reinvestment rates during 2007; and

the weakening of the U.S. dollar, on average, in 2007 compared to 2006 contributed 3% of the increase in net investment income; partially offset by

a decrease in net investment income from short-term investments, trading securities, and cash and cash equivalents primarily due to the smaller asset allocation in 2007 to cash and cash equivalents, trading securities and U.S. government securities;

a decrease in net investment income on funds held due to the effect of the commutation of a financing treaty in the Company s Life segment in 2007, which resulted in a decrease of $4 million of net investment income, and a decrease of $6 million in net investment

income reported by a cedant for a longevity treaty in 2007 compared to 2006; and

- an increase in investment expenses resulting from the increase in the asset base.

2006 over 2005

Net investment income increased in 2006 compared to 2005 due to:

- an increase in net investment income from fixed maturities, short-term investments, trading securities, and cash and cash equivalents primarily due to an increase in the asset base resulting from the reinvestment of cash flows from operations of $882 million, before the net purchase of approximately $390 million of trading securities in 2006, cash proceeds of $549 million received from the Company s capital raises in October 2005, as well as higher interest rates in 2006; and

- an increase in net investment income from equity securities primarily due to an increase in the average asset base during the year, partially offset by a decrease in allocation to equity securities during the second quarter of 2006; partially reduced by

- a decrease in net investment income on funds held, as the funds held asset base at the beginning of 2006 was $129 million lower than at the beginning of 2005; and

- an increase in investment expenses resulting from the increase in the asset base.

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

2008 Outlook

Current economic indicators show a slowing of world economic growth with potential for recession in the United States. Associated lower interest rates could produce reduced reinvestment rates and reduced interest income for the Company s U.S. and European fixed maturity portfolio. The Company also expects continued weakness of the U.S. dollar for the first half of 2008. The Company expects that the larger investment asset base resulting from positive cash flows from operations (including net investment income) will offset the negative impact of lower rates, resulting in an expected increase in net investment income in 2008 compared to 2007.

Net Realized Investment (Losses) Gains

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

Proceeds from the sale of investments classified as available for sale for 2007, 2006 and 2005 were $5,989 million, $13,550 million and $9,968 million, respectively. Realized investment gains and losses on securities classified as available for sale for the years ended December 31, 2007, 2006 and 2005 were as follows (in millions of U.S. dollars):

	2007	**2006**	**2005**
Gross realized gains	**$ 188**	$ 268	$ 294
Gross realized losses excluding other-than-temporary impairments	**(123)**	(205)	(101)
Other-than-temporary impairments	**(125)**	(27)	(8)
Total net realized investment (losses) gains on available for sale securities	**$ (60)**	$ 36	$ 185

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The components of net realized investment gains or losses for the years ended December 31, 2007, 2006 and 2005 were as follows (in millions of U.S. dollars):

	2007	2006	2005
Net realized investment (losses) gains on available for sale fixed maturities and short-term investments, excluding other-than-temporary impairments	**$ (17)**	$ (28)	$ 29
Net realized investment gains on available for sale equities, excluding other-than- temporary impairments	**82**	91	164
Other-than-temporary impairments	**(125)**	(27)	(8)
Net realized investment gains on trading securities	**19**	22	15
Change in net unrealized investment (losses) gains on trading securities	**(31)**	11	2
Net realized and unrealized investment losses on equity securities sold but not yet purchased	**(9)**	(10)	(10)
Net realized and unrealized investment gains on designated hedging activities	**7**	10	
Net realized and unrealized gains (losses) on other invested assets	**10**	(1)	3
Other realized and unrealized investment (losses) gains	**(8)**	(21)	12
Total net realized investment (losses) gains	**$ (72)**	$ 47	$ 207

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

Other-than-temporary impairments are recorded as realized investment losses in the Consolidated Statements of Operations, which reduces net income and net income per share. Temporary losses are recorded as unrealized investment losses, which do not impact net income and net income per share, but reduce accumulated other comprehensive income in the Consolidated Balance Sheets, except for those related to trading securities, which are recorded immediately as realized investment losses. (See Critical Accounting Policies and Estimates Other-than-Temporary Impairment of Investments above, Financial Condition, Liquidity and Capital Resources Investments below and Note 2(f) to Consolidated Financial Statements in Item 8 of Part II of this report).

During the years ended December 31, 2007, 2006 and 2005, the Company recorded charges for other-than-temporary impairments relating to its investment portfolio of $125 million ($57 million related to fixed maturity securities and $68 million related to equity securities), $27 million ($25 million related to fixed maturity securities and $2 million related to equity securities) and $8 million ($4 million related to fixed maturity securities and $4 million related to equity securities). Typically, the Company considers impairment to have occurred when events have occurred that are likely to prevent the Company from recovering its investment in the security. The other-than-temporary impairment charges on fixed maturity securities were mainly a result of wider credit spreads. The Company also recorded other-than-temporary impairment charges on equity securities with large unrealized loss positions. The Company currently does not have any direct exposure to the sub-prime mortgage sector in its investment portfolio, and consequently, the Company s other-than-temporary impairment charge for 2007 did not include any write-downs related to sub-prime mortgage issues. Approximately 53% of the impairments recorded in 2007 related to securities of the finance sector and approximately 34% related to securities of the health care, consumer discretionary and industrial sectors, while the balance was related to securities of the retail and manufacturing sector. Approximately 60% of the impairments recorded in 2006 and 2005 related to securities of the industrial and manufacturing sector, while the balance was related to securities of the banking and finance sector.

Net realized investment gains on trading securities, change in net unrealized investment (losses) gains on trading securities and net realized and unrealized investment losses on equity securities sold but not yet purchased result from the timing of disposition and the change in market value of the trading securities.

Net realized and unrealized investment gains on designated hedging activities are primarily due to the comparative interest rate differential between the U.S. dollar and the euro during each period.

Net realized and unrealized gains on other invested assets were $10 million in 2007, compared to net realized and unrealized losses of $1 million in 2006 and net realized and unrealized gains of $3 million in 2005. The difference between 2007 and 2006 resulted primarily from the increase of $14 million in net realized and unrealized gains on treasury futures recorded in 2007 compared to 2006. The difference between 2006 and 2005 resulted primarily from a decrease of $4 million in net realized and unrealized gains on derivative financial instruments.

Other realized and unrealized investment (losses) gains resulted primarily from the impact of foreign exchange on the sale of equity securities.

2008 Outlook

Following the adoption of SFAS 159 on January 1, 2008, the Company will recognize the change in unrealized gains and losses on its fixed maturities, short-term investments and equity securities in net realized investments gains and losses in its Consolidated Statement of Operations. In addition, with the adoption of SFAS 159, the Company will no longer be required to determine whether its investments are impaired and will not be required to record other-than-temporary impairment charges. The Company expects the adoption of SFAS 159 to add more volatility to net realized investment gains and losses in its Consolidated Statement of Operations, but the adoption will have no impact on its shareholders equity in its Consolidated Balance Sheet nor its comprehensive income.

Interest in (Losses) Earnings of Equity Investments

Losses from the Company s interest in the results of equity investments amounted to $83 million for 2007, compared to earnings of $12 million in 2006 and $10 million in 2005.

Included in the interest in the results of equity investments is the Company s share of the results of ChannelRe Holdings. In 2004, the Company purchased a 20% ownership in ChannelRe Holdings, a non-publicly traded financial guaranty reinsurer, which assumed a portfolio of in-force business from MBIA and provides reinsurance services exclusively to MBIA. At December 31, 2007, the value of the Company s investment in ChannelRe Holdings was written down to $nil, which is further discussed below, compared to $98 million at December 31, 2006. The underlying risks of this investment are municipal, non-U.S. infrastructure, structured finance transactions and CDOs. ChannelRe Holdings has some direct exposure to seasoned sub-prime mortgages in its reinsurance portfolio, and no direct exposure to sub-prime mortgages issued after 2004. ChannelRe Holdings has also guaranteed certain CDOs that include sub-prime mortgage collateral. These have high attachment points, and are considered to be well structured.

ChannelRe Holdings provides some coverages on a derivative basis rather than on an insurance basis. The risks and obligations for ChannelRe Holdings are the same under both types of coverages. While coverages on an insurance basis would not be affected by the volatility of the investment market, ChannelRe Holdings has to mark-to-market the value of the derivatives based on the current market price of the underlying security, whether or not they expect to incur a claim for losses. Over time, the mark-to-market losses would be reversed if credit spreads tighten or the underlying securities continue to perform as they approach maturity.

The Company s interest in ChannelRe Holdings negative results for the twelve month period ended September 30, 2007 was $6 million, which the Company records on a one-quarter lag. However, the Company

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has recorded an additional charge of $87 million in its Consolidated Statements of Operations for the year ended December 31, 2007 to reflect the write-down of its total investment in ChannelRe Holdings due to unrealized mark-to-market losses on Channel Reinsurance s credit derivative portfolio, which Channel Reinsurance expects to incur during the three month period ended December 31, 2007 and which are expected to result in Channel Reinsurance having negative U.S. GAAP shareholders equity at that date.

In addition to the charge related to ChannelRe Holdings in 2007, the Company recorded $10 million of interest in earnings of equity investments related to other private placement investments and limited partnerships in which the Company has more than a minor interest.

The increase of $2 million in interest in earnings of equity investments to $12 million in 2006 compared to $10 million 2005 resulted from increased profitability of ChannelRe Holdings in 2006.

2008 Outlook

With respect to strategic investments, the Company expects to see an increased flow of potential opportunities during 2008 as a result of the disruptions in the credit markets. The Company will evaluate these potential new opportunities for attractiveness during the year.

Technical Result and Other (Loss) Income

2007 over 2006

Technical results and other (loss) income included in Corporate and Other are from principal finance transactions and insurance-linked securities. The increase of $3 million in the technical result for 2007 compared to 2006 resulted primarily from the insurance-linked securities line, which had a technical result of $2 million in 2007, compared to break even in 2006. The decrease of $43 million in other (loss) income in 2007 compared to 2006 was primarily attributable to a decrease of $35 million from the principal finance line due to write-downs and mark-to-market adjustments on various transactions in 2007, while 2006 benefited from accelerated profit recognition on the early termination of a number of long-term contracts, and from a decrease of $7 million from the insurance-linked securities line as a result of warmer than expected weather conditions in Japan in 2007.

2006 over 2005

While the technical result was flat for 2006 and 2005, the decrease of $7 million in other income in 2006 compared to 2005 was primarily attributable to a decrease of $9 million from the insurance-linked securities line resulting from weather conditions in Japan, partially offset by an increase of $2 million from the principal finance line, which benefited from accelerated profit recognition on the early termination of a number of long term contracts.

Other Operating Expenses

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

	2007	% Change 2007 over 2006	2006	% Change 2006 over 2005	2005
Other operating expenses	**$ 327**	5%	$ 310	14%	$ 272

Other operating expenses represent 8.6%, 8.4% and 7.5% of the net premiums earned (both life and non-life) in 2007, 2006 and 2005, respectively. Other operating expenses included in Corporate and Other were $80 million, $75 million and $58 million for 2007, 2006 and 2005, respectively, of which $67 million, $62 million and $51 million are related to corporate activities for 2007, 2006 and 2005, respectively.

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2007 over 2006

The increase in operating expenses of 5% in 2007 compared to 2006 consisted primarily of increases in personnel costs of $16 million and consulting and professional fees of $5 million, primarily due to the reorganization of the Company s European platform, partially offset by decreases of $4 million in fixed asset depreciation and other costs. The weakening of the U.S. dollar, on average, in 2007 compared to 2006 contributed 3% to the increase of other operating expenses.

2006 over 2005

The overall increase of 14% for 2006 consisted primarily of increases in personnel costs of $41 million, including bonus accruals and stock-based compensation expense, and $2 million in consulting and professional fees, partially offset by decreases of $5 million in fixed asset depreciation and other costs. The strengthening of the U.S. dollar, on average, in 2006 compared to 2005 decreased other operating expenses by 1%.

Financial Condition, Liquidity and Capital Resources

Investments

The total of investments and cash and cash equivalents was $11.6 billion at December 31, 2007, compared to $10.7 billion at December 31, 2006. The major factors influencing the increase in 2007 were:

- net cash provided by operating activities of $1,099 million, after excluding $128 million net sales of trading securities; and

- other factors, the primary one being the net positive influence of the effect of a weaker U.S. dollar relative to the euro and other currencies as it relates to the conversion of invested assets and cash balances into U.S. dollars, amounting to approximately $406 million; partially offset by

- net payment for the Company s common shares of $237 million resulting from the repurchase of common shares of $275 million under the Company s share repurchase program, partially offset by $38 million related to the issuance of common shares under the Company s equity plans;

- dividend payments on common and preferred shares totaling $131 million;

- decrease in net payable for securities purchased of $124 million;

- decrease in the value of the Company s investment in ChannelRe Holdings of $98 million; and

- decrease in the market value (realized and unrealized) of the investment portfolio of $23 million resulting from the decrease in market value of the equity portfolio of $77 million, partially offset by the increase in market value of the fixed income portfolio of $54 million.

The Company employs a prudent investment philosophy. It maintains a high-quality, well-balanced and liquid portfolio having the dual objectives of optimizing current investment income and achieving capital appreciation. The Company s invested assets are comprised of total investments, cash and cash equivalents and accrued investment income. From a risk management perspective, the Company allocates its invested assets into two categories: liability funds and capital funds. Liability funds represent invested assets supporting the net reinsurance liabilities, defined as the Company s operating and reinsurance liabilities net of reinsurance assets, and are invested entirely in high-quality fixed income securities. The preservation of liquidity and protection of capital are the primary investment objectives for these assets. The portfolio

managers are required to adhere to investment guidelines as to minimum ratings and issuer and sector concentration limitations. Liability funds are invested in a way that generally matches them to the corresponding liabilities in terms of both duration and currency composition to protect the Company against changes in interest and foreign exchange rates. Capital funds represent the capital of the Company and contain most of the asset classes typically viewed as offering a higher risk and higher return profile, subject to risk assumption and portfolio diversification guidelines, which

include issuer and sector concentration limitations. Capital funds may be invested in investment-grade and below investment-grade fixed income securities, preferred and common stocks, private equity and bond investments, and convertible fixed-income securities. The Company believes that an allocation of a portion of its investments to equities is both prudent and desirable, as it helps to achieve broader asset diversification (lower risk) and maximizes the portfolio s total return over time.

At December 31, 2007, the liability funds totaled $7.0 billion and were comprised of cash and cash equivalents and high-quality fixed income securities. The capital funds, which totaled $4.8 billion, were comprised of cash and cash equivalents, investment-grade and below investment-grade fixed income securities, preferred and common stocks, private equity and bond investments, and convertible fixed income securities.

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 options, foreign exchange forward contracts related to designated and non-designated hedges, written covered call options and total return and interest rate swaps for the purpose of replicating investment positions, managing market exposure and duration risks, or enhancing investment performance that would be allowed under the Company s investment policy if implemented in other ways.

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

Available for Sale Investments

At December 31, 2007 and 2006, investments classified as available for sale comprised approximately 96% and 94%, respectively, of the Company s total investments (excluding other invested assets), with 4% and 6%, respectively, being classified as trading securities. At December 31, 2007, approximately 97% of the Company s fixed income securities, including bank loans and other fixed income type mutual funds, were rated investment-grade (BBB- or higher) by Standard & Poor s (or estimated equivalent) and 96% of the invested assets held by the Company were publicly traded.

The average duration of the Company s investment portfolio was 3.9 years at December 31, 2007 and 4.1 years at December 31, 2006, which closely matches the duration of the Company s liabilities. For the purposes of managing portfolio duration, the Company uses exchange traded treasury note futures. The use of treasury futures at December 31, 2007 allowed the Company to extend the duration of its investment portfolio from 3.7 years to 3.9 years.

Fixed maturities, short-term investments and cash and cash equivalents had an average yield to maturity at market of 4.7% at December 31, 2007 compared to 4.9% at December 31, 2006, reflecting lower treasury rates in the U.S, higher interest rates in Europe and widening spreads on corporate and mortgage-backed securities. The Company s investment portfolio generated a total return of 8.4% for the year ended December 31, 2007, compared to 7.8% for the year ended December 31, 2006. Investment income and falling interest rates as well as the weaker U.S. dollar in 2007 contributed to the positive total return, partially offset by the underperformance of risk asset classes, including equities, during 2007.

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The cost, gross unrealized gains, gross unrealized losses and fair value of investments classified as available for sale at December 31, 2007 and 2006 were as follows (in millions of U.S. dollars):

2007	Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government	**$ 1,204**	**$ 36**	**$**	**$ 1,240**
other foreign governments	**2,784**	**44**	**(7)**	**2,821**
corporate	**3,124**	**40**	**(32)**	**3,132**
mortgage/asset-backed securities	**2,290**	**30**	**(14)**	**2,306**
Total fixed maturities	**9,402**	**150**	**(53)**	**9,499**
Short-term investments	**97**			**97**
Equities	**839**	**60**	**(27)**	**872**
Total	**$ 10,338**	**$ 210**	**$ (80)**	**$ 10,468**

2006	Cost(1)	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Fixed maturities				
U.S. government	$ 1,519	$ 4	$ (12)	$ 1,511
states or political subdivisions of states of the U.S.	1			1
other foreign governments	1,554	18	(15)	1,557
corporate	2,859	32	(26)	2,865
mortgage/asset-backed securities	1,920	8	(26)	1,902
Total fixed maturities	7,853	62	(79)	7,836
Short-term investments	134			134
Equities	921	103	(9)	1,015
Total	$ 8,908	$ 165	$ (88)	$ 8,985

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

U.S. government included both U.S. treasuries and agencies of the U.S. government. At December 31, 2007, U.S. treasuries accounted for 96% of this category. Although U.S. treasuries and U.S. agencies are not rated, they are generally considered to have credit quality equivalent to or greater than AAA corporate issues.

Included in other foreign governments are obligations of non-U.S. governments and their agencies. At December 31, 2007, 94% of this category was rated AAA, while investment grade government and agency obligations accounted for the remaining 6% of this category. The largest three foreign government issuers (Germany, Canada and France) accounted for 90% of this category at December 31, 2007.

Corporate bonds are comprised of obligations of U.S. and foreign corporations. At December 31, 2007, 96% of these investments were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent), while 62% were rated A- or better. While the ten largest issuers accounted for less than 15% of the corporate bonds held by the Company at December 31, 2007, no single issuer accounted for more than 3% of the total. U.S. bonds comprised 82% of this category at December 31, 2007, while 45% were bonds within the financial sector.

In the mortgage/asset-backed securities category, 87% were U.S. mortgage-backed securities at December 31, 2007. These securities generally have a low risk of default as they are backed by an agency of the U.S. government, which enforces standards on the mortgages before accepting

them into the program. They are considered prime mortgages and the major risk is uncertainty of the timing of pre-payments. Although these securities do not carry a formal rating, they are generally considered to have a credit quality equivalent to or greater than AAA. While there have been recent market concerns regarding sub-prime mortgages, the Company

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did not have direct exposure to these types of securities in its own portfolio at December 31, 2007. The remaining 13% of this category at December 31, 2007 was comprised of non-U.S. mortgage-backed and asset-backed securities, all of which were rated investment grade (BBB- or higher) by Standard & Poor s (or estimated equivalent). Within that, 77% were rated AA or higher by Standard & Poor s (or estimated equivalent).

Short-term investments classified as available for sale were primarily corporate bond obligations of U.S. corporations.

Publicly traded common stocks comprised 66% of equities at December 31, 2007. The majority of the remaining balance was comprised of a $228 million bank loan portfolio, which accounted for 26% of the equities, with the balance in high yield, convertibles and alternative investments. Of the publicly traded common stocks, U.S. issuers represented 74% at December 31, 2007. While the ten largest common stocks accounted for 34% of the publicly traded common stocks held by the Company at December 31, 2007, no single common stock issuer accounted for more than 4% of the total. At December 31, 2007, the largest publicly traded common stock exposures of the ten major economic sectors was 14% in consumer non-cyclicals, while no other sector represented more than 10%.

The Company recorded charges for other-than-temporary impairments relating to its investment portfolio of $125 million in 2007 ($57 million related to fixed maturity securities and $68 million related to equity securities). The Company currently does not have any direct exposure to the sub-prime mortgage sector in its investment portfolio, and consequently, the Company s other-than-temporary impairment charge for 2007 did not include any write-downs related to sub-prime mortgage issues.

At December 31, 2007, the Company had approximately 500 securities with gross unrealized losses. Of the gross unrealized losses of $80 million at December 31, 2007 on investments classified as available for sale, 72% related to investment positions that were carried at an unrealized loss for less than 12 months. Total gross unrealized losses on fixed maturities were $53 million at December 31, 2007, of which $49 million were attributable to investment-grade securities and $4 million were attributable to securities rated below investment-grade. The Company s investment security with the largest unrealized loss position at December 31, 2007, for which an other-than-temporary impairment charge has not been taken, was an equity security which had a gross unrealized loss of $5 million, representing 22% of the cost of the security. At December 31, 2007, this equity security carried the unrealized loss position for approximately two months, which was primarily due to the turmoil in the equity market in the second half of 2007.

The majority of the unrealized losses on fixed maturity securities classified as available for sale for which an other-than-temporary impairment charge has not been taken, are due to wider credit spreads since the Company s purchase of the investments, and the Company intends to hold these investments until recovery. At December 31, 2007, the unrealized losses on the Company s other foreign government securities resulted primarily from wider credit spreads. The majority of the government securities are rated AAA, and are not expected to default. The Company s unrealized losses on investments in corporate bonds were also primarily due to widening spreads in investment-grade corporate securities. The unrealized losses on these high quality corporate bonds were distributed across many industries, with the financial and consumer cyclical sectors contributing the largest portion of unrealized losses. The unrealized losses on the Company s investments in mortgage and asset-backed securities were also due to wider credit spreads. A significant portion of the mortgage and asset-backed securities were issued by agencies of the U.S. government, and these securities are not expected to default. The fixed maturity security with the largest unrealized loss position at December 31, 2007, for which an other-than-temporary impairment charge has not been taken, was an unrealized loss of $4 million, representing 1% of the amortized cost of the security.

The Company s investments in equity securities consist primarily of investments in common stocks of companies in various industries. The Company evaluated the equity issuers in relation to the severity and duration of the impairment. As noted above, the largest unrealized loss position was an equity security which had a gross unrealized loss of $5 million. In addition to this equity security, the majority of the unrealized losses on equity securities were primarily in the consumer cyclical, real estate and finance sectors.

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In Management s judgment, the Company had no significant unrealized losses caused by other factors or circumstances, including an issuer s specific corporate risk or due to industry or geographic risk, for which an other-than-temporary impairment charge has not been taken.

The following table presents the continuous periods during which the Company has held investment positions that were carried at an unrealized loss (excluding investments classified as trading securities) at December 31, 2007 (in millions of U.S. dollars):

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Fixed maturities						
U.S. government	$ 46	$	$ 10	$	$ 56	$
other foreign governments	1,024	(6)	108	(1)	1,132	(7)
corporate	770	(20)	574	(12)	1,344	(32)
mortgage/asset-backed securities	270	(5)	611	(9)	881	(14)
Total fixed maturities	2,110	(31)	1,303	(22)	3,413	(53)
Short-term investments	40				40	
Equities	269	(27)			269	(27)
Total	$ 2,419	$ (58)	$ 1,303	$ (22)	$ 3,722	$ (80)

Maturity Distribution

The distribution of available for sale fixed maturities and short-term investments at December 31, 2007, by contractual maturity, is shown below (in millions of U.S. dollars). Actual maturities may differ from contractual maturities because certain borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
One year or less	$ 633	$ 633
More than one year through five years	3,422	3,451
More than five years through ten years	2,770	2,800
More than ten years	384	406
Subtotal	7,209	7,290
Mortgage/asset-backed securities	2,290	2,306
Total	$ 9,499	$ 9,596

The maturity distribution for those available for sale fixed maturities and short-term investments that were in an unrealized loss position at December 31, 2007 was as follows (in millions of U.S. dollars):

	Amortized Cost	Fair Value	Gross Unrealized Losses
One year or less	$ 318	$ 316	$ (2)
More than one year through five years	1,180	1,166	(14)
More than five years through ten years	964	946	(18)
More than ten years	149	144	(5)

Subtotal		2,611		2,572		(39)
Mortgage/asset-backed securities		895		881		(14)
Total	$	3,506	$	3,453	$	(53)

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Rating Distribution

The following table provides a breakdown of the credit quality of the Company s fixed income securities at December 31, 2007:

Rating Category	% of total fixed income securities
AAA	68%
AA	6
A	12
BBB	11
Below investment-grade/unrated	3
	100%

Trading Securities

Fixed maturities and equity investments that are bought and held principally for the purpose of selling in the near term are classified as trading securities. The market value of investments classified as trading securities was $399 million and $600 million at December 31, 2007 and 2006, respectively. The decrease in trading securities is mainly due to a change in asset allocation from the equity trading portfolio to the available for sale fixed maturity portfolios during the fourth quarter of 2007. Included in the total market value of trading securities at December 31, 2007 was $16 million related to convertible fixed income securities and $383 million related to equity securities. At December 31, 2007, the net unrealized investment loss on trading securities was approximately $8 million compared to a gain of $22 million at December 31, 2006.

Other Invested Assets

The Company s other invested assets consist primarily of investments in non-publicly traded companies, private placement equity investments, private placement bond investments, derivative financial instruments and other specialty asset classes. These assets, together with the Company s net liabilities for certain derivative financial instruments that were in an unrealized loss position at December 31, 2007, are reported within other invested assets on the Company s Consolidated Balance Sheets, and may result in substantial volatility in the Company s reported net income.

As part of its principal finance transactions, the Company has entered into total return and interest rate swaps, which are accounted for as derivative financial instruments. At December 31, 2007 and 2006, the notional value of the Company s total return and interest rate swaps was $273 million and $315 million, respectively and approximately 42% and 41%, respectively, of the portfolio related to apparel and retail future flow or intellectual property backed transactions, with the rest distributed over a number of generally unrelated risks. At December 31, 2007, approximately 44% of the underlying investments were rated investment-grade, compared to 60% at December 31, 2006. The Company uses internal valuation models to estimate the fair value of these swaps and develops assumptions that require significant judgment, such as the timing of future cash flows, credit spreads and general level of interest rates.

As part of the insurance-linked securities line, the Company has entered into various weather derivatives, for which the underlying risks include parametric weather risks (temperature and precipitation). The Company uses internal valuation models to estimate the fair value of these derivatives and develops assumptions that require significant judgment. At December 31, 2007 and 2006, the total notional value of the Company s weather derivatives was $39 million and $23 million, respectively.

At December 31, 2007, in addition to its investment in ChannelRe Holdings, the Company had $79 million in other invested assets consisting primarily of investments in non-publicly traded companies, private placement equity investments, private placement bond investments and other specialty asset classes. See Corporate and Other above for a discussion of the Company s investment in ChannelRe Holdings.

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As discussed above, the Company uses exchange traded treasury note futures for the purposes of managing portfolio duration. The notional value of the treasury futures was $485 million at December 31, 2007, while the fair value of the futures contracts, recorded in other invested assets, was a net unrealized gain of $1 million.

Included in net payable for securities purchased at December 31, 2007 and 2006 was $nil and $70 million, respectively, of equity securities sold but not yet purchased, which represent sales of securities not owned at the time of the sale.

Funds Held by Reinsured Companies (Cedants)

The Company writes certain business on a funds held basis. As of December 31, 2007 and 2006, the Company recorded $1,083 million and $1,002 million, respectively, of funds held assets in its Consolidated Balance Sheets, representing 7% of the Company s total assets. Under such contractual arrangements, the cedant retains the net funds that would have otherwise been remitted to the Company and credits the net fund balance with investment income. In general, the purpose of the funds held balances is to provide cedants with additional security that the Company will honor its obligations. The Company is subject to the credit risk of the cedant in the event of insolvency or the cedant s failure to honor the value of the funds held balances for any other reason. However, the Company s credit risk is somewhat mitigated by the fact that the Company generally has the contractual ability to offset any shortfall in the payment of the funds held balances with amounts owed by the Company to the cedant for losses payable and other amounts contractually due.

Approximately 71% of the funds held assets at December 31, 2007 earned investment income based upon a predetermined interest rate, either fixed contractually at the inception of the contract or based upon a recognized market index (e.g., LIBOR). Interest rates at December 31, 2007 ranged from 1.0% to 6.0%. Under these contractual arrangements, there are no specific assets linked to the funds held balances, and the Company is only exposed to the credit risk of the cedant.

With respect to the remaining 29% of the funds held assets at December 31, 2007, the Company receives an investment return based upon either the results of a pool of assets held by the cedant, or the investment return earned by the cedant on its entire investment portfolio. The Company does not legally own or directly control the investments underlying its funds held assets and only has recourse to the cedant for the receivable balances and no claim to the underlying securities that support the balances. Decisions as to purchases and sales of assets underlying the funds held balances are made by the cedant; in some circumstances, investment guidelines regarding the minimum credit quality of the underlying assets may be agreed upon between the cedant and the Company as part of the reinsurance agreement, or the Company may participate in an investment oversight committee regarding the investment of the net funds, but investment decisions are not otherwise influenced by the Company.

Within this portion of the funds held assets, the Company has several annuity treaties, which are structured so that the return on the funds held balances is tied to the performance of an underlying group of assets held by the cedant, including fluctuations in the market value of the underlying assets. One such treaty is a retrocessional agreement under which the Company receives more limited data than what is generally received under a direct reinsurance agreement. In these arrangements, the objective of the reinsurance agreement is to provide for the covered longevity risk and to earn a net investment return on an underlying pool of assets greater than is contractually due to the annuity holders. While the Company is also exposed to the creditworthiness of the cedant, the risk of loss to the Company is somewhat mitigated, as the Company generally has the contractual ability to offset a shortfall in the funds held asset with amounts owed to the cedant. The Company also has non-life treaties in which the investment performance of the net funds held asset corresponds to the interest income on the assets held by the cedant; however, the Company is not directly exposed to the underlying credit risk of these investments, as they serve only as collateral for the Company s receivables. That is, the amount owed to the Company is unaffected by changes in the market value of the investments underlying the funds held.

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In those cases where the Company is exposed to the credit or interest rate risk of an underlying pool of assets, the Company has applied the guidance of Derivatives Implementation Group (DIG) Issue No. B36, Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments . Accordingly, the Company has recognized as a realized gain or loss the value of the credit and/or interest rate derivative embedded within the funds held balance. In the case of the Company s annuity contracts, there is also generally a resulting offsetting adjustment to deferred acquisition costs related to this business. At December 31, 2007, the cumulative value of such embedded derivatives was determined to be a loss of approximately $2 million, which is substantially offset by a comparable but opposite adjustment to deferred acquisition costs.

Unpaid Losses and Loss Expenses

The Company establishes loss reserves to cover the estimated liability for the payment of all losses and loss expenses incurred with respect to premiums earned on the contracts that the Company writes. Loss reserves do not represent an exact calculation of the liability. Estimates of ultimate liabilities are contingent on many future events and the eventual outcome of these events may be different from the assumptions underlying the reserve estimates. The Company believes that the recorded unpaid losses and loss expenses represent Management s best estimate of the cost to settle the ultimate liabilities based on information available at December 31, 2007. See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits above for additional information concerning losses and loss expenses.

At December 31, 2007 and 2006, the Company recorded gross Non-life reserves for unpaid losses and loss expenses of $7,231 million and $6,871 million, respectively, and net Non-life reserves for unpaid losses and loss expenses of $7,099 million and $6,732 million, respectively.

The following table provides a reconciliation of the net Non-life reserves for unpaid losses and loss expenses for the years ended December 31, 2007, 2006 and 2005 (in millions of U.S. dollars):

	2007	2006	2005
Net liability at beginning of year	**$ 6,732**	$ 6,552	$ 5,614
Net incurred losses related to:			
Current year	**2,042**	2,000	2,998
Prior years	**(414)**	(252)	(231)
	1,628	1,748	2,767
Net paid losses	**(1,620)**	(1,860)	(1,485)
Effects of foreign exchange rate changes	**359**	292	(344)
Net liability at end of year	**$ 7,099**	$ 6,732	$ 6,552

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits and Review of Net Income (Loss) Results by Segment above for a discussion of losses and loss expenses and prior years reserve developments and Business Reserves in Item 1 of Part I of this report for a discussion of the impact of foreign exchange on the net reserves.

The 2007 net incurred losses included $53 million for European windstorm Kyrill, the 2006 net incurred losses reflected low large loss activity, and the 2005 net incurred losses included $959 million for the large 2005 catastrophic loss events. The Non-life ratio of paid losses to net premiums earned was 51%, 59% and 47%, and the Non-life ratio of paid losses to incurred losses was 100%, 106% and 54% for the years ended December 31, 2007, 2006 and 2005, respectively. The lower Non-life ratios in 2007 compared to 2006 resulted from lower

payments on the large 2005 and 2004 catastrophic loss events during 2007 and the timing of loss payments associated with older underwriting years. As of December 31, 2007, approximately 92% and 84% of the Company s ultimate loss estimates related to the 2004 Atlantic hurricanes and the large 2005 catastrophic losses were paid, respectively.

Policy Benefits for Life and Annuity Contracts

At December 31, 2007 and 2006, the Company recorded gross policy benefits for life and annuity contracts of $1,542 million and $1,431 million, respectively, and net policy benefits for life and annuity contracts of $1,499 million and $1,388 million, respectively.

The following table provides a reconciliation of the net policy benefits for life and annuity contracts for the years ended December 31, 2007, 2006 and 2005 (in millions of U.S. dollars):

	2007	2006	2005
Net liability at beginning of year	**$ 1,388**	$ 1,193	$ 1,248
Net incurred losses	**455**	363	320
Net paid losses	**(430)**	(278)	(266)
Effects of foreign exchange rate changes	**86**	110	(109)
Net liability at end of year	**$ 1,499**	$ 1,388	$ 1,193

See Critical Accounting Policies and Estimates Losses and Loss Expenses and Life Policy Benefits and Review of Net Income (Loss) Results by Segment above for a discussion of life policy benefits and prior years reserve developments.

The 2007 net policy benefits for life and annuity contracts was affected by a reduction of $137 million due to the commutation of a mortality financing contract.

The Life ratio of paid losses to net premiums earned was 75%, 57% and 62%, and the Life ratio of paid losses to incurred losses was 95%, 76% and 83% for the years ended December 31, 2007, 2006 and 2005, respectively. The increases in both the Life ratios for the year ended December 31, 2007 compared to the year ended December 31, 2006 were due to the commutation of a financing treaty in 2007.

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Contractual Obligations and Commitments

In the normal course of its business, the Company is a party to a variety of contractual obligations as summarized below. These contractual obligations are considered by the Company when assessing its liquidity requirements, and the Company is confident in its ability to meet all of its obligations. Contractual obligations at December 31, 2007, were as follows (in millions of U.S. dollars):

	Total	< 1 year	1-3 years	3-5 years	> 5 years
Contractual obligations:					
Long-term debt principal	$ 620.0	$ 220.0	$ 400.0	$	$
Long-term debt interest	42.3	35.0	7.3		
Operating leases	146.4	25.8	41.1	33.7	45.8
Other operating agreements	37.0	10.8	17.4	8.3	0.5
Contract fees under forward sale agreement	9.8	9.8			
Other invested assets	26.3	8.3	10.0	8.0	
Unpaid losses and loss expenses (1)	7,231.4	1,955.8	1,950.4	1,061.7	2,263.5
Policy benefits for life and annuity contracts (2)	2,446.7	304.0	352.7	210.0	1,580.0
Deposit liabilities (2)	619.6	106.2	67.7	74.1	371.6
FIN 48 unrecognized tax benefits (3)	0.3	0.3			
Other long-term liabilities:					
Series C cumulative preferred shares principal (4)	290.0				290.0
Series C cumulative preferred shares dividends	NA	19.6	39.2	39.2	19.6 per annum
Series D cumulative preferred shares principal (4)	230.0				230.0
Series D cumulative preferred shares dividends	NA	15.0	29.9	29.9	15.0 per annum
CENts principal (5)	250.0				250.0
CENts interest	NA	16.1	32.2	32.2	16.1 per annum

NA: not applicable

(1) The Company s unpaid losses and loss expenses represent Management s best estimate of the cost to settle the ultimate liabilities based on information available as of December 31, 2007 and are not fixed amounts payable pursuant to contractual commitments. The timing and amounts of actual loss payments related to these reserves might vary significantly from the Company s current estimate of the expected timing and amounts of loss payments based on many factors, including large individual losses as well as general market conditions.

(2) Policy benefits for life and annuity contracts and deposit liabilities recorded in the Company s Consolidated Balance Sheet at December 31, 2007 of $1,542 million and $436 million, respectively, are computed on a discounted basis, whereas the expected payments by period in the table above are the estimated payments at a future time and do not reflect a discount of the amount payable.

(3) The Company has excluded $24.5 million of FIN 48 unrecognized tax benefits, as it cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authorities.

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

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

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

Shareholders Equity and Capital Resources Management

Shareholders equity at December 31, 2007 was $4.3 billion, a 14% increase compared to $3.8 billion at December 31, 2006. The major factors contributing to the increase in shareholders equity in 2007 were:

- net income of $718 million;
- a $129 million positive effect of the currency translation adjustment resulting primarily from the translation of PartnerRe Holdings Europe Limited (formerly PartnerRe Holdings Ireland Limited) and its subsidiaries and PartnerRe SA s financial statements into the U.S. dollar;
- a $38 million increase in net unrealized gains and losses on investments, net of deferred taxes, recorded in shareholders equity resulting from changes in the fair value of investments, realization of net gains and losses on sales of securities and other-than-temporary impairments; and
- a $4 million increase in accumulated other comprehensive income due to a reduction in the unfunded pension obligation related to the Company s defined benefit pension plans; offset by
- a net decrease of $213 million, due to the repurchase of common shares of $275 million under the Company s share repurchase program, offset by the issuance of common shares under the Company s employee equity plans and share-based compensation expense of $62 million;
- dividends declared on both the Company s common and preferred shares of $131 million; and
- a $9 million decrease in opening retained earnings due to the adoption of FIN 48.

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

Management uses growth in diluted book value per share as a prime measure of the value the Company is generating for its common shareholders, as Management believes that growth in the Company s diluted book value per share ultimately translates into growth in the Company s stock price. Diluted book value per share is calculated using common shareholders equity (shareholders equity less the liquidation value of preferred shares) divided by the number of fully diluted common shares outstanding (assuming exercise of all stock-based awards and other dilutive securities). In 2007, the Company s diluted book value per share increased by 21% to $67.96 at December 31, 2007 from $56.07 at December 31, 2006.

In November 2006, PartnerRe Finance II Inc. (PartnerRe Finance II), an indirect wholly-owned subsidiary of the Company, issued $250 million aggregate principal amount of 6.440% Fixed-to-Floating Rate Junior Subordinated Capital Efficient Notes (CENts). The CENts will mature on December 1, 2066 and may be redeemed at the option of the issuer, in whole or in part, after December 1, 2016 or earlier upon occurrence of specific rating agency or tax events. 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 long-term debt. In December 2006, the Company used a portion of the net proceeds from the CENts to effect the redemption of all of the $200 million liquidation amount of the 7.90% trust preferred securities issued in 2001 by PartnerRe Capital Trust I and the remaining net proceeds were used for general corporate purposes. PartnerRe Finance II does not meet the

consolidation requirements of FIN 46(R). Accordingly, the Company reflects the intercompany debt of $257.6 million associated with the issuance of the CENts on its Consolidated Balance Sheets. For purposes of discussion, the Company refers to both the CENts and the related debt as the CENts.

Subsequent to the large 2005 catastrophic loss events, the Company entered into capital transactions to raise long-term debt and equity. In October 2005, the Company issued 2.4 million of its common shares for proceeds of $149 million, net of underwriting discounts and other transaction costs. The Company used the proceeds of this capital issuance for general corporate purposes. In addition, the Company entered into a loan agreement with Citibank, N.A under which the Company borrowed $400 million. The loan will mature in April 2009 and bears interest quarterly at a floating rate of 3-month LIBOR plus 0.50%. The Company is not permitted to prepay the loan prior to its maturity, and the loan is not callable or puttable by the lender other than upon an event of default. The Company also entered into a forward sale agreement to sell up to approximately 6.7 million of its common shares prior to October 2008. See Off-Balance Sheet Arrangements for a discussion of the forward sale agreement.

In addition to the $400 million long-term debt discussed above, the $220 million long-term debt of PartnerRe U.S. Holdings is repayable in December 2008.

The table below sets forth the capital structure of the Company at December 31, 2007 and 2006 (in millions of U.S. dollars):

	2007		2006	
Capital Structure:				
Long-term debt	**$ 620**	**12%**	$ 620	13%
Capital efficient notes (1)	**250**	**5**	250	6
6.75% Series C cumulative preferred shares, aggregate liquidation	**290**	**6**	290	6
6.5% Series D cumulative preferred shares, aggregate liquidation	**230**	**4**	230	5
Common shareholders equity	**3,802**	**73**	3,266	70
Total Capital	**$ 5,192**	**100%**	$ 4,656	100%

(1) PartnerRe Finance II, the issuer of the capital efficient notes, does not meet the consolidation requirements of FIN 46(R). Accordingly, the Company shows the related intercompany debt of $257.6 million on its Consolidated Balance Sheets. See Note 2(s) to Consolidated Financial Statements.

In November and May 2007, the Company s Board of Directors increased the shares authorized for repurchase by the Company to 5 million shares. At December 31, 2007, the Company had approximately 4.5 million common shares remaining under its current share repurchase authorization.

During 2007, the Company repurchased in the open market 3.6 million of its common shares pursuant to the share repurchase program at a total cost of $275.0 million, representing an average cost of $76.06, of which 3.1 million common shares, or $241.3 million, are currently held in treasury and are available for reissuance.

During 2006, the Company did not repurchase any common shares.

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

Liquidity

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

Cash and cash equivalents were $655 million at December 31, 2007. Cash flows from operations in 2007 increased to $1,227 million, from $492 million in 2006 and $1,032 million in 2005. The increase in cash flows from operations for 2007 compared to 2006 was mainly due to a change in asset allocation from trading securities, which is classified as operating cash flows under U.S. GAAP, to available for sale securities, and higher underwriting cash inflows due to lower paid losses in 2007 compared to 2006. Without the impact of trading securities, net cash provided by operating activities would have been $1,099 million and $882 million in 2007 and 2006, respectively.

Paid losses for 2007, 2006 and 2005 included approximately $219 million, $576 million and $182 million, respectively, related to the large 2005 and 2004 catastrophic loss events. The increase in cash flows from operations also reflected an increase in cash from the 16% increase in net investment income in 2007 compared to 2006. The growth in net investment income is primarily a result of cumulative cash flows added to the portfolio.

The Company is a holding company with no operations or significant assets other than the capital stock of the Company s subsidiaries and other intercompany balances. The Company has cash outflows in the form of operating expenses, interest payments on its $400 million long-term debt, dividends to both common and preferred shareholders and, from time to time, cash outflows for the repurchase of its common shares under its share repurchase program. For the year ended December 31, 2007, corporate expenses were $67 million, interest paid was $24 million, common dividends paid were $96 million and preferred dividends paid were $35 million. In addition, the Company paid approximately $11 million of contract fees and interest related to its forward sale agreement in 2007. In January 2008, the Company announced that it was increasing its quarterly dividend to $0.46 per common share or approximately $100 million in total for 2008, assuming a constant number of common shares in issue and a constant dividend rate, and it will pay approximately $35 million in dividends for preferred shareholders.

The Company relies primarily on cash dividends and payments from its subsidiaries to pay the operating expenses, interest expense, shareholder dividends and other obligations of the holding company that may arise from time to time. The Company expects future dividends and other permitted payments from its subsidiaries to be the principal source of its funds to pay expenses and dividends. Although the payment of dividends by the reinsurance subsidiaries to the Company is limited under Bermuda, French and Irish laws and certain insurance statutes of various U.S. states in which PartnerRe U.S. is licensed to transact business, there are currently no significant restrictions on the payment of dividends by the reinsurance subsidiaries (See Note 11 to Consolidated Financial Statements).

The reinsurance subsidiaries of the Company depend upon cash inflows from the collection of premiums as well as investment income and proceeds from the sales and maturities of investments to meet their obligations. Cash outflows are in the form of claims payments, purchase of investments, operating expenses, income tax payments, intercompany payments as well as dividend payments to the holding company, and additionally, in the case of PartnerRe U.S. Holdings, interest payments on the long-term debt and the CENts. PartnerRe U.S. Holdings and its subsidiaries have $220 million in third party debt as well as $250 million of CENts outstanding. PartnerRe U.S. Holdings and its subsidiaries paid a total of approximately $31 million of interest on the long-term debt and the CENts in 2007.

Historically, the operating subsidiaries of the Company have generated sufficient cash flows to meet all of their obligations. Because of the inherent volatility of the business written by the Company, the seasonality in the timing of payments by cedants, the irregular timing of loss payments, the impact of a change in interest rates on the investment returns as well as seasonality in coupon payment dates for fixed income securities, cash flows from operating activities may vary significantly between periods. The Company expects that annual positive cash flows from operating activities will be sufficient to cover claims payments through 2008, absent a series of unusual catastrophic events. In the unlikely event that paid losses accelerate beyond the ability to fund such payments from operating cash flows, the Company would use its cash balances available, liquidate a portion of its investment portfolio or arrange for financing.

The Company and its subsidiaries have access to a revolving line of credit of up to $350 million as part of the Company s $700 million syndicated unsecured credit facility (see Credit Facilities below). As of December 31, 2007, there were no borrowings under this line of credit.

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

Credit Facilities

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

Included in the total credit facilities available to the Company at December 31, 2007, is a $700 million five-year syndicated, unsecured credit facility. This credit facility enables the Company to potentially increase the available credit from $700 million to $1 billion. Additionally, the syndicated unsecured credit facility allows for an adjustment to the level of pricing should the Company experience a change in its senior unsecured debt ratings. The pricing grid provides the Company greater flexibility and simultaneously provides participants under the facility some price protection. As long as the Company maintains a minimum senior unsecured debt rating of BBB+ by Standard & Poor s and Baa1 by Moody s, the pricing on the facility will not change significantly. The Company s senior unsecured debt ratings are currently A (stable) and A2 (stable) by Standard & Poor s and Moody s, respectively.

Some of the credit facilities contain customary default, cross payment and acceleration provisions and require that the Company maintain certain covenants. The Company s breach of any of the covenants would result in an event of default, upon which the Company may be required to repay any outstanding borrowings and replace or cash collateralize letters of credit issued under these facilities. The long-term debt and capital securities issued by the Company and its subsidiaries contain similar provisions. These include, but are not limited to, failure to make interest and principal payments, breaches of various covenants, payment defaults or acceleration of indebtedness, certain events of bankruptcy and changes in control of the Company. At December 31, 2007, the Company was in compliance with all required covenants, and no conditions of default existed related to the Company s credit facilities or any of its debt or capital securities.

Off-Balance Sheet Arrangements

In October 2005, the Company entered into a forward sale agreement under which it will sell approximately 6.7 million of its common shares to an affiliate of Citigroup Global Markets Inc., which affiliate is referred to as the forward counterparty. Under the forward sale agreement, the Company will deliver common shares to the forward counterparty on one or more settlement dates chosen by the Company prior to October 2008. The purchase price the Company will receive from the forward counterparty will vary depending upon the market price of its common shares over a 40 trading day period surrounding the maturity of the forward sale agreement in October 2008, subject to a maximum price per share of $79.71 and a minimum price per share of $59.49 as of

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December 31, 2007. If the Company elects to settle all or a portion of the forward sale agreement prior to its maturity, the Company will deliver common shares to the forward counterparty and will initially receive the present value of the minimum price per share, and the remaining payment, if any, due to the Company will be made at maturity of the agreement based on the excess of the market price of the Company s common shares over the minimum price per share at maturity of the contract. Settlement of the forward sale agreement may be accelerated by the forward counterparty upon the occurrence of certain events, and the maximum and minimum purchase prices will be reduced or increased quarterly depending on the amount of the Company s dividends.

Currency

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

At December 31, 2007, the value of the U.S. dollar weakened approximately 2% against the British pound, 12% against the euro, 8% against the Swiss franc, 18% against the Canadian dollar and 6% against the Japanese yen, compared to December 31, 2006. Since a large proportion of the Company s assets and liabilities are expressed in these currencies, there was a net increase in the U.S. dollar value of the assets and liabilities denominated in these currencies in 2007.

Net foreign exchange losses amounted to $15 million, $24 million and $4 million for the years ended December 31, 2007, 2006 and 2005, respectively. See Review of Net Income (Loss) above. In accordance with SFAS 52, Foreign Currency Translation , the foreign exchange gain or loss resulting from the translation of its subsidiaries financial statements (expressed in the euro or Canadian dollar functional currency) into U.S. dollars is classified in the currency translation adjustment account, which is a component of accumulated other comprehensive income in shareholders equity.

The following table provides a reconciliation of the currency translation adjustment for the years ended December 31, 2007, 2006 and 2005 (in millions of U.S. dollars):

	2007	**2006**	**2005**
Currency translation adjustment at beginning of year	**$ 69**	$ 13	$ 73
Change in currency translation adjustment included in accumulated other comprehensive income	**129**	56	(60)
Currency translation adjustment at end of year	**$ 198**	$ 69	$ 13

Effects of Inflation

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

New Accounting Pronouncements

SFAS 157

In September 2006, the FASB issued Statement No. 157, Fair Value Measurements (SFAS 157). This statement defines fair value, establishes a framework for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 provides guidance on how to measure fair value when required under existing accounting standards and requires disclosure of the fair value of financial instruments according to a fair

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value hierarchy that prioritizes the information used to measure fair value into three broad levels. Quantitative and qualitative disclosures will focus on the inputs used to measure fair value for such fair value measurements and the effects of the measurements on the financial statements.

SFAS 157 will be effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 as of January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company s consolidated shareholders equity or net income.

SFAS 159

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

SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 159 as of January 1, 2008. The Company will elect the fair value option for the following financial assets:

- Fixed maturities;
- Short-term investments;
- Equities; and
- Other invested assets (excluding investments accounted for by the equity method or investment company accounting).

On adoption of SFAS 159, the Company expects to record a cumulative effect adjustment of approximately $97.2 million, net of taxes, which will decrease accumulated other comprehensive income and increase opening retained earnings as of January 1, 2008. The Company expects the adoption of SFAS 159 to add more volatility to net realized investment gains and losses in its Consolidated Statement of Operations, but the adoption will have no impact on its shareholders equity in its Consolidated Balance Sheet nor its comprehensive 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.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK
Overview

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

As discussed previously in this report, the Company s investment philosophy distinguishes between assets that are generally matched against the estimated net reinsurance assets and liabilities (liability funds) and those assets that represent shareholder capital (capital funds). At December 31, 2007, liability funds represented 59% (or $7.0 billion) of the Company s total invested assets. Liability funds are invested in a way that generally matches them to the corresponding liabilities in both duration and currency composition. This procedure seeks to protect the Company against changes in interest rates and foreign exchange rates. Although the focus of this discussion is to identify risk exposures that impact the market value of assets alone, it is important to recognize that the risks discussed herein are significantly mitigated to the extent that the Company s investment strategy allows market forces to influence the economic valuation of assets and liabilities in a way that is generally offsetting.

At December 31, 2007, capital funds represented 41% (or $4.8 billion) of the Company s total invested assets. These assets represent shareholders capital and are invested in a diversified portfolio with the objective of maximizing investment return, subject to prudent risk constraints. Capital funds contain most of the asset classes typically viewed as offering a higher risk, higher return profile, such as preferred and common stocks, private equity and bond investments and convertible and high-yield bonds, in addition to high-quality investment-grade securities. The Company s investment philosophy is to reduce foreign currency risk on capital funds by investing primarily in U.S. dollar denominated investments. In considering the market risk of capital funds, it is important to recognize the benefits of portfolio diversification. Although these asset classes in isolation may introduce more risk into the portfolio, market forces have a tendency to influence each class in different ways and at different times. Consequently, the aggregate risk introduced by a portfolio of these assets should be less than might be estimated by summing the individual risks.

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

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

Interest Rate Risk

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

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

At December 31, 2007, the Company held approximately $2,306 million of its total invested assets in mortgage/asset-backed securities. These assets are exposed to prepayment risk, the adverse impact of which is more evident in a declining interest rate environment.

At December 31, 2007, the Company estimates that the hypothetical case of an immediate 100 basis point adverse parallel shift in global bond curves would result in an approximately 3.9% (or approximately $404 million) decrease in the fair value of investments exposed to interest rates, or an approximately 3.4% and 9.3% decrease of the total invested assets and shareholders equity of the Company, respectively. This change does not take into account any potential mitigating impact from the equity market, taxes or the corresponding change in the economic value of its reinsurance liabilities, which, as noted above, would substantially offset the economic impact on invested assets, although the offset would not be reflected in the Company s Consolidated Balance Sheets.

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

Interest rate movements also affect the economic value of the Company s outstanding debt obligations and preferred securities in the same way that they affect the Company s fixed income investments, and this can result in a liability whose economic value is different from the value reported on the Consolidated Balance Sheets. The Company believes that the economic fair value of its outstanding fixed-rate debt, capital efficient notes and preferred securities at December 31, 2007, was as follows (in millions of U.S. dollars):

	Carrying Value	Fair Value
Long-term debt	$ 620	$ 627
Capital efficient notes (1)	250	230
Series C cumulative preferred shares	290	223
Series D cumulative preferred shares	230	173

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

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

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Foreign Currency Risk

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

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

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

The table below summarizes the Company s gross and net exposure on its December 31, 2007 Consolidated Balance Sheet to foreign currency as well as the associated foreign currency derivatives the Company has put in place to manage this exposure (in millions of U.S. dollars):

	euro	GBP	CAD	CHF	JPY	Other	Total (1)
Invested assets	$ 2,939	$ 416	$ 578	$	$	$ 33	$ 3,966
Other net liabilities	(2,468)	(258)	(460)	(218)	(45)	(459)	(3,908)
Total foreign currency risk	471	158	118	(218)	(45)	(426)	58
Total derivative amount	130	(135)	62	244	41	444	786
Net foreign currency exposure	$ 601	$ 23	$ 180	$ 26	$ (4)	$ 18	$ 844

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

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

Assuming all other variables are held constant and disregarding any tax effects, a 10% change in the U.S. dollar relative to the other currencies held by the Company would result in a $84 million change in the net assets of the Company, inclusive of the effect of the derivative hedges.

Credit Risk

The Company has exposure to credit risk primarily as a holder of fixed income securities. The Company controls this exposure by emphasizing investment-grade credit quality in the fixed income securities it purchases.

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At December 31, 2007, approximately 68% of the Company s fixed income portfolio was rated AAA (or equivalent rating), 86% was rated A- or better and 3% of the Company s fixed income portfolio was rated below investment-grade. The Company believes this high-quality concentration reduces its exposure to credit risk on fixed income investments to an acceptable level. At December 31, 2007, the Company is not exposed to any significant credit concentration risk on its investments, excluding debt securities issued by the U.S. and other AAA-rated sovereign governments. The Company keeps cash and cash equivalents in several banks and may keep up to $500 million, excluding custodial accounts, at any point in time in any one bank.

To a lesser extent, the Company also has credit risk exposure as a party to foreign exchange forward contracts and other derivative contracts. To mitigate this risk, the Company monitors its exposure by counterparty and ensures that counterparties to these contracts are high-credit-quality international banks or counterparties. These contracts are generally of short duration (approximately 90 days) and settle on a net basis, which means that the Company is exposed to the movement of one currency against the other, as opposed to the notional amount of the contracts. At December 31, 2007, the Company s absolute notional value of foreign exchange forward contracts was $1,324 million, while the net value of those contracts was a receivable of $20 million.

The Company is also exposed to credit risk in its underwriting operations, most notably in the credit/surety line and for different alternative risk products. Loss experience in these lines of business is cyclical and is affected by the general economic environment. The Company provides its clients in these lines of business with protection against credit deterioration, defaults or other types of financial non-performance of or by the underlying credits that are the subject of the protection provided and, accordingly, the Company is exposed to the credit risk of those credits. At December 31, 2007, the notional value of the Company s credit default swaps and total return and interest rate swaps was $464 million and $273 million, respectively, while the fair value of those credit default swaps and total return and interest rate swaps was an unrealized loss of $1.8 million and $33.7 million, respectively. As with all of the Company s business, these risks are subject to rigorous underwriting and pricing standards. In addition, the Company strives to mitigate the risks associated with these credit-sensitive lines of business through the use of risk management techniques such as risk diversification, careful monitoring of risk aggregations and accumulations and, at times, through the use of retrocessional reinsurance protection and the purchase of credit default swaps and total return and interest rate swaps.

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

The Company has exposure to credit risk as it relates to its business written through brokers if any of the Company s brokers is unable to fulfill their contractual obligations with respect to payments to the Company. In addition, in some jurisdictions, if the broker fails to make payments to the insured under the Company s policy, the Company might remain liable to the insured for the deficiency. See Risk Factors in Item 1A of Part I of this report for detailed information on two brokers that accounted for more than 10% of the Company s gross premiums written for the year ended December 31, 2007.

The Company has exposure to credit risk as it relates to its reinsurance balances receivable and reinsurance recoverable on paid and unpaid losses. Reinsurance balances receivable from the Company s clients at December 31, 2007 were $1,450 million, including balances both currently due and accrued. The Company believes that credit risk related to these balances is mitigated by several factors, including but not limited to,

credit checks performed as part of the underwriting process and monitoring of aged receivable balances. In addition, as the vast majority of its reinsurance agreements permit the Company the right to offset reinsurance balances receivable from clients against losses payable to them, the Company believes that the credit risk in this area is substantially reduced. Provisions are made for amounts considered potentially uncollectible and the allowance for uncollectible reinsurance balances receivable was $11 million at December 31, 2007.

Although the Company does not rely heavily on retrocessional reinsurance, it does require its reinsurers to have adequate financial strength. The Company evaluates the financial condition of its reinsurers and monitors its concentration of credit risk on an ongoing basis. Provisions are made for amounts considered potentially uncollectible. The balance of reinsurance recoverable on paid and unpaid losses was $158 million which is net of the allowance provided for uncollectible reinsurance recoverables of $9 million at December 31, 2007.

Equity Price Risk

The Company invests a portion of its capital funds in marketable equity securities classified as available for sale (fair market value of $872 million at December 31, 2007). The Company also holds marketable equity securities classified as trading securities (fair market value of $383 million at December 31, 2007). These equity investments are exposed to equity price risk, defined as the potential for loss in market value due to a decline in equity prices. The Company believes that the effects of diversification and the relatively small size of its investments in equities relative to total investments mitigate its exposure to equity price risk. The Company estimates that its equity investment portfolio has a beta versus the S&P 500 Index of approximately 0.9. Portfolio beta measures the response of a portfolio s performance relative to a market return, where a beta of 1 would be an equivalent return to the index. Given the estimated beta for the Company s equity portfolio, a 10% movement in the S&P 500 Index would result in an approximately 9% (or approximately $120 million) increase or decrease in the market value of the Company s equity portfolio, or an approximately 1.0% and 2.8% increase or decrease of the total invested assets and shareholders equity of the Company, respectively. This change does not take into account any potential mitigating impact from the bond market or taxes.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PartnerRe Ltd.

Consolidated Balance Sheets

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

	December 31, 2007	December 31, 2006
Assets		
Investments:		
Fixed maturities, available for sale, at fair value (amortized cost: 2007, $9,401,962; 2006, $7,852,798)	**$ 9,498,791**	$ 7,835,680
Short-term investments, available for sale, at fair value (amortized cost: 2007, $97,153; 2006, $133,872)	**97,307**	133,751
Equities, available for sale, at fair value (cost: 2007, $838,777; 2006, $920,913)	**871,762**	1,015,144
Trading securities, at fair value (cost: 2007, $407,541; 2006, $578,445)	**399,280**	599,972
Other invested assets	**50,201**	105,390
Total investments	**10,917,341**	9,689,937
Cash and cash equivalents, at fair value, which approximates amortized cost	**654,895**	988,788
Accrued investment income	**176,386**	157,923
Reinsurance balances receivable	**1,449,702**	1,573,566
Reinsurance recoverable on paid and unpaid losses	**158,494**	168,840
Funds held by reinsured companies	**1,083,036**	1,002,402
Deferred acquisition costs	**641,818**	542,698
Deposit assets	**398,079**	306,212
Net tax assets		17,826
Goodwill	**429,519**	429,519
Net receivable for securities sold	**50,065**	
Other assets	**77,614**	70,514
Total assets	**$ 16,036,949**	$ 14,948,225
Liabilities		
Unpaid losses and loss expenses	**$ 7,231,436**	$ 6,870,785
Policy benefits for life and annuity contracts	**1,541,687**	1,430,691
Unearned premiums	**1,267,873**	1,215,624
Reinsurance balances payable	**119,853**	115,897
Ceded premiums payable	**14,617**	17,213
Funds held under reinsurance treaties	**21,585**	21,257
Deposit liabilities	**435,852**	350,763
Net payable for securities purchased		90,331
Net tax liabilities	**37,743**	
Accounts payable, accrued expenses and other	**167,141**	172,212
Long-term debt	**620,000**	620,000
Debt related to capital efficient notes	**257,605**	257,605
Total liabilities	**11,715,392**	11,162,378
Shareholders Equity		
Common shares (par value $1.00, issued and outstanding: 2007, 57,379,516 shares; 2006, 57,076,312 shares)	**57,380**	57,076
Series C cumulative preferred shares (par value $1.00, issued and outstanding: 2007 and 2006, 11,600,000; aggregate liquidation preference: 2007 and 2006, $290,000,000)	**11,600**	11,600
Series D cumulative preferred shares (par value $1.00, issued and outstanding: 2007 and 2006, 9,200,000; aggregate liquidation preference: 2007 and 2006, $230,000,000)	**9,200**	9,200
Additional paid-in capital	**1,441,598**	1,413,977
Accumulated other comprehensive income:		
Net unrealized gains on investments (net of tax of: 2007, $32,769; 2006, $15,429)	**94,747**	56,913
Currency translation adjustment	**197,777**	68,734
Unfunded pension obligation (net of tax of: 2007, $1,021; 2006, $2,122)	**(3,274)**	(7,277)

Retained earnings	**2,753,784**	2,175,624
Common shares held in treasury, at cost (2007, 3,129,008 shares; 2006, nil)	**(241,255)**	
Total shareholders equity	**4,321,557**	3,785,847
Total liabilities and shareholders equity	**$ 16,036,949**	$ 14,948,225

See accompanying Notes to Consolidated Financial Statements.

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PartnerRe Ltd.

Consolidated Statements of Operations and Comprehensive Income

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

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Revenues			
Gross premiums written	**$ 3,810,164**	$ 3,733,920	$ 3,665,238
Net premiums written	**$ 3,757,109**	$ 3,689,548	$ 3,615,878
Decrease (increase) in unearned premiums	**20,362**	(22,280)	(16,689)
Net premiums earned	**3,777,471**	3,667,268	3,599,189
Net investment income	**523,259**	449,401	364,508
Net realized investment (losses) gains	**(72,492)**	47,160	206,874
Other (loss) income	**(17,479)**	23,555	34,920
Total revenues	**4,210,759**	4,187,384	4,205,491
Expenses			
Losses and loss expenses and life policy benefits	**2,082,461**	2,111,337	3,086,730
Acquisition costs	**849,715**	849,241	848,714
Other operating expenses	**326,486**	309,544	271,504
Interest expense	**54,017**	61,387	32,869
Net foreign exchange losses	**15,552**	23,204	3,543
Total expenses	**3,328,231**	3,354,713	4,243,360
Income (loss) before taxes and interest in (losses) earnings of equity investments	**882,528**	832,671	(37,869)
Income tax expense	**81,748**	95,305	22,924
Interest in (losses) earnings of equity investments	**(82,968)**	11,966	9,729
Net income (loss)	**717,812**	749,332	(51,064)
Preferred dividends	**34,525**	34,525	34,525
Net income (loss) available to common shareholders	**$ 683,287**	$ 714,807	$ (85,589)
Comprehensive income (loss), net of tax			
Net income (loss)	**$ 717,812**	$ 749,332	$ (51,064)
Change in net unrealized gains or losses on investments, net of tax	**37,834**	(20,136)	(117,526)
Change in currency translation adjustment	**129,043**	56,120	(59,896)
Change in unfunded pension obligation, net of tax	**4,003**	(418)	
Comprehensive income (loss)	**$ 888,692**	$ 784,898	$ (228,486)
Per share data			
Net income (loss) per common share:			
Basic net income (loss)	**$ 12.18**	$ 12.58	$ (1.56)
Diluted net income (loss)	**$ 11.87**	$ 12.37	$ (1.56)
Weighted average number of common shares outstanding	**56,104,359**	56,822,496	54,951,198
Weighted average number of common and common share equivalents outstanding	**57,557,920**	57,802,787	54,951,198

Dividends declared per common share	**$**	**1.72**	$	1.60	$	1.52

See accompanying Notes to Consolidated Financial Statements.

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PartnerRe Ltd.

Consolidated Statements of Shareholders Equity

(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Common shares			
Balance at beginning of year	**$ 57,076**	$ 56,730	$ 54,854
Issue of common shares	**791**	346	3,118
Repurchase of common shares	**(487)**		(1,242)
Balance at end of year	**57,380**	57,076	56,730
Preferred shares			
Balance at beginning and end of year	**20,800**	20,800	20,800
Additional paid-in capital			
Balance at beginning of year	**1,413,977**	1,373,992	1,288,292
Issue of common shares	**60,918**	40,092	161,021
Repurchase of common shares	**(33,297)**		(75,321)
Reclassification of deferred compensation under SFAS 123(R)		(107)	
Balance at end of year	**1,441,598**	1,413,977	1,373,992
Deferred compensation			
Balance at beginning of year		(107)	(199)
Amortization of deferred compensation			92
Reclassification of deferred compensation under SFAS 123(R)		107	
Balance at end of year			(107)
Accumulated other comprehensive income			
Balance at beginning of year	**118,370**	89,663	267,085
Change in net unrealized gains or losses on investments, net of tax	**37,834**	(20,136)	(117,526)
Change in currency translation adjustment	**129,043**	56,120	(59,896)
Unfunded pension obligation, net of tax			
Change in unfunded pension obligation, net of tax	**4,003**	(418)	
Transition adjustment to apply SFAS 158		(6,859)	
Balance at end of year	**289,250**	118,370	89,663
Retained earnings			
Balance at beginning of year	**2,175,624**	1,551,709	1,721,032
Net income (loss)	**717,812**	749,332	(51,064)
Impact of adopting FIN 48	**(8,721)**		
Dividends on common shares	**(96,406)**	(90,892)	(83,734)
Dividends on preferred shares	**(34,525)**	(34,525)	(34,525)
Balance at end of year	**2,753,784**	2,175,624	1,551,709
Common shares held in treasury			
Balance at beginning of year			
Repurchase of common shares	**(241,255)**		

Balance at end of year	**(241,255)**		
Total shareholders equity	**$ 4,321,557**	$ 3,785,847	$ 3,092,787

See accompanying Notes to Consolidated Financial Statements.

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PartnerRe Ltd.

Consolidated Statements of Cash Flows

(Expressed in thousands of U.S. dollars)

	For the year ended December 31, 2007	For the year ended December 31, 2006	For the year ended December 31, 2005
Cash flows from operating activities			
Net income (loss)	**$ 717,812**	$ 749,332	$ (51,064)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Amortization of net premium on investments	**1,800**	22,311	42,220
Net realized investment losses (gains)	**72,492**	(47,160)	(206,874)
Changes in:			
Net sales (purchases) of trading securities	**127,748**	(390,470)	(4,365)
Reinsurance balances, net	**209,659**	(12,328)	(117,519)
Reinsurance recoverable on paid and unpaid losses	**15,500**	49,126	(23,735)
Funds held by reinsured companies	**(34,958)**	50,049	38,389
Deferred acquisition costs	**(55,642)**	(73,207)	(58,140)
Net tax assets and liabilities	**15,663**	71,614	13,784
Unpaid losses and loss expenses including life policy benefits	**16,620**	(73,617)	1,380,315
Unearned premiums	**(20,362)**	22,280	16,689
Other changes in operating assets and liabilities	**145,499**	100,501	(7,170)
Other, net	**15,551**	23,343	9,423
Net cash provided by operating activities	**1,227,382**	491,774	1,031,953
Cash flows from investing activities			
Sales of fixed maturities	**4,100,792**	3,897,715	4,832,037
Redemptions of fixed maturities	**963,975**	731,133	695,389
Purchases of fixed maturities	**(6,362,080)**	(5,620,788)	(5,921,427)
Sales of short-term investments	**175,169**	27,532	218,386
Redemptions of short-term investments	**143,040**	295,005	90,571
Purchases of short-term investments	**(272,496)**	(209,743)	(525,518)
Sales of equities	**1,707,193**	9,669,692	4,839,440
Purchases of equities	**(1,653,316)**	(9,236,119)	(5,054,471)
Other, net	**4,332**	8,689	(13,861)
Net cash used in investing activities	**(1,193,391)**	(436,884)	(839,454)
Cash flows from financing activities			
Cash dividends paid to shareholders	**(130,931)**	(125,417)	(118,924)
Net (repurchase) issue of common shares and treasury shares	**(237,132)**	17,225	102,440
Contract fees on forward sale agreement	**(10,414)**	(9,594)	
Net issue of capital efficient notes		244,096	
Net redemption of trust preferred securities		(200,000)	
Issue of long-term debt			400,000
Net cash (used in) provided by financing activities	**(378,477)**	(73,690)	383,516
Effect of foreign exchange rate changes on cash	**10,593**	6,210	(10,640)
(Decrease) increase in cash and cash equivalents	**(333,893)**	(12,590)	565,375

Cash and cash equivalents beginning of year	**988,788**	1,001,378	436,003
Cash and cash equivalents end of year	**$ 654,895**	$ 988,788	$ 1,001,378
Supplemental cash flow information:			
Taxes paid	**$ 65,457**	$ 26,869	$ 21,139
Interest paid	**$ 55,110**	$ 51,759	$ 29,248

See accompanying Notes to Consolidated Financial Statements.

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PartnerRe Ltd.

Notes to Consolidated Financial Statements

1. Organization

PartnerRe Ltd. (the Company) provides reinsurance on a worldwide basis through its principal wholly owned subsidiaries, Partner Reinsurance Company Ltd. (Partner Reinsurance), PartnerRe SA, Partner Reinsurance Company of the U.S. (PartnerRe U.S.) and Partner Reinsurance Europe Limited (formerly Partner Reinsurance Ireland 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). The Company assesses the consolidation of VIEs based on whether the Company is the primary beneficiary of the entity in accordance with FASB Interpretation No. 46 (revised December 2003) Consolidation of Variable Interest Entities (FIN 46(R)). 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;
- Determination of other-than-temporary impairments of investments;

Recoverability of tax loss carry-forwards;

PartnerRe Ltd.

Notes to Consolidated Financial Statements (Continued)

Valuation of goodwill; and

Valuation of other invested assets, including certain derivative financial instruments.

(a) Premiums

Gross premiums written and earned are based upon reports received from ceding companies, supplemented by the Company s own estimates of premiums written and earned for which ceding company reports have not been received. Differences between such estimates and actual amounts are recorded in the period in which the estimates are changed or the actual amounts are determined. Net premiums written and earned are presented net of ceded premiums, which represent the cost of retrocessional protection purchased by the Company. Premiums are earned on a basis that is consistent with the risks covered under the terms of the reinsurance contracts, which is generally one to two years. 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 for Non-life operations includes amounts determined from loss reports on individual treaties (case reserves), additional case reserves when the Company s loss estimate is higher than reported by the cedants (ACRs) and amounts for losses incurred but not yet reported to the Company (IBNR). Such reserves are estimated by Management based upon reports received from ceding companies, supplemented by the Company s own actuarial estimates of reserves for which ceding company reports have not been received, and based on the Company s own historical experience. To the extent that the Company s own historical experience is inadequate for estimating reserves, such estimates may be determined based upon industry experience and Management s judgment. The estimates are continually reviewed and the ultimate liability may be in excess of, or less than, the amounts provided. Any adjustments are reflected in the periods in which they 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. Interest rate assumptions used to estimate liabilities for policy benefits for life and annuity contracts at December 31, 2007 and 2006 ranged from 1.0% to 4.9%.

(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

PartnerRe Ltd.

Notes to Consolidated Financial Statements (Continued)

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). Interest rates ranged from 1.0% to 6.0% at December 31, 2007 and from 1.0% to 6.8% at December 31, 2006.

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 . These contracts are accounted for using the deposit accounting method in accordance with Statement of Position 98-7 Deposit Accounting: Accounting for Insurance and Reinsurance Contracts That Do Not Transfer Risk . For those contracts, the Company originally records deposit liabilities for an amount equivalent to the consideration received. The consideration to be retained by the Company, irrespective of the experience of the contracts, is earned over the expected settlement period of the contracts, with any unearned portion recorded as a component of deposit liabilities. Actuarial studies are used to estimate the final liabilities under these contracts and the appropriate accretion rates to increase or decrease the liabilities over the term of the contracts. The change for the period is recorded in other income 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.

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Notes to Consolidated Financial Statements (Continued)

(f) Investments

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

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

Other invested assets consist primarily of investments in non-publicly traded companies (including ChannelRe Holdings see Note 20), private placement equity investments, private placement bond 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 investments are recorded based on valuation techniques depending on the nature of the individual assets. The valuation techniques used by the Company s investment managers are generally commensurate with standard valuation techniques for each asset class.

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

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

The Company evaluates the fair value of its investments on a periodic basis to determine whether a decline in fair value below the amortized cost basis (original cost basis for equities) is other-than-temporary. FASB Staff Position FAS 115-1 and FAS 124-1 The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments requires that the Company determine when an investment is considered to be impaired, whether that impairment is other-than-temporary, and measure the impairment loss. If the decline in fair value is judged to be other-than-temporary, the cost or amortized cost of the individual security is written down to fair value and a new cost basis is established, with the amount of the write-down included as a realized investment loss in the period in which the determination of other-than-temporary impairment is made. For fixed maturities, the difference between the new cost basis established and the maturity (or par) value of the investment is accreted to net investment income over the remaining period of time to contractual maturity. While the cost basis cannot be adjusted upward through net income if the value of the security subsequently increases, the cost basis may be written down again if further other-than-temporary impairments are determined. See Note 2(u) regarding the adoption of SFAS No. 157 and No. 159 as of January 1, 2008.

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Notes to Consolidated Financial Statements (Continued)

(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 weighted average foreign exchange rates for the period. The effect of translation adjustments are reported in the Consolidated Balance Sheets as currency translation adjustment, a separate component of accumulated other comprehensive income.

In recording foreign currency transactions, revenue and expense items are converted into the functional currency at the weighted average rates of exchange for the period. Assets and liabilities originating in currencies other than the functional currency are translated into the functional currency at the rates of exchange in effect at the balance sheet dates. The resulting foreign exchange gains or losses are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The Company records realized and unrealized foreign exchange gains and losses on hedged items in net realized investment gains and losses in the Consolidated Statements of Operations (see Note 2(k)).

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Notes to Consolidated Financial Statements (Continued)

(k) Derivatives Used in Hedging Activities

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

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

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

The Company will discontinue hedge accounting prospectively if it is determined that the derivative is no longer effective in offsetting changes in the fair value of a hedged item. To the extent that the Company in the future chooses to discontinue hedge accounting related to its fair value hedge of currency risk related to its available for sale fixed income securities (liability funds) because, based on Management s assessment, the derivative no longer qualifies as an effective fair value hedge, the derivative will continue to be carried in the Consolidated Balance Sheets at its fair value, with changes in its fair value recognized in current period net income, and changes in the fair value of the underlying available for sale fixed income securities due to currency movements will be recorded as a component of accumulated other comprehensive income.

(l) Investment Related Derivatives

The Company s investment strategy allows for the use of derivative instruments, subject to strict limitations. The Company utilizes various derivative instruments such as futures contracts, credit default swaps, foreign currency options, foreign exchange forward contracts related to designated and non-designated hedges, and

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Notes to Consolidated Financial Statements (Continued)

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 investment gains and losses in the Consolidated Statements of Operations, except for the changes in fair values of non-designated foreign exchange forward contracts that are included in net foreign exchange gains and losses in the Consolidated Statements of Operations. The fair values of those derivatives are based on quoted market prices, or internal valuation models where quoted market prices are not available. Margin balances required by counterparties, which are equal to a percentage of the total value of open futures contracts, are included in cash and cash equivalents.

(m) Weather Derivatives

The Company has entered into weather related transactions that are structured as insurance, reinsurance or derivatives. When those transactions are determined to be derivatives, they are recorded at fair value with the changes in fair value reported in other income or loss 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. Income related to these swaps and any fair value adjustments on the swaps are included in other income or loss in the Consolidated Statements of Operations. The Company records these swaps at fair value, based on quoted market prices. Where such valuations are not available, the Company uses internal valuation models to estimate fair value.

(o) 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.

(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 Company adopted the fair value provisions of SFAS No. 123 Accounting for Stock-Based Compensation (SFAS 123), as amended by SFAS No. 148 Accounting for Stock-Based Compensation Transition and Disclosure (SFAS 148) in 2003 and elected to use the prospective transition method as described in SFAS 123, which resulted in the expensing of options granted subsequent to January 1, 2003.

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), Share-Based Payment (SFAS 123(R)), using the modified prospective method. Under SFAS 123(R), the fair value of

PartnerRe Ltd.

Notes to Consolidated Financial Statements (Continued)

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. SFAS 123(R) requires that forfeiture benefits be estimated at the time of grant and incorporated in the determination of share-based compensation costs. For awards issued prior to the adoption of SFAS 123(R), forfeiture benefits are recognized when employees leave the Company. SFAS 123(R) requires that subsequent to the date of adoption, awards granted to employees who are eligible for retirement and do not have to provide additional services, be expensed at the date of grant.

(r) Pensions

Effective December 31, 2006, 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). This statement requires an entity to, among other things: (a) recognize an asset or a liability in the Consolidated Balance Sheets for the funded status of defined benefit plans that are overfunded or underfunded, respectively, measured as the difference between the fair value of plan assets and the pension obligation; (b) recognize changes in the funded status of defined benefit plans in the year in which the changes occur as a component of accumulated other comprehensive income, net of tax; and (c) measure defined benefit plan assets and obligations as of the date of the employer s balance sheet date.

(s) Variable Interest Entities

FIN 46(R) requires a variable interest entity (VIE) to be consolidated by a company if that company is subject to a majority of the risk of loss from the VIE s activities or is entitled to receive a majority of the entity 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 II, which issued the capital efficient notes (CENts), PartnerRe Capital Trust I (the Trust), which issued the Company s trust preferred securities and PartnerRe Finance I, which owns the Trust, do not meet the consolidation requirements of FIN 46(R). As a result, the Company has not consolidated the Trust and PartnerRe Finance I or II and has reflected the debt related to the capital efficient notes issued by the Company to PartnerRe Finance II as liabilities in the Consolidated Balance Sheets (see Note 12). The interest on the debt related to the trust preferred securities and CENts is reported as interest expense in the Consolidated Statements of Operations.

(t) Segment Reporting

The Company monitors the performance of its underwriting 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 .

As a result of recent organizational changes, during the fourth quarter of 2007, the Company redefined its financial reporting segments. Segment data for the years ended December 31, 2006 and 2005 has been recast to conform to the current year presentation. See Note 18.

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Notes to Consolidated Financial Statements (Continued)

(u) Recent Accounting Pronouncements

SFAS 157

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

SFAS 157 will be effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 157 as of January 1, 2008. The adoption of SFAS 157 is not expected to have a material impact on the Company s consolidated shareholders equity or net income.

SFAS 159

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

SFAS 159 will be effective for fiscal years beginning after November 15, 2007. The Company will adopt SFAS 159 as of January 1, 2008. The Company will elect the fair value option for the following financial assets:

- Fixed maturities;
- Short-term investments;
- Equities; and
- Other invested assets (excluding investments accounted for by the equity method or investment company accounting).

On adoption of SFAS 159, the Company expects to record a cumulative effect adjustment of approximately $97.2 million, net of taxes, which will decrease accumulated other comprehensive income and increase opening retained earnings as of January 1, 2008. The Company expects the adoption of SFAS 159 to add more volatility to net realized investment gains and losses in its Consolidated Statement of Operations, but the adoption will have no impact on its shareholders equity in its Consolidated Balance Sheet nor its comprehensive 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 .

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Notes to Consolidated Financial Statements (Continued)

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.

3. Investments

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

The cost, fair value, gross unrealized gains and gross unrealized losses on investments classified as available for sale at December 31, 2007 and 2006 were as follows (in thousands of U.S. dollars):

2007	**Cost (1)**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
U.S. government	**$ 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**

2006	**Cost (1)**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Fixed maturities				
U.S. government	$ 1,518,405	$ 3,896	$ (11,905)	$ 1,510,396
states or political subdivisions of states of the U.S.	1,334		(45)	1,289
other foreign governments	1,553,830	18,380	(15,703)	1,556,507
corporate	2,859,268	32,349	(25,863)	2,865,754
mortgage/asset-backed securities	1,919,961	7,536	(25,763)	1,901,734
Total fixed maturities	7,852,798	62,161	(79,279)	7,835,680
Short-term investments	133,872		(121)	133,751
Equities	920,913	103,178	(8,947)	1,015,144
Total	$ 8,907,583	$ 165,339	$ (88,347)	$ 8,984,575

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

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PartnerRe Ltd.

Notes to Consolidated Financial Statements (Continued)

The following tables present the continuous periods during which the Company has held investment positions classified as available for sale that were carried at an unrealized loss at December 31, 2007 and 2006 (in millions of U.S. dollars):

	Less than 12 months		12 months or more		Total	
2007	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Fixed maturities						
U.S. government	**$ 46.3**	**$**	**$ 9.9**	**$**	**$ 56.2**	**$**
other foreign governments	**1,023.9**	**(6.2)**	**108.5**	**(1.2)**	**1,132.4**	**(7.4)**
corporate	**769.6**	**(19.8)**	**573.8**	**(11.9)**	**1,343.4**	**(31.7)**
mortgage/asset-backed securities	**270.6**	**(4.6)**	**610.7**	**(9.4)**	**881.3**	**(14.0)**
Total fixed maturities	**2,110.4**	**(30.6)**	**1,302.9**	**(22.5)**	**3,413.3**	**(53.1)**
Short-term investments	**40.1**				**40.1**	
Equities	**268.6**	**(27.3)**			**268.6**	**(27.3)**
Total	**$ 2,419.1**	**$ (57.9)**	**$ 1,302.9**	**$ (22.5)**	**$ 3,722.0**	**$ (80.4)**

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

As of December 31, 2007, the Company held approximately 500 investment positions that carried total gross unrealized losses of $80.4 million, including $22.5 million on securities that carried unrealized losses for more than 12 continuous months.

The Company s investment security with the largest unrealized loss position at December